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TESTIMONY OF

HONORABLE MARRINER S. ECCLES

BEFORE THE COMMITTEE ON BANKING AND CURRENCY OF THE

HOUSE OF REPRESENTATIVES

ON

H.J. RES. 377, AUTHORIZING THE DESTRUCTION OF FEDERAL RESERVE NOTES OF THE SERIES OF 1928 AND THEIR REPLACEMENT BY FEDERAL RESERVE NOTES OF THE SERIES OF 1934, OR A LATER SERIES, AT THE EXPENSE OF THE UNITED STATES.

July 14, 15 and 23, 1937.

H. J. RES. 377

Authorizing the destruction of Federal Reserve Notes of the series of 1928, and their replacement by Federal Reserve Notes of the series of 1934, or a later series, at the expense of the United States.

Wednesday, July 14, 1937

HOUSE OF REPRESENTATIVES,
Committee on Banking and Currency,
Washington, D. C.

The Committee met at 10:30 o'clock a.m., for the further consideration of House Joint Resolution 377, Honorable Henry B. Steagall (Chairman) presiding.

The Chairman. The Committee will be in order.

Governor Eccles, the Committee would like to have you discuss House Joint Resolution 377, with which you are familiar, and which provides a method for reimbursing Federal Reserve Banks for money expended by them for Federal Reserve notes which they have not used.

I do not know whether you have read the statements in the hearings that have been held prior to this time. If you have, you probably would know better just what line you should direct your statement to, but, in any event, we would like to have your views on this resolution.

STATEMENT OF HON. MARRINER S. ECCLES,

Chairman of the Board of Governors of the Federal Reserve System.

Governor Eccles. Mr. Chairman, I do not know that I can add very much to what has already been said upon this subject. The statement which was prepared and presented here by the representative of the Treasury, giving the reasons for the proposed legislation, seemed to be quite complete. I read your own statement, which to me sums up the situation in about as short, direct and terse a manner as it can be summed up, and I will just quote from it:

"The Government has sold notes to the banks which they have paid for, and as the banks now can not use them, does the Government want to take this money for the sale of something which has not been delivered and for which no benefit has been received by the banks, or does it wish to substitute something that the banks can use?"

As you know, the banks are provided with Federal Reserve notes which are supplied by the Treasury, and the notes in question, some of them completed and others in the process of completion, have been paid for by the various Reserve banks. They were asked to discontinue the circulation of the series of 1928 notes, for the reason that they were redeemable in gold or lawful money, and it was felt, in view of the Gold Reserve Act, that the statement should be changed to make them no longer redeemable in gold, which of course was a fiction or a lie on the face of the notes. They are not now redeemable in gold, and it was of course only proper that the circulation of them should be discontinued under the circumstances as soon as that could reasonably be done. The banks discontinued putting out these notes as rapidly as they were provided with notes of the series of 1934, and of course they simply have an inventory or a stock of those notes which the Treasury said they would be willing to replace with notes of the series of 1934 if Congress would authorize them to do so, using such portion of the gold profit that they had for that purpose.

Now, it would seem that in view of the fact that these notes of the 1928 series were made unusable as the result of an act to discontinue the gold redemption provision, and because at the same time a large gold profit accrued to the Treasury, something over two billion eight hundred million, the banks should have those notes which were made ob solete as the result of this action replaced by the Treasury.

Now, I know that some will say that the Reserve System should not receive a reimbursement, that they do not pay anything for their right to issue these notes, and that they are privately owned institutions. It should be pointed out, however, that the stockholders of the Reserve Banks are limited to a fixed amount, to 6 per cent dividends, upon their stock in the Reserve Banks, and that any earnings accruing to the Reserve Banks in excess of that amount at any time can be appropriated by Congress for such purpose as it sees fit. The surplus of the Reserve Banks has been greatly reduced, was cut practically in half as the result of an appropriation to the Federal Deposit Insurance Corporation from that surplus. The surplus today is not excessive, based upon what would seem to be the reasonable conservative needs of the Reserve System, and if the Reserve System should earn funds in the future, those earnings would merely be added to the surplus, and the Congress, at any time that it saw fit, could provide that such earnings as the Reserve System made above such amount as the Congress thought was a proper and an adequate surplus could be diverted to the Treasury of the United States.

The Chairman. Governor Eccles, let me ask you a question right there. I reckon that it is a subject that might be discussed now with more freedom than would have been permissible at other times in our recent past. As a matter of fact, whatever might be the showing on paper, either of the member bank or of the Federal Reserve Bank itself, the condition of the member bank would necessarily be reflected in the actual condition of the Reserve Bank, and what I want to ask you is if it is not true that at one time our Federal Reserve Banks had inherent difficulties and problems as the result of the condition of their member banks, which the public would not necessarily get from a paper statement of the condition of the Federal Reserve Bank? In other words, the Federal Reserve Banks have not had all of the surplus all the time that they were supposed to have, as would have been shown if they had had to cash the chips and get out of the game, had they?

Governor Eccles. The Reserve banks, of course, in a sense, are like any other institution. They have their assets and their liabilities. The liabilities of course are the deposits of the member banks, and their notes in circulation, and their capital and surplus. Their assets represent gold certificates today very largely, and government bonds.

The Chairman. But at one time they had large amounts in loans.

Governor Eccles. That is right. Especially was that true in 1920 and 1921.

The Chairman. And we all know that thousands of them were not in position to pay their loans to the Federal Reserve.

Governor Eccles. They can of course sustain losses like any other institution. The Reserve Banks, in times of depression, in my view, should be much more lenient in their credit extensions to member banks than they would be under times of more business activity.

The Chairman. Let me call your attention to one thing. There was never anything much said about it at the time, and it should not have been discussed at that time, though some members of the House thought otherwise. When we were asked to pass the Reconstruction Finance Corporation Act, we were told in the conferences by some men from New York and elsewhere who were in a position to know, and I do not doubt that their statements were correct, that 800 banks in the New York district, with capital and surplus of 600 millions of dollars, were obligated at that time in the amount of $475,000,000. I have not the exact figures in mind. Of course, those banks had large loans with the Federal Reserve Bank in New York, and any man can draw the conclusion in a minute as to what that meant as to the actual condition of the Federal Reserve Bank of New York, and I am speaking of that because that was the particular case that was called to our attention. I do not mean that those conditions did not exist elsewhere, but that is what we were told about the New York Federal Reserve district. So that I have never been very much disturbed on account of any fear that the Federal Reserve Banks were permitted to accumulate any larger surplus than good common sense would suggest.

But excuse me for intruding upon your discussion.

Mr. Gifford. I want to clear up the gold certificate matter. How did you acquire the gold certificates?

Governor Eccles. Do you mean the Reserve Banks?

Mr. Gifford. Yes.

Governor Eccles. They acquired them in exchange for the actual gold the Reserve System turned over to the Treasury.

Mr. Gifford. So the gold certificates mean that you have a call on the gold?

Governor Eccles. It means what?

Mr. Gifford. Does it mean that you have a call on the gold that we have on hand, if and when gold may be freed?

Governor Eccles. Well, I do not suppose, of course, that they would have a right to turn the gold certificates over to the Treasury and ask for gold. Under the law, the Treasury, of cpurse, has the right to issue licenses to release gold. The Reserve System has no right to release gold for any purpose.

Mr. Gifford. The point that I want to make, that I want to clear up, is this: Would it be a proper thing to use that gold to pay the public debt? You must hear that discussed and argued.

Governor Eccles. You say, would it be a proper thing?

Mr. Gifford. Is that gold idle? The gold certificate is not idle, but does the gold certificate represent the gold itself, and should it be held there to meet those gold certificates, or could it be used to pay the public debt?

Governor Eccles. I think that it should be held there to redeem the gold certificates, just as silver is held in lieu of silver certificates. Of course, there is the gold held in the stabilization fund, which is a gold profit, and there is also the gold in the sterilization fund, which is gold in addition to the gold necessary to redeem the gold certificates held by the Reserve Banks.

Mr. Gifford. Then you would say that that gold, perhaps seven billions, should not be used to retire a part of the public debt?

Governor Eccles. No, sir, it should not. It should be held just where it is, back of the gold certificates which have been issued to the Reserve Banks and of credits to the Reserve banks payable in gold certificates.

Mr. Gifford. Mr. Chairman, I wanted to bring that out.

Mr. Patman. What about the idle gold? Why should it not be used to reduce the public debt?

Governor Eccles. To use that to reduce the public debt, of course, would immediately bring it back as excess reserves, and if you do that, that would be merely desterilization. If you used the gold in the stabilization and sterilization funds, it would increase the excess reserves of the banks by something over three billion dollars, and the Reserve System would have no power with which to control credit inflation, without getting further power to increase reserves.

Mr. Gifford. How much idle gold is there?

Governor Eccles. Just what do you mean by idle gold?

Mr. Gifford. These certificates represent gold, I suppose.

Governor Eccles. Yes, but do you mean gold outside of what the gold certificates cover?

Mr. Gifford. Yes. We hear so much about this idle gold.

Governor Eccles. I do not know. It seems to me that you would have to get those figures from the Treasury.

Mr. Gifford. How much in gold certificates has the Federal Reserve?

Governor Eccles. What is the question?

Mr. Gifford. How many gold certificates have you?

Governor Eccles. Has the Reserve System?

Mr. Ford. Don't you mean the sterilized gold, Mr. Gifford?

Mr. Gifford. I think Father Coughlin waxed rather angrily when he found that the gold certificates were issued to the Federal Reserve, and he said that that was a call on that particular gold. I think that it is a good thing at this moment to find out if we do have idle gold.

Mr. Patman. Didn't the Governor answer that when he said that the only gold certificates outstanding were the gold certificates in the hands of the Federal Reserve Banks, aggregating seven billion? We have about twelve billion four hundred millions in gold, but there is only about seven billion outstanding in certificates held by Federal Reserve Banks.

Governor Eccles. About eight billions eight hundred million in gold certificates and credits payable in gold certificates.

Mr. Patman. There must be two or three billion dollars of idle gold at least, and the Treasury statement every morning shows that there is over a billion dollars in active gold.

Mr. Gifford. I want that answered very much, how much idle gold there is; but you agree that those gold certificates are a call on that amount of gold?

Mr. Patman. It is a rather fictitious proceeding that they are going through. Of course, the Treasury has been turning these gold certificates all over to the Federal Reserve Banks, to get credit. You cannot get gold for those certificates.

Mr. Gifford. When gold is freed, those certificates would be honored.

Mr. Patman. I beg your pardon?

Mr. Gifford. If and when that gold is freed, those gold certificates would have a call on it.

Mr. Patman. Because of the way they obtained those certificates, I do not know that they have any moral right to demand the gold, because the Federal Government favored the Federal Reserve Banks in that over every one else.

The Chairman. Have not the Federal Reserve Banks turned over the actual gold when the legislation was passed, and I want to ask in that connection how much gold the Federal Reserve Banks have surrendered as compared to the amount of gold certificates outstanding.

Governor Eccles. Well, as I understand it, the Federal Reserve Banks have gold certificates, or a call on gold certificates, of approximately eight billion eight hundred million. They turned that much gold over.

The Chairman. How is that?

Mr. Patman. You are bound to be mistaken about that.

Governor Eccles. About what?

Mr. Patman. Do you mean to say that you actually delivered that much gold, eight billions eight hundred million?

Governor Eccles. Yes. That is the amount of gold certificates the Federal Reserve Banks report as "On hand and due from United States Treasury."

Mr. Patman. How much have you ever had in your possession, in the vaults of the Federal Reserve Banks?

Governor Eccles. Well, I would have to go back to answer that. I do not know what amount of gold was had at the time the Gold Reserve Act was passed, but whatever it was it was turned over to the Treasury, and they got gold certificates. Since that time--

Mr. Patman. Is it not a fact--

Governor Eccles. Since that time the gold that has come into the country, of course, has gone to the Treasury. All gold that has gone out of circulation has gone to the Treasury.

Mr. Patman. If the law compels turning in the gold, and I turn it in, does the Federal Reserve Bank claim any credit to that gold?

Governor Eccles. The Federal Reserve Bank turns that gold over to the Treasury immediately. If you go to a bank and deposit gold, or it comes from any source and it goes through a bank, you will get credit at the bank for that deposit, but that bank immediately turns it over to the Reserve System, and the Reserve System turns it over to the Treasury.

Mr. Patman. But suppose that it is a gold certificate; what do you do with that?

Governor Eccles. One of the old gold certificates?

Mr. Patman. Yes.

Governor Eccles. That would be turned into the Treasury.

Mr. Patman. You mean that you would turn it in to the Treasury?

Governor Eccles. That is right.

Mr. Patman. And the Treasury turns it right back to you for credit oftentimes, and isn't that the way that you acquired most of the certificates?

Governor Eccles. That is right.

Mr. Patman. So that you did not get the gold, but the gold certificates,

Governor Eccles. I do not know the exact figures, but whatever gold the Reserve System had, they delivered to the Treasury.

Mr. Patman. Those figures are available, and I think that it would be rather interesting to this committee to know just exactly how much gold the Federal Reserve Banks had in their physical possession. Will you furnish the committee with that information?

Governor Eccles. That information, I am sure, could be easily gotten. The gold was turned over at $20.67 an ounce, the same as gold held by anybody else. Anybody holding gold turned it over at the old price of gold, and the difference between that and the increased price of gold, of course, becomes a gold profit to the Treasury.

Gold turned over to the Treasury by the Federal Reserve banks on January 30, 1934, in accordance with the provisions of the Gold Reserve of 1934 was as follows:

Gold coin	$ 707,067,000
Gold bullion	99,235,000
Gold on deposit with Treasurer of the United States for account of Federal Reserve banks and agents	1,761,469,000
Total	$2,567,771,000

Gold certificates held by the Federal Reserve banks on January 30, 1934, approximately $1,000,000,000, were all turned over to the Treasury on various dates in exchange for credits on the books of the Treasury payable in the new form gold certificates.

Since January 30, 1934, gold coin withdrawn from circulation, domestically produced gold, and imported gold has all gone to the United States Treasury. On the basis of these gold holdings the Treasury between January 31, 1934, and July 14, 1937, gave the Federal Reserve banks credits payable in gold certificates in the amount of about $5,300,000,000 in exchange for deposit credits on the books of the Federal Reserve banks, which credits have been used by the Treasury to meet its current obligations. The procedure differs in no essential respect, so far as the Reserve banks are concerned, from that followed in connection with the silver purchase program, in which silver is purchased by the Treasury and silver certificates turned over to the Reserve banks for deposit credit. In the case of silver certificates, however, unlike gold certificates the Reserve banks can and do pay out the certificates into circulation, whereas they must themselves continue to hold the gold certificates.

Mr. Patman. You stated awhile ago that these gold certificates were turned over to the Treasury. They are turned in there for the purpose of obtaining different kinds of certificates. Supposing that you had $100,000 worth; would you turn that in and get one gold certificate for $100,000?

Governor Eccles. As a matter of fact, for the biggest part of that gold, gold certificates have not even been issued. It is merely an account. Over six billions of gold certificates have not been issued.

Mr. Patman. I am anxious for you to describe one of these new kinds of gold certificates that they have gotten up for the purpose of being used by the Federal Reserve Banks. What does it look like?

Governor Eccles. I have a form here of the gold certificate.

Mr. Patman. The new form?

Governor Eccles. Yes, the form of 1934.

Mr. Patman. Describe it, please.

Governor Eccles (Reading). "This is to certify that there is on deposit in the Treasury of the United States of America, (blank) dollars in gold, payable to the bearer on demand as authorized by law. This certificate is a legal tender in the amount thereof in payment of all debts and dues, public and private.

"(Signed) Treasurer of the United States.
and
Secretary of the Treasury."

Mr. Patman. I thought it was supposed to be restricted in use so that only the Federal Reserve Banks could use it. Is that right?

Governor Eccles. The Federal Reserve Banks do not use them. They merely hold them as they would a receipt in lieu of the gold that they have.

Mr. Patman. That is what I thought, but that indicates that anyone getting possession of it would have a right to take it to the Treasury and get gold on it.

Governor Eccles. It says, "On demand, as authorized by law."

Mr. Patman. Suppose that he wanted the gold for export; he would have to get permission to export it.

Governor Eccles. If they wanted gold for any purpose, the law has given to the Secretary of the Treasurer the discretion on that.

Mr. Patman. But that certificate, so far as being a claim on gold is concerned, is restricted to the provisions of the law, and domestically you cannot demand gold, and you cannot get gold on that certificate.

Governor Eccles. That is right.

Mr. Patman. For domestic purposes. So it is merely a fiction so far as it relates to domestic business.

Mr. Gifford. The other question is, Suppose that the gold certificate is presented for money by you, and you receive United States bills or paper, and you accept that; can you after that demand gold? If you can, then I claim that the gold is not idle, that it is working through the gold certificate.

Governor Eccles. I do not get the point. Just what is your question?

Mr. Gifford. If I have a receipt, it means that I can demand gold that is freed, and I give up that receipt and take money that is being issued now. That gold receipt is a certificate for gold in the hands of the Treasury, but you have been paid the money and accepted it.

Governor Eccles. Whom are you speaking of, the Reserve System?

Mr. Gifford. Yes, and I want to ask if you do not jeopardize your privilege of a demand for gold when you accept paper money?

Governor Eccles. I still do not get your point. The law, of course, as you all know, required the Reserve System and everybody else holding gold or gold certificates to turn them in to the Treasury, at $20.67 an ounce. That was done. The Reserve System, in lieu of the gold, was given these gold certificates. The law requires that the Federal Reserve notes must be covered by not less than 40 per cent of gold--and in this case it would be gold certificates--so the gold certificate serves the same use under the law that the gold did serve, and the balance is to be covered by either United States Government bonds or paper, commercial paper, eligible paper which the Reserve System has taken from the member banks.

Mr. Gifford. I do not think my question should be so difficult. I think I see the moral side of it. If you bring in that gold certificate, and you take money, bills, you lose the right to demand gold, don't you? The Treasury accepts gold certificates for the money handed over the counter, and haven't you lost it then so far as its being a demand for actual gold is concerned, or is it simply a bookkeeping arrangement?

Governor Eccles. The Federal Reserve Banks do not turn gold certificates over to the Treasury in exchange for other kinds of currency.

Mr. Gifford. Don't you have to give up the gold certificates?

Governor Eccles. They have to turn all of the old series gold certificates over to the Treasury but not the new series certificates which are issued only to the Federal Reserve Banks.

Mr. Gifford. You don't give them up?

Governor Eccles. Not the new ones.

Mr. Patman. I want to ask a question on this bill.

The Chairman. Let me see if I understand what he is talking about. You have eight billion eight hundred million of Federal Reserve notes now outstanding--is that right?

Governor Eccles. How many did you say?

The Chairman. Eight billion eight hundred million.

Governor Eccles. That is in gold certificates. You have less than that of Federal Reserve notes outstanding. The Federal Reserve notes in circulation amount to four billion two hundred fifty-two million.

The Chairman. And you have eight billion eight hundred million of gold certificates?

Governor Eccles. Gold certificates and credits payable in gold certificates.

The Chairman. Where are the gold certificates?

Governor Eccles. Where are they, did you say?

The Chairman. Yes.

Governor Eccles. They are in the various Reserve Banks.

The Chairman. They have them now?

Governor Eccles. Yes or a call on them.

The Chairman. No matter how they have them, they are under their control?

Governor Eccles. That is right. Here is where they are--

The Chairman. That does not matter; I understand that part of it.

Mr. Hancock. You have not actually got two billion dollars in gold certificates, have you, in the System?

Governor Eccles. What was the question?

Mr. Hancock. You have not actually got two billion dollars in gold certificates in the System?

Governor Eccles. They have eight billion eight hundred and thirty-five million, but there has only been two billion eight hundred million actually delivered to the banks. The banks could get the balance at any time they wanted it.

The Chairman. I want to ask you this, Governor: They have four billion, plus any Federal Reserve notes. What is the cover for those notes now?

Governor Eccles. It varies. Gold certificates on hand and due from the Treasury, $4,563,632,000; eligible paper, $12,844,000; and United States Government bonds, $20,000,000; or a total of $4,596,476,000, is what is held by the Federal Reserve agents covering the Federal Reserve notes which they have issued or are outstanding.

The Chairman. Of course, those notes are protected by all the assets of the Federal Reserve Banks, and they have only $12,000,000 in commercial paper?

Governor Eccles. And the rest in gold certificates and government bonds.

The Chairman. The rest is in gold certificates, which are theoretically redeemable in gold?

Governor Eccles. That is right.

The Chairman. And then they have in addition to that how much idle gold?

Governor Eccles. They have a total of eight billion eight hundred thirty-five million, so that they would have the difference between four billion five hundred and sixty-three million and eight billion eight hundred thirty-five million not pledged against Federal Reserve notes.

The Chairman. Over four billions more of gold to their credit which, so far as the Federal Reserve System is concerned, is now idle?

Governor Eccles. It is not idle, because that is to be used to cover deposits. The law provides that they must hold a 40 per cent coverage on Federal Reserve notes and 35 per cent on deposits, so it is not idle, and it is not wholly free.

Mr. Goldsborough. Isn't this the situation, that the idle gold being discussed here is represented by two billion dollars in the stabilization fund and the so-called frozen gold which has been recently purchased by the Treasury? Isn't that the total amount that constitutes the idle gold, so-called? It amounts to about three billion dollars?

Governor Eccles. I would say so, as far as--

The Chairman. I have undertaken to show the amount of gold that the Federal Reserve Banks now hold and the amount of notes that they have outstanding and in circulation, and the notes that they have outstanding and in circulation are covered by nearly 100 per cent gold. Then they have in excess of the gold required to be covered by deposit about one or two billion more.

Governor Eccles. I think about one billion seven hundred million dollars more.

The Chairman. And the highest requirement we ever had as a gold protection against Federal Reserve notes was 40 per cent, wasn't it?

Governor Eccles. 40 per cent, of course, is the legal requirement.

The Chairman. I say, the highest that we ever had?

Governor Eccles. The difference has to be made up by Government bonds.

The Chairman. I am not talking about that. I mean that the only requirement, and the highest requirement, was 40 per cent.

Governor Eccles. That is right.

The Chairman. That being the case, we have how many millions of dollars of gold that could be used as a base for Federal Reserve notes, if we only used the amount actually required?

Governor Eccles. You would have the excess, which is about one billion seven hundred million dollars, plus the difference between the present gold coverage and the required coverage. In other words--

The Chairman. It would be something like five billion of dollars, would it not?

Governor Eccles. It would be close to that. About four billion nine hundred million.

The Chairman. Above what it would take to cover your notes with 40 per cent of gold?

Governor Eccles. In other words, if you covered your notes with 40 per cent and your deposits with 35 per cent, you would have about four billion nine hundred million of gold in excess of that minimum coverage.

The Chairman. That is what the Federal Reserve now has?

Governor Eccles. That is right.

The Chairman. And which they could use with a 40 per cent coverage for additional Federal Reserve notes?

Governor Eccles. That is right.

Mr. Hancock. That would serve as a credit base for something like fifty billion dollars, would it not?

Governor Eccles. If issued by the Reserve banks and redeposited by member banks, it could serve as a basis of multiple expansion by member banks, but the Reserve banks could issue it only if they purchased that amount of securities in the open market, which it would be impossible to do.

The Chairman. How much of a further currency base would it serve, assuming that you made up the other coverage by bonds or commercial paper?

Governor Eccles. Assuming that 60 per cent was made up of bonds and commercial paper, and the gold was only used to the extent of 40 per cent coverage on notes and 35 per cent on deposits, that would leave about four billion nine hundred million of gold in excess of that minimum requirement.

The Chairman. Then how much additional issue of Federal Reserve notes would that cover on the basis of 40 per cent, assuming 60 per cent is made up of bonds and commercial paper? What I am trying to get at is this: How many notes could the Federal Reserve Banks put out and still protect them by the 40 per cent provision?

Governor Eccles: Twelve billion two hundred fifty million.

The Chairman. And still we have lots of people lying awake at night for fear we are going to expand our currency too much and have inflation.

That is what I wanted to bring out.

Now, how much credit would your twelve billions make possible?

Governor Eccles. The thing that determines the possible credit expansion of the banking system is the amount of excess reserves of the member banks.

Now, those reserves are increased or decreased through two methods: through open market operations or through the actual increase or the decrease of reserve requirements. Prior to the action of the Board in increasing the reserve requirements last summer and this spring, and assuming there had been no increase in reserve requirements last summer and this spring, there would be approximately three billion dollars more excess reserves held by the member banks than are held today. Today there is about 900 million in excess reserves. The member banks would hold very close to four billion dollars of excess reserves had Congress not given the Board power to increase the reserve requirements, and had the Board not used that power.

You add to excess reserves to the extent that you buy securities in the market. As securities may be sold in the market or are permitted to run off, it diminishes the amount of the excess reserve.

That is the mechanism available in the Reserve System for the control of the expansion or the contraction of credit, and the amount of gold held by the Reserve System influences it only to the extent that it is not sufficient to cover the 40 per cent and the 35 per cent. If the gold reserve was getting close to the limit, then, as was the case in 1932, it may be impossible for the Reserve System to carry out an open market operation in attempting to ease the money situation, but with the large amount of gold available, it is not a factor today in either the expansion or the restriction of credit by the banks.

Mr. Wolcott. Following that thought further, you have expressed an opinion based upon the Chairman's question, to this effect, that it appears that you can, upon the gold basis, issue upon your gold excesses about twelve billion five hundred million of currency. Now, is it your contention that if the Federal Reserve issued twelve billion five hundred million in new currency, under the quantitative theory of currency, that would not create inflation?

Governor Eccles. What would the Reserve System do with the currency if it issued it?

Mr. Wolcott. Would it not find its way back into the excess reserves of the banks, and therefore be used as a basis for credit inflation?

Governor Eccles. In the first place, there is no way that that currency could be gotten out.

Mr. Wolcott. As I understand it, the theory behind the issuance of money is to meet current demands for currency, and you do not issue any more currency than is needed.

Governor Eccles. The Reserve System does not determine the amount of currency issued; the depositors determine that.

Mr. Wolcott. And that is influenced by the needs of business for currency?

Governor Eccles. In fact, the greatest amount of currency we had in circulation was at the time of the bank holiday, when business was at the lowest ebb, so that we cannot say that the volume of currency is determined solely by the expansion and the contraction of business.

Mr. Wolcott. What determines, therefore, the amount of currency which is outstanding?

Governor Eccles. I would say normally that business expansion and contraction--and the price level, which is a factor of course in determining the volume of money needed to do a certain amount of business--would determine the volume of currency outstanding. If currency is hoarded, as it was at one period, it is a factor in determining the amount of currency outstanding, but under a normal condition, where people do not withdraw currency and hoard it then the amount of business activity largely determines the amount of currency in circulation.

Mr. Wolcott. It is contended by a great many members of Congress that where there is a contraction of credit facilities, either due to the tightening up by the banks or the failure of borrowers to demand credit, it is desirable to issue currency to balance up the withdrawals of credit. What would normally happen to that increase in currency, if that was done under those conditions?

Governor Eccles. It would come right back into the Reserve Banks and would be added to the excess reserves of member banks.

Mr. Wolcott. And the banks would be required to invest those excess reserves in federal bonds?

Governor Eccles. Well, the member banks would have the excess reserves, and I suppose that they could invest them wherever there was a demand.

Mr. Wolcott. And when the excess reserves got up to a point where you thought it was dangerous and might cause inflation, then you again would have to raise the reserve requirement to offset it?

Governor Eccles. The Board has no further authority under the law to increase reserve requirements.

Mr. Hancock. Is it not a fact that under our monetary system, the more prosperous and stable business is, the less currency we use?

Governor Eccles. I should say that that is not an accurate statement. It is true, however, that business may be prosperous and stable, and we would use less currency than we would in a time of crisis, when people hoarded currency.

Mr. Hancock. As long as people have confidence in banks, they do not use currency, do they?

Governor Eccles. The greater the business activity, the greater the amount of cash needed to transact it, and that increases the amount of currency in circulation. The amount of currency in circulation now is substantially more than it was a year ago. There was more a year ago than two years ago. The amount of currency in circulation has increased substantially, due to two factors, first the large increase in the physical volume of business and secondly some increase in the price level.

Mr. Hancock. Governor, there was more currency outstanding in February, 1933, than at any other time in the history of this nation.

Governor Eccles. That is right. That was due to the fact that currency was carried in lieu of bank deposits, and it was carried idle; it is what we call hoarded money.

Mr. Wolcott. And there was less in circulation during the peak year of 1929 than before that.

Governor Eccles. That is correct.

Mr. Fish. I think that it would serve a useful purpose to put into the record the amount of currency he refers to as being outstanding in 1933, and the date, because I am under the impression that we have today almost as much outstanding as at any other time in our history. I may be in error there, but isn't a fact that we have more outstanding now than we have had for a great many years?

Governor Eccles. We had more in 1933.

Mr. Fish. How much more in 1933 than at the present time?

Governor Eccles. The maximum amount of money in circulation was seven billion two hundred ninety-four million on March 13, 1933.

Mr. Hancock. For about two weeks it ran pretty close to seven and a half billion dollars.

Mr. Gifford. The French people are hoarding our currency.

Mr. Patman. I would like to ask a few questions about the bill.

Mr. Fish. He had better answer my question first.

Governor Eccles. At the present time (July 7) there is a total amount in circulation of six billion five hundred twenty-four million. That includes all kinds of circulation. Of that amount, about four billion two hundred and fifty million is in Federal notes. Then there are the silver certificates, and the old United States notes.

Mr. Fish. Isn't that the largest amount, except for that one exception in 1933 when we had seven and a half billion outstanding?

Governor Eccles. Yes.

Mr. Fish. One other question. Will you state to the committee whether you are in favor of the sterilization of gold?

Governor Eccles. You are asking me that question?

Mr. Fish. Yes.

Governor Eccles. Whether I am in favor of it?

Mr. Fish. Yes.

Governor Eccles. Yes.

558 Mr. Fish. And whether, in view of the fact that we took over 250 million dollars last month in gold and sterilized it, and placed it in the inactive account, you are in favor of continuing that policy indefinitely, of holding those huge sums of money?

Governor Eccles. You have one of two alternatives. You can either sterilize gold in that way, or find some other way to do it, or permit it to become excess reserves in the banking system, in which case the credit control which now can be exercised by the Reserve Banks could no longer be exercised.

Mr. Fish. I want to hear from you whether you consider it possible for this Government--not this administration, but the Treasury Department--to continue this policy to which I have referred indefinitely in connection with any attempt to balance the budget, because I understand that you want to balance the budget.

Governor Eccles. Of course, you get into a very large and involved subject when you discuss the gold question, and it is one that I do not feel at liberty to discuss. I feel that inasmuch as Congress has given to the Treasury the responsibility for dealing with this subject, that I would prefer not to discuss it, or to express personal opinions with reference to it.

The Chairman. Gentlemen, the Members are aware of the state of mind of the Members of the House today on account of the shocking death of Senator Robinson, and I am sure that all the Members here would like to be on the floor when the House meets. For that reason I am going to suggest that the committee recess until 10:30 tomorrow morning.

You can be back with us tomorrow morning, can you not?

Governor Eccles. Yes.

The Chairman. I hope that we may be able to finish with you tomorrow morning.

Without objection, the committee will meet tomorrow morning at 10:30.

(Thereupon, at 11:50 o'clock a.m., the committee recessed until Thursday morning, July 15, 1937, at 10:30 o'clock a.m.)

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H. R. RES. 377

Authorizing the destruction of Federal Reserve notes of the series of 1928, and their replacement by Federal Reserve notes of the series of 1934, or a later series, at the expense of the United States.

Thursday, July 15, 1937

HOUSE OF REPRESENTATIVES,
Committee on Banking and Currency,
Washington, D. C.

The Committee met at 10:30 o'clock a. m., for the further consideration of House Joint Resolution 377, Honorable Henry B. Steagall (Chairman) presiding.

The Chairman. Gentlemen, we have Governor Eccles with us again this morning. He will resume his statement on House Joint Resolution 377.

Mr. Ford. Mr. Chairman, might I make the comment there that I hope that the discussion will be confined to the bill this morning.

(Thereupon there was a brief informal discussion, off of the record.)

The Chairman. You may proceed, Governor Eccles.

FURTHER STATEMENT OF HON. MARRINER S. ECCLES,
Chairman of the Board of Governors of the Federal Reserve System.

Mr. Patman. I would like to ask the Governor some questions.

The Chairman. Certainly.

Mr. Patman. The 1928 certificates are the ones involved here, are they not?

Governor Eccles. Yes, that is right.

Mr. Patman. They are the ones that state on their face that they are payable in gold at the United States Treasury, or in gold or lawful money at any of the Federal Reserve Banks?

Governor Eccles. That is correct.

Mr. Patman. I believe that you stated yesterday that the new form of gold certificate that is used between the Federal Reserve Banks only uses the phrase "as authorized by law." In other words, the statement is on the certificate that they are redeemable in gold, but the additional phrase is used, "as authorized by law." That is the only difference, is it?

Governor Eccles. Well, to be sure that there was any greater difference, I would have to examine them, but, as I recall it, that is the difference.

Mr. Patman. That being true, why couldn't you just add that same phrase to these bills, "as authorized by law," and make them just the same as the other bills now being used?

Governor Eccles. Of course, the bills now being used are not in circulation, I mean the bills that the Treasury now gives to the Reserve System for the gold which they took from the System.

Mr. Patman. I did not get that.

Governor Eccles. I say, the gold certificates which the Treasury has given to the Reserve Banks in payment of gold which the Reserve System has turned over to the Treasury, as I understand it, are different certificates than these Federal Reserve notes payable in gold.

Mr. Patman. Yes, sir, they are different certificates, used for different purposes.

Governor Eccles. But they are not in circulation.

Mr. Patman. I think that you misunderstood me. I am not talking about those at all. When you stopped paying out on those 1928 notes, you had about three billion dollars worth of them on hand, did you not? I mean the aggregate amount in notes in the cages over there at the Bureau of Printing and Engraving.

Governor Eccles. The total amount involved would be less than three billion at the Bureau. The Federal Reserve agents also hold about a billion and a half.

Mr. Patman. But you had in circulation notes just like that, amounting to about two or three billions dollars, or more?

Governor Eccles. Well, there were notes in circulation at that time, but there was no way, of course, of recalling those notes readily, because--

Mr. Patman. How much did they aggregate? Two or three billion dollars?

Governor Eccles. What did they aggregate, Mr. Smead?

Mr. Smead. Probably a little more than that.

Mr. Patman. About four billion dollars.

Now, they remained in circulation, except those that have been replaced because they were injured or damaged?

Governor Eccles. They are being replaced constantly, of course, as mutilated currency is.

Mr. Patman. Therefore the System is recognizing the policy of paying those out and continuing them in circulation, although they do express a lie, as you stated yesterday, on their face?

Governor Eccles. I think that that is possibly correct.

Mr. Patman. You let them be paid out every day, didn't you, those that were paid out?

Governor Eccles. Prior to the time when we were asked to discontinue their circulation by the Treasury.

Mr. Patman. You could withdraw them or capture them as they came over the counter, as you always capture the gold certificates?

Governor Eccles. It would be with great difficulty that that could be done.

Mr. Patman. But it could be done?

Governor Eccles. I suppose that it could be by a lot of extra expense and work, but you would have to examine every Federal Reserve note carefully.

Mr. Patman. The point that I was endeavoring to make is this, that there cannot be so very much harm done in paying these out and using them, because we have billions of notes out every day and being paid out by Federal Reserve Banks.

Governor Eccles. That of course is a question for the Treasury to decide. The Reserve System did not discontinue--

Mr. Patman. The Treasury discontinued them?

Governor Eccles. Yes, the Treasury were the ones that asked--

Mr. Patman. When was that request made?

Governor Eccles. When was it, Mr. Smead?

Mr. Smead. December, 1935.

Governor Eccles. And it was taken up with the bank presidents, at a conference--

Mr. Patman. I wonder why the question was not submitted to Congress at that time. Do you know?

Governor Eccles. The Treasury agreed at the time that they would submit it to Congress, but they did not do it at once.

Mr. Patman. It just has not been done? And it has been two years?

Governor Eccles. No, that was in the fall of 1935, and this is the second session. They were going to do it, but just did not get to it, and the matter came up to me from those various banks. You see, the banks have funds invested in this account.

Mr. Patman. I understand that.

Governor Eccles. And it is shown as an investment in currency, a currency inventory. What we were trying to do was to get the thing cleared out.

Mr. Patman. How many of the government bonds have on their face, "payable in gold"?

Governor Eccles. I could not tell you.

Mr. Patman. A great percentage of them, I presume?

Governor Eccles. Well, I suppose that all of those that were out prior to the Gold Reserve Act.

Mr. Patman. They have the same kind of a lie on their face, do they not?

Governor Eccles. I think that is true.

The Chairman. Let me interrupt you one minute, just so the record should show the fact about that. The fact is, Governor Eccles, that in the legislation of 1934, we provided for the exchange of all bonds with the gold clause for bonds simply payable in lawful money of the United States, the exchange to be made without expense to the bondholder, did we not?

Governor Eccles. I could not tell you. Of course, the Reserve Banks--

Mr. Patman. I want to ask you--

Governor Eccles. -- or a holder of the present notes redeemable in gold could exchange those for the 1934 series; that is, the holders of the series of 1928 could exchange their notes for the series of 1934.

Mr. Patman. Without expense to them?

Governor Eccles. Yes.

Mr. Patman. Do you mean notes or bonds?

Governor Eccles. Notes.

Mr. Patman. That is when they are defaced in some way?

Governor Eccles. No. What I mean is that if a person owns some Federal Reserve notes redeemable in gold or lawful money, they can naturally exchange those notes for a note not redeemable in gold, in the same manner that--

Mr. Patman. I want to ask you about this $139,000,000 taken from the reserve funds of the Federal Reserve Bank. It is my understanding that when the FDIC Bill was passed, the Government appropriated $150,000,000 from the Treasury to make up the initial fund, and $139,000,000 from the Federal Reserve Banks' surplus fund, and the remainder was made up by assessments on the banks, and after that there was a law passed to turn that $139,000,000 over to the Federal Reserve Banks. Is that right or not, and I want to know what kind of a string was tied to that $139,000,000?

Governor Eccles. I would have to check on the detail of that. The money has not been returned to the Federal Reserve Banks, and there is no way in which the present Federal Reserve Banks can get that.

Mr. Patman. I thought that for Industrial loans they could.

Governor Eccles. No. The Treasury put up one-half of the amount for industrial loans, and the Reserve System put up one-half, and the total amount received from the Treasury by the Federal Reserve Banks under section 13-b is $27,421,000. That is the total amount that we got and upon that we have to pay interest at 2 per cent.

Mr. Patman. To whom?

Governor Eccles. To the Treasury if it is earned.

Mr. Patman. Do you mean to say that you will have to pay back the money to the Treasury?

Governor Eccles. We do not pay it back, but we pay interest on it.

Mr. Patman. It is my understanding that there is no string at all attached to that money, that the law was so worded that the Treasury cannot force the Federal Reserve Banks to pay it back to the Treasury.

Governor Eccles. I think that is correct, but we pay 2 per cent.

Mr. Patman. Which law requires you to pay 2 per cent if you are not required to pay back the principal?

Governor Eccles. It was an arrangement with the Secretary of the Treasury by Governor Black prior to my time, and I do not know the circumstances under which the arrangement was made, but I cannot imagine that the Reserve System would assume an interest obligation if it had not been required to do so.

Mr. Patman. That is what I cannot understand, that if they are not required to pay the money back, why they have to pay interest on it.

Governor Eccles. The law requires that we pay the 2 per cent.

Mr. Patman. The law requires that you pay the 2 per cent for how long?

Governor Eccles. As long as we have the money.

Mr. Patman. As long as you have the industrial loans? Is that right? When the industrial loans are collected, you keep the money and cease to pay interest?

Governor Eccles. Mr. Smead says that there is no such limitation. It has no relation to whether the industrial loan is paid.

Mr. Patman. But you will continue to keep the money and to pay interest?

Governor Eccles. I cannot say that.

Mr. Smead. If earned.

Governor Eccles. In other words, there is no opportunity of earning any money on that kind of a loan. It is in the nature of a loan at 2 per cent. There is a very great difference between that money and the money which was in the surplus of the Reserve System which they turned over to the FDIC.

Mr. Patman. In regard to this--

Governor Eccles. The Reserve System cannot make 2 per cent on the average over a period of time. The average yield on their present holdings of government bonds is around 1-1/2 per cent, and the highest discount rate is 2 per cent today, and the lowest is

1-1/2 per cent, so that the gross return on any Federal Reserve loan or investment would necessarily be less than the 2 per cent which we are required to pay, except on industrial loans, where the rate received is from 4 to 6 per cent. Most of the loans, I would say, would possibly average 5 per cent. However, there is not much profit on those loans, because of the type of loan. They require a great deal of investigation and a great deal of time and attention in managing and looking after them.

Mr. Patman. I am not claiming that you make any profit on them. That is really a different point.

Governor Eccles. I thought you were making the point that we got our surplus of $139,000,000 back.

Mr. Patman. I am making the point, and I still believe that I am right about it, although I am not positive, that that $139,000,000 is gone from the Treasury without any strings on it at all, and that the Treasury cannot make you pay that money back to the Treasury.

Governor Eccles. In the first place--

Mr. Patman. I hope that I am wrong about it, and I hope that you are right, but I am still not convinced.

Mr. Williams. Let me ask a question right in that connection. This is my understanding of it, that the original investment was $139,000,000 in FDIC stock.

Governor Eccles. That is right.

Mr. Williams. That was taken from the Federal Reserve surplus.

Governor Eccles. That is right.

Mr. Williams. When the permanent FDIC law was passed, that $139,000,000 was turned back to the Treasury, was it not?

Governor Eccles. No.

Mr. Williams. And the money which represented it is not carried as a surplus now by the Federal Reserve?

Governor Eccles. It is entirely out of the Federal Reserve; it is nonexistent as far as they are concerned.

Mr. Williams. Well, the money to that extent is in the Treasury.

Governor Eccles. The money is in the Federal Deposit Insurance Corporation.

Mr. Hancock. Is it not a fact that the records of the FDIC show that the Federal Reserve System still owns $139,000,000 of stock?

Governor Eccles. I could not say what their records show.

Mr. Williams. Isn't this further the situation--and I would like to have this understood myself--that as those industrial loans are made by the Federal Reserve Banks, the money with which they are made comes from the Treasury?

Governor Eccles. One-half of it.

Mr. Williams. And to that extent they appropriated to the Federal Reserve Banks approximately $27,000,000?

Governor Eccles. That is right, and that has practically reached its peak, too.

Mr. Williams. As a matter of fact, the Federal Reserve Banks have not any of this surplus, except the amount that they have invested in industrial loans?

Governor Eccles. Except the $27,000,000 which was turned over to them for the purpose of making industrial loans, and upon which they are required to pay 2 per cent, if earned.

Mr. Williams. That is the only amount of that surplus that the Federal Reserve Banks have now, and they have to pay 2 per cent on that amount?

Governor Eccles. If earned.

Mr. Williams. If earned?

Governor Eccles. That is right.

Mr. Williams. The point that I am trying to make is that you do not have this $139,000,000. That was taken away originally under the FDIC.

Governor Eccles. No. We have had $27,000,000 returned from the Treasury in the form of an interest-bearing obligation.

Mr. Williams. And that is for the purpose of making industrial loans, and upon those you pay 2 per cent interest?

Governor Eccles. That is right, and there is no way of getting more than that, because the industrial loans are declining rather than increasing. The aggregate industrial loans are not increasing. We have reached the peak.

Mr. Williams. That $27,000,000 is carried as part of the surplus of the Federal Reserve Banks on their books?

Governor Eccles. Yes, it is carried under a separate surplus. The capital is $132,000,000. Then you have a surplus of $145,000,000, and the surplus under section 13-b of $27,000,000.

Mr. Williams. It is carried as a surplus under a separate provision?

Governor Eccles. That is right.

Mr. Williams. Making your total surplus now $175,000,000?

Governor Eccles. That is right, $172,000,000.

Mr. Williams. That is the situation now?

Governor Eccles. That is correct.

Mr. Patman. It is my understanding from an investigation that I made some time ago -- I have not gone into it recently-- that this $139,000,000 was authorized for industrial loan purposes, and as the Federal Reserve Banks used it for that purpose and the loans were collected, there is no way that the Treasury can cause that money to be paid back into the Treasury.

Governor Eccles. That is correct, but the Treasury maintained a string on it that required the Reserve Banks to pay interest.

Mr. Patman. Have you actually paid interest?

Governor Eccles. I do not know how much interest has been paid.

Mr. Smead. A number of Federal Reserve Banks have; whenever it has been earned.

Governor Eccles. We have set up a formula that was agreed upon with the Treasury, that they felt complied with the law, and whenever it shows an earning on these loans--

Mr. Patman. Charging all expenses of supervision to the loans, and so forth?

Governor Eccles. They do not charge all that expense against the Treasury, because the Treasury supplied only half of the money. In other words, part of the money loaned is their own fund, and part the Treasury's, and expenses are charged in the same proportions.

Mr. Patman. Chapter 16 of the Federal Reserve Act says that when Federal Reserve notes are issued to a Federal Reserve Bank, the Federal Reserve Board, under the original law, should cause that Federal Reserve Bank to pay the interest rate that was fixed by the Federal Reserve Board, and I understand that at that time the Board met and said, "Well, all the excess earnings go into the Treasury, anyway, and we will just fix the zero rate of interest." Then in 1917 the law was amended, on June 21, 1917, so as to provide that the Federal Reserve Banks would only pay interest on the notes representing the difference between the gold certificates that were used as collateral security or gold and the amount of the notes issued, and I have checked that up since 1917, and my investigation discloses, from information that was obtained from your office that ever since that time some of those banks have obtained notes in violation of that law.

If that is true, I would like to know why the Board has not carried out that provision which requires an interest charge to be levied.

Governor Eccles. Well, as a matter of fact, it would seem that you are of the opinion, Mr. Patman, that private ownership of those reserve banks is a deterrent, that some one gets a particular advantage--

Mr. Patman. That is not the question at all. I am just asking about that specific point.

Governor Eccles. I could not answer that. The question has not come up since I have been connected with the Board. It is a question that has never been raised, and the Reserve System has been operating for the last three years with practically no profit whatever.

Mr. Patman. Well, of course, their income has been principally from Government bonds.

Governor Eccles. Entirely so, and it could not be from any other source.

Mr. Patman. Don't you believe that that law should have been complied with, Governor, and that those banks owe that money, that they still owe it, and should pay it now?

Governor Eccles. I do not know what rate you would fix upon the use of that currency, and if you fixed a rate on it, the Government would turn around and appropriate funds to the Reserve System to keep that going.

Mr. Patman. But there is a difference. If the Government appropriates the funds, they will have some control of the way those earnings are expended. Now they have no control.

Governor Eccles. They have all the control that Congress wants to enact.

Mr. Patman. Affirmatively, yes, but we do not have the question coming up where we can take action, but if we had to appropriate money for the continuance of the Federal Reserve System, we would have an opportunity to say how it should be expended. We would probably stop the $30,000 and $50,000 salaries.

Governor Eccles. You mean if all the earnings should go to the Government and in turn all appropriations should be made?

Mr. Patman. That is right.

Governor Eccles. That is up to Congress.

Mr. Patman. Yesterday, in reply to Mr. Hancock, you stated that you had between four and five billion dollars in gold upon which currency could be issued, that is, Federal Reserve notes, equal to 2-1/2 to 1, or about 12 billion 500 hundred million.

Governor Eccles. Approximately.

Mr. Patman. And there was something said about the amount of expansion that could be made of the currency. Is it not a fact that under the present Reserve requirements, that you could have an expansion equal to about 75 billion dollars of that money?

Governor Eccles. The 5 billion approximately of gold or gold certificates now held by the Reserve System in excess of the gold reserve requirement to be held against deposits and note liabilities would be sufficient to furnish 14 billion dollars approximately on a 35 per cent reserve ratio of credit to the member banks. In other words, if the member banks were loaned 14 billion by the Reserve Bank, that would mean that their deposits would increase with the Reserve with the Reserve Banks.

Mr. Patman. In excess reserves?

Governor Eccles. Yes, by 14 billion, and that 14 billions would require nearly 5 billions of gold to be held against it, but the banks under those circumstances would have 14 billions of additional excess reserve upon which they could expand with the present reserve requirements, which is between 5 and 6 for 1; they could expand between five and six times the amount of credit that that would give them, or between 70 and 84 billion dollars.

Mr. Patman. Governor, in view of your statement, a member bank could sell to the Federal Reserve Bank a $100,000 bond, and have to its credit in the Federal Reserve Bank $100,000 in excess reserve, and then if it wanted to buy $600,000 in government bonds, it would be privileged to do so upon that reserve, would it not? In fact, more than that?

Governor Eccles. No. The individual bank, of course, would only be able to buy bonds to the extent of its excess reserves but the banking system as a whole could do this: The fact is, that this bank with $100,000 of excess reserve would only have $100,000 available with which to expand credit or make investments. However, when the bank made the loan or made the investment, the institution or the individual getting the proceeds of that loan would deposit that loan in another bank--

Mr. Patman. I know, but we are presuming that you will not do that, and that the rural carriers, the postmasters, and all of the Federal employees in that particular town would collect that much money.

Governor Eccles. The amount of expansion would depend upon whether it was a central reserve city bank--

Mr. Patman. But I am talking about the average.

Governor Eccles. The average would be between five and six to one.

Mr. Patman. Governor, the Federal Intermediate Credit Bank is to agriculture about the same as the Reserve System is to industry generally, is it not?

Governor Eccles. No, there is a very great difference.

Mr. Patman. I understand that it is a go-between.

Governor Eccles. There is no relation to it at all, because the Intermediate Credit Bank of course is not a bank of issue.

Mr. Patman. It sells bonds to the public.

Governor Eccles. That is right; it sells debentures. It sells its three, six and nine months debentures.

Mr. Patman. But the point that I want to ask you about is this: When an Intermediate Credit Bank has accumulated a surplus equal to its subscribed capital stock, one-half of the remainder shall go into the Treasury of the United States as a franchise tax, and that is the law today, and of course the law has been changed as to the Federal Reserve so as to provide that none of the profits are required to go into the Treasury as a franchise tax, and since the law has been changed and all of this money has accumulated, some two or three hundred million dollars as a surplus fund--I do not recall the exact amount--

Governor Eccles. Where? With the Federal Reserve?

Mr. Patman. Yes.

Governor Eccles. $145,000,000 is the only item outside of this $27,000,000 that they have to pay interest on.

Mr. Patman. Since as a matter of right that money belongs to the Government, because the Federal Reserve Board failed to carry out the law in making an interest charge--and the law is plainly written--

Governor Eccles. I would not agree at all to that.

Mr. Patman. And since the Board has failed and refused to comply with the law, and which if it had been complied with that money would have gone to the Treasury, it just occurred to me that we should not pay out any $3,000,000 to the Federal Reserve Banks on currency.

Governor Eccles. As a matter of fact, the $132,000,000 is the capital, and if the Reserve System had no surplus whatever, of course it would not be in a position to operate very satisfactorily. It is true that it could call upon its member banks for the payment of all of the stock which they subscribed. They never called for more than one-half of the payment. Now they could have called for all of it, and if the Treasury took the surplus that they had, then they might have to call upon the banks for $132,000,000 upon which they would have to pay 6 per cent. They have called upon the banks for only one-half of the subscription to Federal Reserve bank stock, and only on that amount which has been called for and paid in, do they pay any return. The total benefits to the member banks by way of an income out of Federal Reserve earnings, i.e., the total amount that they got, is 6 per cent on $132,000,000, which is about $8,000,000. So if the ownership of the Reserve Banks were elsewhere, if it was in the Government, and the average rate of interest which the Government pays upon its long-term obligation, which you would have to figure in this case, is between 2-3/4 and 3 per cent, the total saving in the picture would amount to about $4,000,000; so that the total amount that would be saved to the Government if they owned the Reserve System as the banks now own the Reserve System, would be about $4,000,000.

Mr. Patman. That is in dollars and cents, Governor, but I think that there is another view that should be considered there, the main view from my standpoint, and that is divorcing private banks from the Federal Reserve/System entirely, so that they will not in any way have any stock or interest in the Federal Reserve System, the bank of issue, and I believe that that is of greater importance than the question of the saving of $4,000,000.

Governor Eccles. I think the question of the $4,000,000 is a small factor in the picture. The banks could continue to own the stock without having the voice that they have in the individual reserve banks. That voice, however, is not very important, because the monetary powers are largely in the Board.

The Open Market Committee used to be composed of the twelve bank governors or presidents. These people, before the Banking Act of 1935, were selected entirely by the directors of the Reserve Banks, and two-thirds of the directors of the Reserve Banks were selected by the banks. Therefore it did indirectly give to the banks certain powers over monetary control through that means. But even then all their decisions had to be approved by the Federal Reserve Board before action could be taken.

Today the power to increase or decrease reserve requirements is solely in the Board. The members of the Board, as you know, are all appointed by the President, with the consent of the Senate. The power to increase margins on collateral loans made by both banks and brokers is entirely in the Board. The power to fix discount rates is ultimately in the Board and interest rates on time funds are regulated by the Board.

The Open Market Committee is a divided power. I did all that I could to get that power exclusively in the Board, but, as you all know--

Mr. Goldsborough. I think that you will agree that the House conferees tried to do the same thing.

Governor Eccles. As far as the House was concerned on that issue, I have no complaint.

Mr. Patman. You have stated--

Governor Eccles. So that when you get to this picture, bank ownership today is not an important factor when it comes to the question of the exercise of monetary control. The Government, through its power to appropriate the earnings of the Federal Reserve System from time to time, is in a position to get the benefits that may be derived from the operation of the Reserve System should earnings be in excess of the amount that may be required for an adequate surplus. It seems to me that the bill that provided that when the surplus was built up to a certain amount, any earnings thereafter were to revert to the Government automatically, was not an undesirable situation. Personally, I would see no objection to that sort of provision, because there is nothing to be gained by piling up an amount in excess of the need of the System.

The Reserve System is entirely a different institution than any private financial or banking institution, in that it does not operate for profit. The policy that it pursues should not be in any way motivated by whether or not this or that operation will bring to it a profit or a loss. When it carries out an open market operation, as it has done in times past for the purpose of giving reserves to the banking system, it might well take a loss when it reverses that policy, but--

Mr. Patman. You have stated--

Governor Eccles. But when it carries out the policy, the only factor to be considered is, what is in the public interest, and whether or not an easy money policy is advisable at the time. When discount rates are raised, and you reverse your policy and extinguish the excess reserves, what that may cost the Reserve System or what the System might make out of such a policy is, I am sure, never a factor.

Mr. Hancock. May I ask him a question right there?

Mr. Patman. Will you let me ask two or three questions, and I will be through?

Mr. Hancock. I was going to interrupt here just to get this information.

Mr. Patman. I just have two or three more questions, but go ahead.

Mr. Hancock. Where is the open market?

Governor Eccles. What is that?

Mr. Hancock. Where is there an open market in the United States, or where is the open market?

Governor Eccles. On the question of buying government securities, I suppose anywhere except buying them directly from the Treasury.

Mr. Hancock. Do we have any open market other than the New York market, in actual practice?

Governor Eccles. In actual practice, not on a large scale.

Mr. Hancock. I was wondering if in the State of North Carolina we could not have an open market established, so that we would not have to send to New York to get our bonds.

Governor Eccles. The difficulty is with the banks. They would like to buy low and sell high, and they would like the Reserve System under those circumstances to operate as an accommodation for the banks. We can hardly operate by going into a state and buying government bonds when the banks do not want to sell them.

Mr. Hancock. Is that the real reason for the sentiment in New York that is either very pessimistic or very optimistic, and you have never a medium, in between?

Governor Eccles. Well, I do not know. I think that there may be a lot of reasons for that. I do not think that the Government bond market is the sole reason.

Mr. Patman. I just want to ask you one or two more questions, and I am through.

Of course, you gave the reasons usually given why the Government should not own the Federal Reserve Bank System.

Governor Eccles. I did not say that they should not own it. Don't get me wrong.

Mr. Patman. Would you find it objectionable if the Government were to provide for government ownership? Would that be objectionable to you?

Governor Eccles. There is no need, there is no necessity of there being any stock, as a matter of fact.

Mr. Patman. I agree with you.

Governor Eccles. There does not necessarily need to be any stock in the Reserve System.

Mr. Patman. Whatever stock is owned, I think that the Government should own it. Do you think that that would be objectionable, or not?

Governor Eccles. I do not think that it would be important one way or the other. The importance is, what are the powers that the Reserve System has?

Mr. Patman. That is it.

Governor Eccles. It is not so much the ownership. The Government could well own the stock, and the Government could well permit a member bank, without the ownership of stock, if it chose to, to elect some of the directors. In other words, the member banks would not necessarily have to hold stock to occupy exactly the same position that they do.

Mr. Patman. Don't you think, in view of the power of the banks now on the Open Market Committee and the Federal Advisory Committee, which evidently must have some hidden powers somewhere, if not other powers, because I think certainly they have exerted some influence, that in spite of every argument that we can logically make, the disposition of the banks is to say, "Now that we own the stock in this system, we feel that you should do like we want you to"? I just have a feeling that we would be better off from the public standpoint if the Government owned that stock outright and the banks did not have any interest in it at all, and we had no Federal Advisory Council, and would you oppose a bill pending in Congress that provides that the Government should own that stock?

Governor Eccles. It would depend upon what the other conditions were.

Mr. Patman. I am talking about the conditions that I just enumerated.

Governor Eccles. If it involved not more than just a mere question of ownership, I do not know that it would make very much difference one way or the other.

Mr. Patman. You would not oppose it, then? You would not fight it, in other words?

Governor Eccles. You mean, just that one provision?

Mr. Patman. Yes, sir.

Governor Eccles. In other words, if the Government proposed that they would furnish the capital?

Mr. Patman. That is right, and divorce it from the bank control.

Governor Eccles. When you talk about control, do you mean if it was a question of making the Federal Reserve so that it did not have a certain amount of independence? If it did not have that independence, I would be opposed to it.

Mr. Patman. It is all right to be independent. I do not want a President to appoint all the members of the Board; I would like to have it staggered so that no one president would appoint them all.

Governor Eccles. And the Board itself should not be, nor the staff, subject to what we may term a political influence. It should be an independent, continuing public body.

Mr. Patman. And you would not object to that, if the stock were owned by the Government?

Governor Eccles. I would prefer to eliminate the stock, under those circumstances to have no stock, and have merely--

Mr. Patman. Now--

Governor Eccles. It is a question that I have not given very much thought to. I have never been asked to testify on that subject in connection with any bill, and it might be that circumstances would exist with relation to the legislation whereby I might find it necessary to oppose a change in the ownership, so that I would not want to be understood as saying at this time that I am in favor of the Government owning the stock of the Federal Reserve Banks without reservations.

Mr. Patman. Or against it?

Governor Eccles. Yes, or against it; that is right.

Mr. Patman. After Mr. Goldsborough finishes with his bill, they are going to have a hearing on a bill sponsored by 160 members of this House proposing government ownership of Federal Reserve Banks, and I am going to ask the chairman of the committee to invite you to testify on that bill.

Governor Eccles. All right, sir.

Mr. Patman. One other question, and I will be through.

This Federal Advisory Council, I feel, has influenced the Board to some extent. I do not know that they have, but I have that feeling, especially with regard to commodity prices, and I have a feeling now that the Board should have adopted a policy that would have caused commodity prices to have increased, and it occurs to me that the actions of the Board have been deflationary, unduly deflationary, and that they unduly hindered the advance in commodity prices.

Don't you think that commodity prices should increase more, raw material prices, Governor?

Mr. Ford. Enumerate them.

Mr. Patman. Cotton, corn, wheat, and other things.

Mr. Ford. Cotton?

Mr. Patman. Yes.

Governor Eccles. You say that the Board has adopted a restrictive policy. I say that that is not the case at all.

Mr. Patman. I did not say restrictive. I said that the policy adopted occurred to me to be deflationary.

Governor Eccles. All right, then, deflationary. What policy do you refer to? At what time in the past?

Mr. Patman. All right; the time when you increased the reserve requirement 50 per cent I considered it was wholly unnecessary, because there was no evidence in the world of inflation; and also when it was increased 50 per cent more--I refer particularly to cotton. I think cotton is entirely too low.

Governor Eccles. That is right, but the excess reserves of the banking system would have made no difference whatever, on the price of either wheat or cotton. Had the Board not in any way increased reserves or done absolutely nothing, in my opinion you would have seen no different price level than you see today, for this reason--

Mr. Patman. Now--

Governor Eccles. If the Board's action had brought about such a restriction in a lending policy of the member banks as to force liquidation, or as to make it impossible to get credit for purposes of production and also for marketing purposes, then you could say that the action of the Board was deflationary.

As a matter of fact, the interest rates today are as low as they have ever been. Just last week on Monday the Government opened bids for $100,000,000 of government bills, $50,000,000 due in nine months and $50,000,000 due in December. The rate on those bills, on those nine months bills, was .514, which is slightly over one-half of one per cent.

The debentures of the Intermediate Credit Bank, which finance the cotton and the wheat farmers, are selling on the market at less than one per cent, so that you cannot say that the action of the Reserve System has in any way restricted credit, and therefore if there is a slump in certain commodities, it is not due to a credit shortage or a restriction of credit.

The Reserve System did not reverse policy when they increased reserves. They were merely adjusting the reserve requirements in the System to the new gold position of the country, caused by a net inflow of foreign capital. The foreign capital came in here, and the way it is transferred is, of course, through the shipment of gold. This gave to the Reserve System the huge supply of gold that we have been discussing, and it gave excess reserves to member banks, and it was felt that the reserve requirements of the member banks should be adjusted to absorb some of the excess reserves created by the gold inflow. In other words, a part of that gold import was locked up, because it was not necessary to use it as a basis of credit, but had it been used it would of course have created a very serious inflationary condition.

Now, the time to lock it up is when the banking system has excess reserves, generally speaking. There was just a fraction of them that did not have sufficient excess reserves to meet the requirements. Even after putting into effect the increased reserve requirements, there is still approximately $900,000,000 of excess reserves in the banking system today. If we had waited until any substantial amount of excess reserves had been utilized by maybe only a few banks, it would have been that much more difficult to make this adjustment.

This was not a reversal of the monetary policy, but it was merely an adjustment of the banking system on a new basis of reserves, and as we announced at the time, we will use a more flexible instrument, the open market operation, which does not have an overall effect such as an increase in the reserve requirements does.

So that when the reserves were increased in March and May, there was a billion and a half of the excess reserves locked up. The Reserve

System, in order to facilitate the adjustment of the banking system to that increased requirement, carried out an open market operation of approximately $100,000,000. This left the net amount of the increase a billion four hundred million. We anticipated at the time that we ordered the increase in reserve requirements that we might have to carry out an open market operation, and we stated that we had the instrument with which to deal with the situation in the public interest. The open market operation that the System carried out along in April was in no way a reversal of the policy of increasing the reserve accounts.

Mr. Goldsborough. Governor Eccles--

Mr. Patman. Just this one observation, and I guarantee that I am through. I appreciate the patience of the committee, but you have noticed that Governor Eccles has taken up most of the time, and I am glad that he has, because what he has presented has been very interesting.

Of course, the purchases of government securities made by the Federal Reserve Banks were considered inflationary, because they put more money in circulation, but to me it was deflationary and unnecessary to make the increase in reserve requirements which was made. As to whether I am right, you have your opinion and I have mine, and I have been hopeful that the Board would adopt a policy that would not prevent commodity prices from going to the level that I think they should be increased to.

Mr. Luce. Is there any opportunity for this side to ask questions?

Mr. Goldsborough (temporarily presiding). By all means. Governor Eccles, there seem to be in the country two opinions regarding the inflationary effect of the policy of the Federal Reserve Board. One is that there is no evidence of inflation in so far as the business of the country is concerned, but that there was evidence of inflation in stock prices, and that therefore the policy of the Board should have been to increase the marginal requirements rather than to increase the reserve requirements.

Another opinion seems to be that the policy of the Board in increasing the reserve requirements under indicated circumstances, and the policy of the Treasury in freezing gold, have created a doubt in the business world as to what the permanent policy will be, and that that has seriously interfered with recovery.

Now, I think that these opinions have been broadcast, and that it would be interesting to the committee and to the country for you to give us your views about that.

Governor Eccles. Answering the first one, and expressing my views about it, namely, that if there was inflation, it was in the stock market, and the Reserve System should have dealt with that problem not by increasing the reserve requirements but by increasing the marginal requirements, the Reserve System, contrary to the views of some people, did not increase the reserve requirements in order to have a deflationary effect or to make for tight money. I personally gave a statement along in March to try to clarify at least my point of view on that subject. We did not do it as a reversal of policy, as I have explained.

Now, so far as the increase of margin requirements is concerned, the stock market was not expanding as the result of credit. There was practically no increase in credit going into the stock market. Therefore an increase in margin requirements would not necessarily have been effective to any appreciable extent, in my opinion, because the stock market was very largely a cash operation. The total amount of bank credit on brokers' loans, loans by banks to brokers, was only slightly over one billion dollars, as against an eight and a half billion dallar credit in 1929. Therefore the situation did not call for an increase in the margin requirements to deal with a speculative inflation in stock. Some people thought that that was what to do. I say that that was due to cash purchases, and in no small measure to foreign capital coming over here and buying for cash.

Now, with reference to those people who say that there was no inflationary development--

Mr. Goldsborough. In so far as general business was concerned, I said.

Governor Eccles. That is true. We had a great army of unemployed , and we had some idle facilities, but on the other hand we did have some very definite evidences of an inflationary trend outside of the stock market. The building costs and rents were advancing very rapidly, so far that they had tended to retard the home construction activity. The wages, particularly in industrial and building fields, had advanced very, very rapidly, rapidly throwing out of balance our economy.

We know what happened to steel prices. They are substantially higher today than in 1929. The total production figures are very close to those of 1929 at the present time, yet in the building industry, lumber production and cement, brick, tile, plumbing equipment and all the items that enter into the construction field are still at a depression level.

Last year in this country we built something like, as I recall, 300,000 housing units. In 1925 we built over 900,000 housing units, with, of course, a population very much less than the present population. It is estimated that the normal annual requirement for home construction today is nearly 600,000 housing units, to take care of demolitions, destruction by fire, flood and cyclone, and to take care of the increasing population. We have been getting behind every year since 1934. We had an excess in 1929 of something close to one-half million housing units. Construction fell off very rapidly, and we had practically caught up with the excess that we had by 1934. Since that time we have built far less than we required, until today we possibly have a deficiency of around 500,000 or 600,000 housing units.

So, in order to make up for the backlog or the deficiency, and to take care of the normal requirements, we should not build less than 800,000 housing units for the next four or five years, on an average, and yet last year we had about 300,000, as I recall, and this year it is too early, of course, to say, but at the present time there is a falling off in home construction, due in very large measure to increased cost of building materials and labor.

Mr. Goldsborough. Now--

Governor Eccles. Now, that is the inflationary element in that field, and that is the bottleneck, in my opinion, in your recovery.

Mr. Goldsborough. I understood you to state a few moments ago, in answer to one of Mr. Patman's questions, that the increase in reserve requirements still left over $900,000,000 in excess reserves, and that therefore legitimate borrowing was not interfered with by that process. Now, if that is true, how would that process tend to lower the price of the raw product and increase the ability of the builder to construct homes?

Governor Eccles. That is a good question. It did not do it.

Mr. Goldsborough. I understood you to say that it did do it.

Governor Eccles. I say that it had no effect on it. In other words, I suppose that the size of the wheat crop in relation to the world supply may have something to do with the price of wheat, and I think also that that may be true with the cotton crop.

Mr. Goldsborough. My question is a practical one, I hope, and it is for the purpose of trying to get to the country the view of the head of the Federal Reserve System, because so far as I know the country is confused about it.

Now, if the increase in reserves could have no effect, why was the regulation for an increase in reserves promulgated?

Governor Eccles. Because we were getting an increasing supply of gold that was going into the banking system. We knew that at no time, so far as we could see, in the future, would there by any use for such excess reserves as were being accumulated, and the time was here to lock up those reserves. Before the Reserve Board could move into position to exercise control, it had to get their reserves down to a point where its action would have influence, and we felt it was time to at least move into position so that through an open market operation we could exercise an influence over the money market. I am sure that increasing reserves of the banks throughout the system, to the extent that we have in the last year, at a time when there was a very great evidence of an inflation and there was a huge credit expansion under way would have caused such repercussions as to practically paralyze the country. I do not think any Reserve Board could possibly have faced a situation of that sort.

Mr. Goldsborough. Is this your answer, that it was done partly so that the psychological effect would be to increase interest rates to a sufficient extent to prevent a disastrous inflation? Does that express anything at all to you?

Governor Eccles. Yes; I say that interest rates due to the huge excess reserves had gotten down to such a low rate that they could not be expected to be sustained there for any extended period of time, that they had reached a point where your insurance companies, your mutual savings banks, your trustees and others were unwilling to buy your long-term securities from the Government down to a 2.2 average--that is the low point that they got to--and that was after we had increased reserves last summer by a billion and a half, and other long-term securities were selling on a 3 per cent or slightly over 3, basis. The danger of investing funds in long-term securities at excessively low rates is that if rates go up through a restrictive policy, there would be terrific losses and depreciation on those securities. The Reserve System has some responsibility, and I think that when you take into account the public interest, you have to look at the mutual savings bank depositors and the holders of insurance policies, as well as your fiduciary institutions generally. It is true that debtors would like to see interest rates vanish to a point where you would have no interest.

Mr. Goldsborough. Do you mean to say that you felt it was the responsibility of the Federal Reserve Board to hold up the price of securities, for the benefit of the creditors?

Governor Eccles. No, I do not mean to say that. As I understand the responsibility of the Board, we are concerned primarily with credit needs of commerce, agriculture, and industry. Now, of course, you can expand under that provision to take into account, it would seem to me, the public interest generally. When you have the needs of commerce, agriculture and industry as an objective, as prices continue to advance--

Mr. Goldsborough. May I interrupt you there to say that I have personally been opposed to having these words in the law. I always thought that it should be the public interest, rather than to have any specific designation.

Governor Eccles. But I am saying that that is the law.

Mr. Goldsborough. Yes, that is the law.

Governor Eccles. We recognize that, and it seems to me to take that literally would mean that when an inflation starts, you would continue to pour out credit continually, because commerce, agriculture and industry would need more credit the further expansion went. Therefore it would seem we may be required to help the process of inflation through an interpretation that some may give to that requirement, and as credit contracted and deflation started, and as commerce, agriculture and industry would not need credit, we should adopt a contracting policy.

As a matter of fact, we really ought to do the reverse, if you are going to get stability and balance. As expansion goes beyond a certain point, and as it falls below, there has to be an effort, on the part of the Reserve System, if we are going to keep the balance, to reverse the policy.

Mr. McKeough. May I ask the Governor a question in connection with the hearing on this House Joint Resolution?

Mr. Goldsborough. Surely.

Just a moment. Mr. Luce asked a question, and I am not sure that I understood him, but I think he wanted to know when he might ask questions.

Mr. Luce. Yes. I was asking if this side would have an opportunity.

Mr. Goldsborough. Certainly.

Mr. McKeough. I will be glad to yield. I did not know that you were dividing the time between the sides.

Mr. Goldsborough. Let me make this statement, because I was in the chair at the time. I did not recognize one man any more than the other. The first fellow that started questioning was recognized.

The Chairman. We certainly want Mr. Luce to be given the privilege of asking whatever questions he has, but the time is about up now. I had hoped that we would finish this morning, and that we would devote tomorrow morning entirely to an executive session. But it is evident that we cannot do it, and if it meets with the approval of the committee, I would suggest that we adjourn now and ask Governor Eccles to come back tomorrow, so that everybody may have an opportunity to question him.

Mr. Ford. May we have the discussion tomorrow on the bill?

The Chairman. The committee will stand adjourned until 10:30 o'clock tomorrow morning.

(Thereupon, at 12:05 o'clock p. m., the Committee adjourned until Friday morning, July 16, 1937, at 10:30 o'clock a. m.)

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H. J. RES. 377

Authorizing the destruction of Federal Reserve notes of the Series of 1928, and their replacement by Federal Reserve notes of the Series of 1934, or a later series, at the expense of the United States.

Friday, July 23, 1937.

HOUSE OF REPRESENTATIVES,
Committee on Banking and Currency,
Washington, D. C.

The Committee resumed hearings on House Joint Resolution 377 at 10:30 o'clock a. m., Honorable Henry B. Steagall (Chairman) presiding.

The Chairman. The Committee will be in order.

We have Governor Eccles with us again this morning, and, Governor, you may proceed. I have forgotten now where we were at the time of the last hearing.

Mr. Luce. I was about to ask some questions.

The Chairman. You may proceed.

STATEMENT OF HON. MARRINER S. ECCLES (Resumed)

Chairman of the Board of Governors, Federal Reserve System.

Mr. Luce. Governor Eccles, will you be good enough to tell us who will be advantaged by the passage of this bill?

Governor Eccles. The Reserve Banks.

Mr. Luce. The Federal Reserve Banks?

Governor Eccles. Yes, sir.

Mr. Luce. And, should they receive up to $3,000,000, will that be added to their surplus?

Governor Eccles. It won't amount to $3,000,000. It will be less than $2,000,000. They will merely have replaced notes, which due to no fault of theirs, have been made obsolete, and it has been desired that those notes be not used.

Mr. Luce. Would this amount be added to their surplus?

Governor Eccles. It would indirectly be added to their surplus or reduce their deficit, depending upon their operations for the year. To the extent that they would not be required to pay out as current expenses these funds for notes, it would reduce their expenses--that is what it would do, rather than to add directly to their surplus.

Mr. Luce. After the war, this Committee learned that the earnings of the Federal Reserve Banks were falling off--

Governor Eccles. Were what?

Mr. Luce. The earnings of the Federal Reserve System were falling off by reason of the lessening of demand for the rediscounting of commercial paper, as times grew better. What is the condition of the System at the moment? Is there danger that they cannot make enough money to pay their expenses?

Governor Eccles. The Reserve System for several years has had practically no paper discounted with them, or no acceptances sold to them. That is always the condition of a central bank when they have substantial excess reserves carried with them by the member banks. In other words, if member banks have excess reserves, naturally there is no occasion for those banks to use the credit facilities of the Reserve System. Excess reserves tend to create an easy credit condition, which is a desirable condition to have for the purpose of helping to finance, on a low interest basis, business activity and recovery.

With the excess reserves which prevail at the present time, and have prevailed, in varying amounts, ever since shortly after the banking holiday, the earnings of the Reserve System have been derived entirely from their holdings of government securities. Those securities, which now amount to $2,526,000,000, were largely acquired by the Reserve System prior to the banking holiday as an open market operation. They were purchased by the Reserve System in order to help member banks get out of debt and to place them in an easy reserve position; in other words, it was an open-market operation for the purpose of making easier money conditions. About 700 million of the 2 billion 526 million was purchased after the banking holiday, and all but 96 million of these 700 millions was purchased within six months after the banking holiday.

Now, those securities held by the Reserve Banks, purchased for the purpose at that time of creating an easy money condition, or relieving the money situation that existed, were the source of the revenue of the Reserve Banks. The purchase of those securities was not designed for the purpose of providing income to the Reserve Banks, however, any more than the decision to sell them would be determined by income requirements. The Reserve System must operate, as I said the other day, not with regard to its profit. There are times when it will make money, but there are rightly other times when it will lose money; the earnings that it makes at times above expenses place it in a position to lose money under other conditions. Its monetary policy is never determined by its desire or its need for earnings.

The Chairman. May I ask a question right there?

Mr. Luce. Certainly.

The Chairman. As a matter of fact, Governor Eccles, it was never contemplated by the framers of the Federal Reserve Act, and it was never any part of the philosophy of that legislation, that the Federal Reserve Banks should be money-making institutions, or that they should be operated for the purposes of profit. Isn't that right?

Governor Eccles. Well, I do not know what the view of the designers of the Act may have been in that regard. I only know that no central bank can serve the public interest that has profits as an objective.

The Chairman. That is absolutely true, and, as a matter of fact, it has never been a money-making system, in practical results, for those who owned the stock, has it?

Governor Eccles. That is correct. The amount of its dividends, of course, has been limited to the 6 per cent that is paid upon its stock, and that stock might just as well be a preferred stock so far as that limitation is concerned.

The Chairman. As a matter of fact, a great many member banks owning this stock have held the view that the ownership of the stock was really a burden, and that the membership was a burden to the banks, rather than a profit.

Governor Eccles. Well, I think that that fact has been true in the case of some of the banks, possibly of smaller banks.

The Chairman. Isn't it also true that thousands of state banks which have never joined the Federal Reserve System, and which have remained out voluntarily, have been free to act as their own interests and the matter of profit might be involved, and that they have regarded it to their best interests not to join?

Governor Eccles. A large proportion of them.

Mr. Luce. Mr. Chairman, I understand that matter precisely as you do.

I would like to state that, if my recollection serves me right, ten or twelve years ago the question whether the banks should be paid their running expenses began to loom on the horizon, and there was discussion as to whether or not it might become necessary for the Government to appropriate the money to keep the System going. Fortunately that did not come up, but it brought out rather sharply the fact that the Federal Reserve System is perhaps the one institution in the country that suffers when times are good, and it gains when times are bad.

Now, let me give you, Governor Eccles, a homely illustration of what I am driving at. We will suppose that Smith finds that Jones owes him some money, and Jones goes around to Smith and says: "See here, Smith; you think that I owe you some money. Perhaps I do, and perhaps I don't, but, anyhow, I am a little hard up just now. Do you need that money?"

What I want to find out is whether the Federal Reserve System needs two million dollars of money at a time when we are supposed to be trying, though not greatly succeeding, in cutting down expenses to balance the budget.

Governor Eccles. This does not come out of the revenues of the Government. All that is being asked in the case of this bill is to permit the use of a very small portion of the gold profit, which in no way would affect the budget situation.

Mr. Luce. Why, my dear sir, when a man pays two million dollars to another, he is two million dollars shy.

Governor Eccles. But the $2,000,000 came into being as the result of the revaluation.

Mr. Luce. That does not affect the fact.

Mr. Goldsborough. Society either owes this money to the Federal Reserve Banks or it does not owe it. If it does owe it, it ought to be paid. If it does not owe it, it should not be paid. If it pays it, it has to come out of the Treasury, either directly or indirectly. It seems to me that the question of whether or not this will come out of the revenues of the Government is not the primary question. The primary question is, does society owe this money to the Federal Reserve Banks.

Governor Eccles. That is the primary question, and there is no question but what the Treasury, at least, seems to think that it is so obligated, for it has recognized the obligation; otherwise they would not have asked for the authority of Congress to replace these notes. They recognize the obligation, and they have asked for the authority from Congress to replace these notes which they have, through their action, kept from being put in circulation.

Mr. Goldsborough. You did not undertake to say to Mr. Luce that it makes any difference whether it comes out of one pocket or another? The United States has that money to pay, one way or another.

Governor Eccles. It is not a question, however, of collecting that much more money out of taxes, or borrowing that much money with which to pay. It would be a question of taking those funds out of some of the gold profit that is lying unused.

Now, it makes possibly a small difference, from purely an accounting standpoint, what--

Mr. Hancock. May I ask a question right there, Mr. Chairman?

Governor Eccles. As a matter of good business procedure, the Treasury recognizes that they should replace those notes to the Reserve Banks, and thus not make it necessary for the Reserve Banks to duplicate the expense of buying from the Treasury the currency they need. In other words, the expense of the Reserve Banks by reason of this action has been increased--the expense of providing currency. They provide the currency at their expense, they distribute it to the member banks, and from the member banks it goes to the public.

Now, this action has greatly increased the expense of the Reserve Banks, or will increase the expense by this amount, beyond what it otherwise would be, and it seems to me that it is an expense that should be borne by the Treasury. The Treasury recognizes it, and they are willing to bear the expense.

If the Reserve System should make earnings, which is another matter aside from this, and should not be taken into account, it seems to me, Congress at any time can make such disposition of the earnings of the Reserve System as they think is in the public interest. If Congress does not see fit to authorize the Treasury to do what they are perfectly willing and want to do, then the matter will have to be disposed of by the absorption of this expense by the Reserve System, or by the circulation of those notes.

What I am particularly anxious about is to get the matter settled one way or the other. It has been pending for two years, and certainly we would either like to get the notes replaced, get the item off the books and absorb the expense, or put in circulation the notes which we have held out of circulation. We have to do one of three things, and it is up to you gentlemen, it seems to me, to determine which one of those three things we should do.

My purpose, of course, is to do the business thing, and that is to have the notes replaced by notes which we can use. It seems to me to be a perfectly proper and legitimate business transaction between the Treasury and the Reserve System.

Mr. Luce. Frankly, Mr. Eccles, you do not convince me that anybody would save any money by burning up several tons of paper. That, however, is not what I was driving at at all. I want to find out, if I can, why there is instant benefit to anybody from this bookkeeping transaction which will add two million dollars to the expense of the Government of the United States.

Let us go back to my original question and the illustration that I gave about Smith and Jones, where Jones says to Smith, "Perhaps I owe this money, and perhaps I do not, but I am hard up; can you wait a while?" It is up to Smith to give some valid and serious reason why that transaction ought to be immediately closed up, and it struck me from the first, as you have said, that it is largely a bookkeeping question, except for the fact of that $2,000,000 of outgo from the United States Treasury.

Mr. Goldsborough. When it does involve an outgo of nearly $2,000,000 to the United States Treasury, does not that immediately take it out of a bookkeeping transaction and make it a transaction where the Treasury of the United States becomes a debtor?

Mr. Luce. I guess that I went too far in that concession.

Mr. Goldsborough. I do not understand what is meant by a bookkeeping transaction. When the Government advances $2,000,000 it costs $2,000,000.

Mr. Luce. It is due to the fact that it will ultimately come back again from the surplus.

Governor Eccles. The Treasury does not take the $2,000,000 and turn it over to the Reserve Banks at all. What the Treasury does is to pay for the notes that they print for the Reserve System. That will spread over a period of a year, so that it really, in fact, is not a question of a transfer of $2,000,000 to the Reserve System. It is merely turning over to the Reserve System, notes as they are needed in the current business of the Reserve System, without the Reserve System being required to again charge up to expense the cost of those notes which they have already paid for. That is what it really amounts to.

Mr. Goldsborough. Irrespective of the terminology, it is a fact that if this bill is not passed, the Treasury would be nearly $2,000,000 better off, would it not?

Governor Eccles. They will have $2,000,000 more of the sterilized or unused gold profit than they otherwise would have.

Mr. Luce. But, Mr. Eccles, the last paragraph of this bill says:

"There is hereby authorized to be appropriated out of the miscellaneous receipts covered into the Treasury"-- and so forth --

"not exceeding $3,000,000."

When we get to the floor of the House, our job is to tell the House why we want the Treasury to be up to $3,000,000 shy.

Governor Eccles. It is less than $2,000,000. Certainly the appropriation would only be whatever the exact amount is, which is less than $2,000,000. This is merely an authorization.

Mr. Luce. Why was the bill written for $3,000,000?

Governor Eccles. I do not know. You would have to ask the Treasury.

They can only use whatever the cost may be to replace the notes, and unless the cost has increased very, very much, the cost would be under the $2,000,000.

Mr. Luce. Now, Mr. Eccles, one of the arguments presented in favor of this transaction is that there are in existence certain completed or partially completed pieces of paper, which represent that they will be payable in gold.

Governor Eccles. That is right.

Mr. Luce. And it is said that that is a deception, and that the Government ought to get away from any such deception.

Now, the present certificate says:

"This is to certify that there is on deposit in the Treasury of the United States of America, (blank), dollars in gold, payable to the bearer on demand as authorized by law."

That is just as much of a deception and a fraud for the average man as you have urged the present certificates to be. There is not one man in a thousand in this country who would not take that to be a statement that he can get gold with the certificate, because only the elite, so to speak, understand what "authorized by law" means. Would it not be well, if we are going to get rid of one fraud, to get rid of another fraud?

Governor Eccles. That is a question of opinion as to whether the other is a fraud. That may be your opinion.

Mr. Luce. It certainly is mine.

Governor Eccles. The gold is held in the Treasury back of that certificate, in accord with that statement.

Mr. Smead tells me that the certificate that you are reading is the certificate which the Treasury has given to the Reserve System and is merely a certificate held only by the Reserve Banks, and does not in any way get to the public, and it is entirely out of circulation. Therefore, of course, the only holders of that certificate would be the Reserve Banks, who understand very thoroughly the clause which you have just read, and for that reason would not have cause to expect that upon demand they could get the actual gold, unless the Secretary of the Treasury deemed it in the public interest to let them have it for export purposes.

Mr. Luce. Then I have been misled, sir, because I copied this out of your testimony when, unfortunately, I was unable to be here, for I was out of town. So I took the pains to read your testimony, and I copied this out of it, and I got from it the impression that this was the real wording of the present gold certificate.

Governor Eccles. That is the wording of the gold certificate, of the gold certificate, however, not in circulation. The Reserve banks are prohibited from paying out gold certificates. The present gold certificate, and the only gold certificate now issued, was issued for the gold held by the Reserve Banks. The public is not permitted to hold gold certificates, and private holders were required to turn in their old gold certificates. Therefore, that testimony was correct, and the gold certificates referred to are held only by the Reserve Banks.

I do not believe that in my testimony I stated that they were in general circulation.

Mr. Luce. No, I do not believe that you did. I am merely pointing to the fact that if a deception existed in one, it exists in the other. Whether we may assume that a misleading statement will do no harm because it finds its way only into the hands of financial organizations, or men acquainted with these things, is another problem. I should think, though, that a happier wording might have been used.

Governor Eccles. I do not know who is responsible for that clause.

Mr. Hancock. Mr. Chairman, may I ask a question?

The Chairman. Yes.

Mr. Hancock. Have you given any special concern to the precedent that this legislation might establish?

Governor Eccles. The precedent?

Mr. Hancock. In other words, if you used a part of the gold profit to pay the Federal Reserve debt, could we not by the same token use it for any other governmental debt?

Governor Eccles. Well, there is a very close relationship here to the gold profit of this particular transaction, and that is by reason of the fact that the Federal Reserve note which the Reserve System has been requested not to circulate has the clause "Redeemable in gold" upon it.

Mr. Hancock. I am not referring to the desirability of making those notes speak the truth. My question is directed toward the precedent that might be created.

Governor Eccles. I understand that, but there is a very close relationship, it seems to me, here.

Mr. Hancock. How much of the unused gold profit remains in the Treasury now, that is not particularly designated or allocated?

Governor Eccles. Well, of course, the stabilization fund is designated or allocated. The gold profit outside of that is, I think, one hundred forty one millions. Some of the gold profit, as I understand it, is not being used, but I am advised that there is very little of it that has not been allocated, and that the unused part largely represents gold that will be used to retire the national bank notes which were called, as you will remember, some time ago, but which are only taken up, of course, as the notes come through for destruction.

Mr. Hancock. Do you know whether any portion of this fund has been used to pay the interest on the certificates that are issued against the new gold purchases, the sterilized gold?

Governor Eccles. I do not think so. I do not believe any of that fund is used for that at all.

Mr. Hancock. Where does the Treasury get its money for that purpose?

Governor Eccles. Out of the general fund.

Mr. Hancock. Is that authorized by law?

Governor Eccles. I suppose it is, or they would not be doing it.

Mr. Hancock. You do not happen to know what particular section authorizes the issuance of those certificates?

Governor Eccles. Well, those certificates are not earmarked. The Treasury borrows such money as it needs from time to time, I suppose under its general authority, and the funds that are used to sterilize gold imports are, as I understand it, just taken out of a general fund, and the gold is shown in the Treasury statement, so at all times it is known how much of the funds are used for that purpose.

Mr. Hancock. In the face of your present problem, financial problem, I assume you consider it highly desirable not to let any of this money got into circulation? In other words, you would not think that it would be wise for us to authorize the use of any of this unused profit in the payment of regular debts of the Government, or the salaries of Government employees, at this particular time, would you?

Governor Eccles. Not unless there was some means given to the Reserve System for dealing with the effects of the increase in reserves that such action would create. A very small amount, of course, would not be a very important factor, but a large amount of funds, such as the amount of gold that has been sterilized, added to the excess reserves, or the gold in the stabilization fund added to the excess reserves, would of course create an uncontrollable credit situation, and certainly the Reserve System would be unable to exercise the responsibility for any credit control under those conditions, unless Congress saw fit to give them some additional powers to deal with that situation.

Mr. Crawford. May I ask a question?

The Chairman. Proceed.

Mr. Crawford. Governor Eccles, I think that the record will show that the inactive gold account was created around December 1st last, and the Secretary announced at that time that that fund with which the gold was to be purchased for the inactive account would be obtained through the issuance of government bonds or Treasury certificates, and sold to the public.

Governor Eccles. That is right.

Mr. Crawford. That was made very clear to the people. So that they would be forewarned as to how the money would be raised.

Governor Eccles. That is correct.

Mr. Spence. Governor, the question that seems to disturb me is that the loss sustained by the Federal Reserve System in this matter resulted from the enactment of a public law that was allegedly in the interest of all the people. Frequently we enact laws that cause losses to various industries and to various activities. The railroads may sustain a loss by reason of legislation. Insurance companies may sustain such a loss, and distilleries and breweries frequently have to change their methods of advertising, and their labels.

Certainly it would be a dangerous precedent to say that the private individual can recover for damages by reason of a change in public law, and don't you think that it would be a dangerous precedent to say that the Federal Reserve could recover the losses that it sustained by reason of a law enacted in behalf of all of the people?

Governor Eccles. Of course, you could say that the Federal Reserve System sustained a loss representing the difference between the old price of the gold and the revalued price of the gold. The action in changing the price of gold resulted, of course, in a profit to the Government of two billion eight hundred and some-odd million dollars. Individuals, many of them, who complained about having to surrender their gold and their gold certificates may claim that they sustained a loss as a result of it. Of course they would have no claim upon the Government any more than the Reserve System should as the result of the action of the Government in revaluing the dollar.

But this situation is a little different, it seems to me. A government might pass legislation that would interfere with or would reduce profit during an operation of an institution. It might tend to put them out of business through some legislative action. But here is a case where the Treasury furnishes the notes in the first instance that the Reserve System uses, and they require that the Reserve System pay them for those notes as they are delivered. Here is a situation where the Reserve System owns those notes now on hand, and they should either know that the loss has got to be taken, and be prepared to take it, for we have twelve Reserve Banks, or those banks would like to have some instruction as to what disposition to make of this item. Until we know whether or not it is a loss that the banks must take in proportion to the notes printed for their benefit, it is impossible to make a disposition of the matter, and, as I say, I think that it is only right and fair that the notes should be replaced by the Treasury.

However, the item involved, in relation to the size of the operation, is not what may be termed a very important item in total amount, but it is desirable, it seems to me, that the matter be disposed of. Even if those notes were permitted to be used, there would not be very much difference in putting out the new notes that had been printed until they wore out, and in keeping out notes that were already out. I felt at the time that inasmuch as we had gone on for a year using those notes, and that we had a substantial amount of notes still outstanding, that there was no particular reason to not continue to use the inventory of notes that we had on hand. However, that is not up to me to decide that matter, but if those notes are not going to be used, then we should charge them off and forget them, provided the Treasury is not to be authorized to replace them.

Mr. Spence. Would there be any difference between a case wherein we had ordered the distillers to change their labels in a certain fashion and this situation? The distillers had a great amount of labels on hand, probably hundreds of thousands of dollars worth, that they had to change to conform to the national requirements, and do you think that they could come back and say, "We sustained a loss by reason of this law which you should compensate us for?"

Your institution is privately owned.

Governor Eccles. Not privately owned in the sense that they have any benefit whatever from profits beyond a fixed amount. In other words, whether the Reserve System makes a large or small profit, or no profit, is not a matter of much concern to member banks.

Mr. Spence. This would not affect your stockholders at all?

Governor Eccles. Not at all.

Mr. Spence. Your original stock was on the basis of 6 per cent of the surplus and capital of the bank, was it not?

Governor Eccles. Fifty per cent of the full amount.

Mr. Spence. I mean that the earnings were 6 per cent.

Governor Eccles. Yes, of paid in capital.

Mr. Spence. Have you ever defaulted in the payment of interest?

Governor Eccles. Dividends were not paid immediately after the organization of the Reserve Banks, but the dividends are cumulative and all back dividends were paid by the end of June, 1918.

Mr. Spence. That is 6 per cent cumulative interest?

Governor Eccles. It is a dividend on the stock.

Mr. Spence. And the stockholders would never know whether this has been paid or not?

Governor Eccles. I think that that may be true.

During and following the war period, when there was a tremendous demand for credit, and when the discounts of the Reserve System were very, very large, the Reserve System made very large profits and paid a large franchise tax to the Government. Very shortly after the time when the Reserve System was organized, we got the inflationary effect of a World War, and it required a great deal of credit for the purpose of doing business on the increased basis of prices, and particularly was that true after the war was over. So that while it might have taken a great many years to build up a surplus in the Reserve System, the surplus was built up very, very rapidly as the result of the unexpected condition which developed.

The Chairman. Are there any more members that have questions?

Mr. Transue. Mr. Chairman, I have a question, which is very short.

Mr. McKeough. I have a question.

The Chairman. Could you come back another day, Governor?

Governor Eccles. Yes, I could.

The Chairman. If we report on some other bills that we have before us, we will not have time to hear you further, and what I had in mind was that we would resume this some other time, and go into executive session to consider these other matters. But if we can finish with the Governor shortly, I would be glad to do it.

How many members here want to ask questions?

Mr. McKeough. My question will not take me long.

Mr. Crawford. May I ask the Governor a question?

The Chairman. Go right ahead.

Mr. Crawford. Governor, immediately following the depression, commercial banks began to liquidate all of the discount paper with the Reserve Banks, and the Reserve Bank earnings began to fall off, did they not?

Governor Eccles. That is correct.

Mr. Crawford. And we have been going through that period now for years, where the earnings have almost vanished?

Governor Eccles. Except from the source of government bonds.

Mr. Crawford. The earnings have vanished, so far as discount paper is concerned?

Governor Eccles. That is right.

Mr. White. As I understand the previous statements of the representatives of your department, the passage of this bill will not in any way affect the volume of credit?

Governor Eccles. Not at all. It has no relation to it.

Mr. White. Now, then, how much money did the Government receive as gold profit from the Federal Reserve Banks?

Governor Eccles. Two billion eight hundred and some-odd millions; I do not remember the exact amount.

Mr. White. In a way, that is what we might--

Mr. Patman (interposing). That statement should not go in that way. That is evidently a mistake, Governor. The Government has made a gold profit of that amount, but I do not think that the Federal Reserve System is entitled to say that by reason of the gold that it has turned in to the Government, the Federal Reserve System caused the profit of two billion eight hundred million. If I understand it correctly, the Federal Reserve had less than three billion in gold and gold certificates, only claimed that much.

Governor Eccles. Most of the gold, of course, was held by the Reserve Banks, outside of the gold certificates. I think that Congressman Patman is right. I did not understand your question, Mr. White. The Reserve Banks held $3,557,000,000 of gold and gold certificates on January 31, 1934.

Mr. White. What I had in mind was this: As a result of that move, how much gold did the Government receive from the Federal Reserve that was previously to the credit of the Federal Reserve Banks?

Governor Eccles. Of course, the profit on the gold held by the Federal Reserve Banks at the time of devaluation could be definitely determined. A large part of the gold was held by the Reserve Banks, but it is true that some of it was in circulation or in hoarding at the time, that is some of it was gold held outside of the System at the time of devaluation.

Mr. White. You mean that there was an amount of two billions eight hundred millions--

Governor Eccles. That was the total gold profit.

Mr. White. That was in the exchequer of the Federal Reserve, which was turned over to the exchequer of the Federal Government?

Governor Eccles. No. The total gold stock was four billions, out of which the Federal Reserve had over three and a half billions, so that you can figure that over 80 per cent of the gold profit was profit on the gold held by the Reserve System, approximately.

Mr. White. Can you tell me, in figures, how much money in the Federal Reserve was turned over to the Treasury as a result of that move?

Governor Eccles. Something around three and a half billion dollars. Two billion eight hundred million was the profit on the total gold taken by the Treasury, from all sources.

Mr. White. Now, that was sort of a dividend, in a way, was it not, from the Government's operation of the Federal Reserve Banks?

Governor Eccles. No, I would not figure that.

Mr. White. And its gold policy?

Governor Eccles. Its gold policy made possible the profit.

Mr. White. Here is the thing that I am getting at: The Government received three billion dollars benefit there from the Federal Reserve System. If it was a dividend, or a splitting up of moneys that accrued to the Federal Reserve Banks, and then turned over to the Government, and this bill does not pass, is it not exactly the same thing? In other words, do you not give the Government the benefit of $2,000,000 on exactly the same basis?

Governor Eccles. The Federal Government would, of course, have $2,000,000 more for some other purpose than it would have if the bill did not pass.

Mr. White. That is what I mean. The Federal Government received those funds from the Federal Reserve. If this bill does not pass, in effect the Government has received $2,000,000 more, and if the Federal Government had the right and it was proper for it to receive the original funds, why is it not proper also for it to receive the benefit of this $2,000,000? That is the point that I am making. This would simply require the necessity of the Federal Reserve assuming the burden of the expense, and charging it off and getting rid of it, but, nevertheless, on purpose letting the thing stand to the Federal Treasury. It is the same thing, is it not?

Mr. Ford. Mr. Chairman, I will have to leave, and if we are going to go into executive session--

Mr. White. Just one other question.

If this thing does go through, in view of the fact that you say that the Federal Government is buying gold at the present time out of its regular funds, would it not mean that the Treasury would therefore have $2,000,000 loss to carry out its policy in that respect, and would that not be a good thing?

Governor Eccles. No, this would have nothing to do with that, because the gold profit is not being used in any way for the purpose of buying gold. The gold that is coming into this country, that the Government is sterilizing, is being purchased out of the general fund, and the general fund is being replenished out of borrowed money or taxes or whatever source of revenue the Government has.

Mr. White. Mr. Chairman, I know that you are anxious to get away, so I won't ask any more questions. I will just say that if the Federal Treasury had the right to take the money in the first place, they also have the right and should ask the Federal Reserve Banks to bear the expense of this $2,000,000.

The Chairman. Gentlemen, it is evident that we are not going to be able to finish with Governor Eccles, and on some day next week, satisfactory to the committee, we will resume with Governor Eccles and try to finish. We cannot do it today. I will have to leave in a few minutes, and so will Mr. Ford. We will have to go into executive session for a few minutes, to see what we will do about those other bills.

We will ask you to come back another day, Governor Eccles.

(Thereupon, at 11:50 o'clock a. m., the Committee went into executive session.)