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Congress of the United States
House of Representatives
Washington, D. C.

COMMITTEES:
BANKING AND CURRENCY
CHAIRMAN, SMALL BUSINESS OF THE HOUSE
VICE CHAIRMAN, JOINT ECONOMIC COMMITTEE
JOINT COMMITTEE ON DEFENSE PRODUCTION

SECRETARY:
MRS. LUCILLE SPAIN

August 17, 1959

Hon. William McC. Martin, Jr.
Chairman, Board of Governors
Federal Reserve System
Washington 25, D. C.

Dear Chairman Martin:

During the course of your recent appearance before the Joint Economic Committee, it was agreed that in order to save your time and the time of the Committee, individual members who cared to do so would submit additional questions to you in writing and have the answers returned in writing for inclusion in the record of the Committee's hearings. Accordingly I am attaching herewith 48 questions for which I would like to have the answers appear in the Committee's record.

While these questions appear lengthy, running to some seven typed pages, I believe they can be answered briefly and readily. In fact, the reason for the rather lengthy way in which the questions are stated is to explain the questions in detail and make clear the particular interest with which the question is asked, so as to make quick and short answers possible.

In some instances the questions ask about studies or statistical analyses which you may have made, but original studies or compilations are not called for.

Sincerely,

Wright Patman

Wright Patman

cc. Hon. Paul Douglas, Chairman

1. Is it the Federal Reserve's position that its monetary policies have had their practical effects principally through interest rates, or principally through money supply?

2. Is there any factual evidence that, over the past decade, price changes have been correlated with changes in the money supply? If so, please present the evidence.

3. Is there any factual evidence that people have saved a larger percentage of their incomes in periods when interest rates were high than in periods when interest rates were low? If so, please present the evidence.

4. Is it the Board's position that the principal effect of the change in interest rates is upon the demand for funds, or upon the supply of loanable funds?

5. Has it been the Federal Reserve's experience that it can, or cannot, significantly influence the level of interest rates without making corresponding changes in the money supply?

6. Has the Federal Reserve had occasion to be concerned with any significant tendency for interest rates to be "sticky" - that is, any failure of interest rates to come down promptly when increases in the lending capacity of the banks were made or, conversely, any tendency for interest rates to rise when the supply of money has not been tightened? If so, please describe these occasions and the steps that were taken to bring about the desired responses.

7. What are the major factors which have been found, if any, which have caused interest rates to fail to come down when the money supply was increased, or which have caused interest rates to rise when no corresponding change in the supply and demand for money had occurred?

8. What steps has the Federal Reserve taken, if any, in an effort to influence the level of interest rates other than that of changing the supply of member banks' reserves?

9. On the basis of past considerations, what steps does the Federal Reserve think it could take, within its present authority, that might influence interest rates independently of the supply of credit?

10. Has the Federal Reserve noted any occasion when interest rates were influenced by speeches, public pronouncements, and so on, by members of the Board? If so, please describe.

11. What interest rates, if any, are most effective in dampening an investment boom - short-term rates, intermediate-term rates, or long-term rates?

12. At about the beginning of its anti-recessionary program in late 1957, the discount rate was reduced from 3-1/2% to 3% on November 15 and the several days immediately following. Yet it was not until January 22 of 1958 that a reduction in the prime rate was announced (from 4-1/2% to 4%). Did the Federal Reserve expect or hope to attain a reduction in the prime rate by an earlier date? (If some rate other than the prime rate is considered to be a more significant measure of bank lending rates, please answer also in terms of that rate.)

13. Following the reduction in the prime rate to 4% on January 22, there were 3 reductions in the discount rate (beginning at 3% and ending at 1-3/4%), and 3 reductions in required reserves. Yet it was not until April 21, approximately 3 months after the first reduction in the discount rate, that the prime rate was reduced again (to 3-1/2%). Please state whether the Board had expected or hoped to attain (a) a reduction in bank lending rates with substantially less addition to bank lending capacity than was made, and (b) a reduction in bank lending rates at a substantially early date. Please state also what was expected or hoped for in each case. If so, please state also what efforts were made (other than those directed at increasing bank lending capacity) to obtain either an earlier or a more substantial reduction in the prime rate.

14. With reference to those periods when the Federal Reserve was attempting to restrain an investment boom, such as in the 1956-57 period, is there any factual evidence that monetary restraint had any direct effect (other than through eventual curtailment of consumer demand) on the investment plans of corporations above the $100 million asset size? If so, please describe the evidence and indicate particularly what the effects of the credit restraint were as to the following: (a) investment expenditures from retained earnings; (b) corporate cost schedules, and (c) temporary shifts from long-term financing to short-term financing for expansion funds.

15. With reference to the tight-money period of 1956-57, has the Board made an analysis of the effects of high interest and tight money upon: (a) the rate of economic growth, (b) small business expansion and failures, (c) farm income, (d) consumer prices, (e) home building, and (f) expansion of State and local facilities? If so, please outline what the principal immediate effects upon each have been.

16. With reference to the tight money period of 1956-57, please describe what effects the System's methods of monetary restraint had upon lending by the insurance companies, the mutual savings banks, and other so-called "intermediaries," indicating particularly the time lags before the System's policies were transmitted to these "intermediaries," as well as the volume of lending and changes in interest rates brought about.

17. It has previously been indicated that the principal maladjustment which the Federal Reserve saw in the 1956-57 period was a faster increase in productive capacity than in consumer demand. Did the Federal Reserve take any steps then, or since, to stimulate consumer demand? If so, please describe what steps were taken.

18. Has the Board had occasion to be concerned about noncompetitive factors in the money and securities markets, such as might hamper the effectiveness of its monetary controls? If so, please describe the general nature of the problems encountered.

19. Have fears of inflation caused a significant increase in interest rates?

20. Is it the Board's conclusion that fears of inflation have caused a significant change in the rate of savings during the past 7 years?

21. Is there any factual evidence that there has been a change in the rate of savings in this period? If so, describe.

22. With reference to its monetary policies for the present and for the period immediately ahead, what are the main problems in the economy which are the objects of this policy? Has the Federal Reserve established any quantitative targets or criteria to be accomplished? If so, please state what they are?

23. With reference to the System's present policy of monetary restraint, and the objectives which the System hopes to achieve in the months ahead, have any tentative estimates been made, or any outside limitations established, as to (a) the degree of unemployment, (b) the rate of economic growth, or (c) the level of consumer spending, which the System is willing to accept, if necessary, to achieve its objectives? If so, please state what these estimates or limitations are.

24. With reference to the reductions in required reserves of the member banks in 1953, 1954, and on 4 occasions in 1958, was the decision that credit should be eased on each of these occasions first made by the Board of Governors or by the Federal Reserve Open Market Committee?

25. With reference to the reductions in required reserves in 1953, 1954, and 1958, please state in each case whether the conclusion that the desired ease of credit should be accomplished by reductions in required reserves, rather than by purchase of securities in the open market, was first reached by the Federal Reserve Board or by the Federal Open Market Committee?

26. Has there been any occasion when there was a difference in view as between a majority of the Board and a majority of the Open Market Committee as to what monetary policy was currently most appropriate? If so, please describe the occasion, the nature of the issue, which side of the issue the two groups were on, and how the issue was resolved?

27. Has there been any occasion when there was a difference in view as between the majority of the Board and a majority of the Open Market Committee as to the question whether current monetary policy should be effectuated through open market operations or through reduction in required reserves? If so, please describe the occasion, indicating which side of the issue the two groups were on, and how the issue was resolved?

28. Has there been any occasion when members of the Board have protested, informally or otherwise, that monetary policy as decided by the Open Market Committee was not being carried out according to the members' understanding of the policy decision?

29. Has it been the Board's position, over the past 5 years, that the discount rate should be the same in all 12 Federal Reserve Districts, or has the Board attempted to maintain different discount rates when there may have been marked differences in the levels of economic activity as between the different regions?

30. Please indicate, as a practical matter, the genesis of changes in discount rates over the past 5 years, indicating particularly whether the impetus for the change has come from the Board of Governors or from the Reserve Banks.

31. Has there been any occasion when the Board failed to adopt the discount rate recommendation made by a Reserve Bank or, conversely, when the Board or the Chairman suggested to a Reserve Bank what discount rate the bank should recommend?

32. Who determines lending policies of the Federal Reserve Banks, the Board, the Open Market Committee, or the individual Reserve Bank?

33. When either the Open Market Committee or the Board is effecting a change in credit policy, are there also associated changes in policies of the Reserve Banks as to the volume of bank credit which may be extended through the discount window? If so, how is such policy concerning discount window activity coordinated with the general monetary policy?

34. How are differences in economic conditions among the different regions provided for in Federal Reserve policy-making?

35. Please describe the circumstances which have led the Board to recommend or approve more lenient lending by the Federal Reserve Banks to member banks in areas of high unemployment.

36. Please describe the role of the Federal Advisory Council, its part in determining discount rates, and the functions which the Board has found to be of most service.

37. Have Federal Reserve authorities ever investigated the possibility of a "leak" of information from inside the System concerning a prospective change in credit policy? If so, has evidence been obtained that such a "leak" nas occurred?

38. Has the Federal Reserve made, or had made, any study to determine with how many different member banks, or in how many different cities and towns, the Government securities dealers trade and what the frequency or regularity of such trading is? In other words, one of the justifications which has been given for the dealer market, for the Federal Reserve "open market" trading with the 17 dealers, and for the Federal Reserve making repurchase agreements with these dealers is that the dealers serve the needs of the banking system by distributing bank reserves and thus balancing the supply of loanable funds with local demands for credit; so the question here goes to the point whether or not the Federal Reserve has collected information which would indicate how extensively the 17 dealers do in fact perform this function for the various member banks.

39. With reference to S.1120, a bill to amend the Federal Reserve Act with respect to reserves required to be maintained by member banks, did the Federal Open Market Committee approve this legislation? If so, please state the following: (a) The date of approval, (b) whether or not there were any dissenting votes, (c) which members dissented, if any, and (d), please also submit any statement which the Federal Open Market Committee may have acted upon relative to the purpose for recommending the legislation or relative to any limitations which the System would be expected to observe in using its authority to reduce required reserves of member banks.

40. With reference to S.1120, a bill to amend the Federal Reserve Act with respect to reserves required to be maintained by member banks, did the Board of Governoss approve this legislation? If so, please state the following: (a) The date of approval, (b) whether or not there were any dissenting votes, (c) which members dissented, if any, and (d), please also submit any statement which the Board of Governors may have acted upon relative to the purpose for recommendigg the legislation or relative to any limitations which the System would be expected to observe in using its authority to reduce required reserves of member banks.

41. Mr. Martin has indicated in his testimony to the Committee that it was at his request that the American Bankers Association initiated the study and recommendations which were made for reducing required reserves in its report of February 1957. Did this request to the American Bankers Association have prior approval, or concurrence, of (a) The Federal Open Market Committee, (b) the Board of Governors? If so, please give the date or dates when these bodies acted to approve this request.

42. When the Treasury purchases gold from a foreign central bank, does this gold flow through member banks?

43. Please indicate the nature of each transaction, in sequence, taking place between the Treasury and the member banks and the Federal Reserve System and the member banks which is involved in the acquisition by the Treasury of gold from a foreign central bank.

44. Recognizing that several different statistical measures of the money supply are available and that at different times for different purposes one or the other of these measures has been considered the most appropriate, which of the definitions of money supply do you consider most appropriate for the purpose of determining whether or not the money supply is being increased too much or too little in relation to the amount of economic activity taking place?

45. Please supply data comparing the relative increase in the money supply with the relative increase in the real Gross National Product in the 4 peacetime years just prior to the Federal Reserve-Treasury "accord" early in 1951 and in each of the three 4-year periods beginning with 1951.

46. In its considerations of the question of what the appropriate money supply should be, please indicate the nature of the consideration given to the rate of use, or the velocity, of money and supply also a comparison of the velocity of money in each of the 3 4-year periods specified in question #45.

47. How does Chairman Martin define (a) "printing-press" money, and (b) "fiat" money? Please name the two kinds of money which are in use in the largest volume in the United States today, indicating the relative volume of use, and stating also how these two types of money differ from (a) "printing-press" money and (b) "fiat" money.

48. In the Board's annual report for 1957, under the digest of principal policy actions, at page 32, action for the period January-June 1957 is described as follows: "Reduced holding of U.S. Government securities by about $1.8 billion. Member bank borrowings increased from an average of $400 million in January to $1 billion in June."

Then under "Purpose of Action" the reason given for reducing holdings of U.S. Government securities is to offset seasonal factors and offset the acquisition of $600 million of gold by the Treasury while simultaneously, the reason given for increasing loans to member banks is "to exert pressure on bank reserve positions by bringing about a higher level of member bank borrowings."

Please explain more fully how objectives of monetary controls were improved by (a) reducing the Federal Reserve's holdings of Government securities to reduce bank reserves, and conversely, increasing Federal Reserve loans to member banks and thus increasing the amount of their loanable funds.