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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 31, 1947

To Board of Governors

From Woodlief Thomas

Subject: Goldenweiser Seminar on Central Bank Problems

Last Tuesday I attended in Princeton a meeting of Mr. Goldenweiser's Seminar at which there was a discussion of the current problem of interest rates. The meeting was attended by Walter Stewart, Winfield Riefler, Jacob Viner, Friedrich Lutz, Oscar Morganstern, Ragnar Nurkse, and Karl Bopp, in addition to Mr. Goldenweiser and myself.

The discussion concerned the possible procedures and results of permitting a rise in short-term interest rates without a rise in long-term interest rates. It seemed to be the general consensus of the group that a rise in short-term interest rates by itself would not prevent inflation. Higher short-term rates would have little effect in restricting the use of existing liquid assets for expenditures or investment. It would also not prevent banks from increasing their loans to private borrowers in case there were a demand for such loans.

Notwithstanding this rather negative viewpoint as to the effectiveness of a rise in short-term interest rates, the group felt that such rates should be permitted to rise at this time. Discontinuance of Federal Reserve purchases of short-term securities at present low rates would have some effect on the attitude of banks in aggressively seeking loans. This would operate to discourage banks from seeking loans and also make them more cautious about making loans at the request of would-be borrowers. Higher short-term interest rates would also give banks somewhat larger returns and reduce the profit incentive for making loans or purchasing long-term securities. Higher short-term rates, of course, would check playing the pattern of rates.

The group felt that it was particularly important to take action toward lifting the short-term rate at an early date. There are still strong inflationary pressures in the economy and any gesture toward restricting those pressures would be in the right direction. Moreover, it is necessary that the rate be lifted while inflationary pressures exist. The development of a recession sometime later this year, which is not unlikely, would make it difficult to take any action of a restrictive appearance. It is desirable that a functioning money market be restored and that differentials in rates be determined by the market. This is the first step toward putting the System in a position to exercise any monetary controls. From the long-run standpoint the monetary situation is likely to continue as an unstabilizing factor. The System should have better contact with the market.

W. T.