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My dear Mr. Chairman:

In response to your recent request for a report by the Treasury Department on S. 806, "A Bill Establishing the Bank of the United States, owned, operated, and controlled by the Government of the United States; defining the scope and manner of its operation; defining the powers and duties of the persons charged with its management; creating a board of directors; and for other purposes", the following is submitted:

This bill would provide for the organization and operation of a bank by the United States Government to be known as the "Bank of the United States". This Bank would have a capital and so-called revolving fund amounting to $2,000,000,000 which would be created by the issuance of a like amount of circulating notes having full legal tender and "secured by the full faith and credit of all the resources of the United States."

All funds of the Federal Government, except gold coin, gold and silver bullion and postal savings funds, would be required to be deposited in the Bank of the United States and this Bank would be authorized to receive deposits from any State or political subdivision and from any bank or trust company in the United States. Such deposits would be guaranteed by the United States Government.

The bill would abolish the Federal Reserve Board and transfer its powers and duties to the Board of Directors of the Bank of the United States, and Bank of the United States notes would be exchanged for Federal reserve notes and Federal reserve bank notes at an interest charge of one per cent.

The Bank would be authorized to obtain, as occasion required, indefinite additional amounts of Bank of the United States notes upon delivering to the Treasurer of the United States bonds or certificates of indebtedness of the United States or bonds of any State or political subdivision. Such notes would be employed in the conduct of the Bank's operations, which would include (a) loans, for a period not to exceed twenty years, to the United States Government, to any State or political subdivision or to any bank or trust company in the United States, on the security of United States bonds or approved bonds of States and political subdivisions, the Bank's loans and its deposits to bear interest at rates not to exceed one per cent per year; (b) loans to the Federal Farm Loan Board, secured by farm loan bonds bearing interest at a rate not to exceed one and one-half per cent per year; and (c) the calling for payment of outstanding bonds and certificates of indebtedness of the United States, beginning with issues bearing the higher rates of interest, the United States Government to pay interest to the Bank on such obligations at a rate of one per cent.

The bill further provides that the executive committee of the Bank of the United States should regulate and stabilize the value of money with a view to maintaining the average wholesale price of selected commodities at approximately the level prevailing from January 1, 1915 to January 1, 1925, presumably by issuing its notes until such commodity price average should exceed the price level of the base period by 5 per cent, at which time currency would be retired in amounts sufficient to restore prices to the level of the base period. The retirement of outstanding notes would be effected by means of funds accumulated from earnings.

In view of the powers which would be given to the proposed Bank of the United States, it would seem clear that the country's existing banking system would be largely if not entirely displaced bby the new bank and its branches. This would seem particularly objectionable because of the arbitrary lines along which the powers and duties of the bank are outlined. For example, provisions which would govern the new Bank's lending operations would be likely to place such operations on an unsound basis from the outset. Neither the Federal Government nor any State or local governmental authority nor the country's banking system is in a position to obtain long-term funds on an investment basis at a rate of one per cent. To attempt to provide these agencies with long-term credit at such a rate -- and in effect to attempt to convert the outstanding government debt at such a rate -- would, in the end, have unfortunate consequences.

On these grounds alone the Treasury is of the opinion that the bill S. 806 should not be enacted.

Very truly yours,

W. H. Woodin

Secretary of the Treasury.

Honorable Duncan U. Fletcher,
Chairman, Committee on Banking and Currency,
United States Senate.