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SENATE COMMITTEE PRINT

NATIONAL MONETARY AND BANKING POLICY

QUESTIONNAIRE

RELATIVE TO

S. Res. 125

(Approved August 4, 1939)



Printed for the use of the Committee on Banking and Currency

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S. RES. 125

(76th Cong., 1st sess.)

(approved August 4, 1939)

RESOLUTION

Resolved, That the Committee on Banking and Currency is authorized to conduct a study and to hold hearings to consider and recommend a national monetary and banking policy by which the monetary and banking authorities of the Federal Government shall be guided and governed, and to consider and recommend the character of governmental machinery best calculated to carry out such policy. The committee shall report to the Senate as soon as practicable the results of its study, together with its recommendation for the enactment of any legislation it may deem necessary.

SEC. 2. (a) For the purposes of this resolution the committee, or any duly authorized subcommittee thereof, is authorized to hold such hearings, to sit and act at such times and places during the sessions and recesses of the Senate in the Seventy-sixth Congress and subsequent Congresses as it deems advisable.

(b) The committee is likewise authorized to call upon any of the agencies of the Government to present evidence with respect to the subject matter of this inquiry which is within the administrative jurisdiction of such agency under existing law or which may be assigned to such agency by the committee.

(c) The committee or any duly authorized subcommittee thereof is authorized to employ such experts, and clerical, stenographic, and other assistants and to take such testimony and make such expenditures as it deems advisable. The cost of stenographic services to report such hearings as may be held shall not be in excess of 25 cents per hundred words. The expenses of the committee which shall not exceed \$25,000 shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman of the committee.

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QUESTIONNAIRE

1. TREASURY DEPARTMENT

I. SILVER

A. General Questions.

1. What are the maximum and minimum amounts of silver which the Treasury may buy under existing law?
2. How does the Treasury determine the amount of silver bought? How does it determine the price?
3. To what extent has the United States progressed toward the goals set forth in the Silver Purchase Act of 1934?
4. Does the purchase of silver impose a budget cost on the Treasury? A real cost?

B. Foreign Silver.

1. How much foreign silver has been purchased since 1933? From what countries?
2. What are the principal silver-producing countries, and what is the importance of silver production to their economies?
3. To what extent have purchases of foreign silver reduced the monetary stocks of foreign countries; to what extent do they represent the purchase of newly mined silver; and to what extent have they come out of commercial stocks?
4. Are there any silver-purchase agreements existing with foreign governments?
5. Is the purchase of foreign silver made an instrumentality of foreign policy—commercial, financial, or diplomatic?
6. What are the costs of production of leading silver-producing companies in foreign countries?
7. Is silver production subsidized by any foreign country?
8. In what ways have the following countries been benefited or harmed by our silver-purchase program: China, Mexico, India, other countries?
9. To what extent is the foreign silver bought by the Treasury produced by companies which are controlled by Americans?

C. Domestic silver.

1. What are the costs of production of leading silver-producing companies in the United States?
2. What proportion of silver production in the United States comes from mines in which silver is a byproduct?
3. What proportion of the payments made to domestic silver producers go to the payment of wages, dividends, taxes, cost of mining supplies?
4. How many persons are employed in mines producing silver in the United States? How many of these can reasonably attribute their

employment to silver production? How many would become unemployed if the domestic price of silver fell to that of foreign silver?

5. What is the distribution of ownership of stock in mines producing chiefly silver? What proportion of domestically mined silver is produced by the 10 largest silver-producing companies? What proportion of the total is produced by the 25 largest producers?

6. Is the distribution of domestic silver production, by States, undergoing any significant change?

D. Monetary Use of Silver in the United States.

1. What changes in the amount and composition of United States money have resulted from silver acquisitions since 1933?

2. Does the monetary silver stock of the United States strengthen or weaken the monetary system? How? Will a further accumulation of silver strengthen or weaken our monetary system?

3. What additional amount of silver certificates could be issued by the Treasury on the basis of the existing silver stock? How would such issue affect the volume and make-up of currency in circulation?

4. How much seigniorage has accrued to the Treasury from the monetization of silver? How much more would be available if all the silver were monetized?

5. How much silver is currently used in the manufacture of United States subsidiary coins? Does the inclusion of silver in subsidiary coins help to prevent counterfeiting, or serve any other purpose?

E. Foreign Monetary Use of Silver.

1. What changes have occurred in the monetary use of silver in foreign countries in recent years?

2. What factors have been responsible for the huge exports of silver from China in recent years?

3. What have been the principal reasons for foreign nations withdrawing silver coins from circulation during recent years? Will the amount of silver coins in circulation in foreign countries be increased after the war, or is the substitution of cheaper metals and of paper currency likely to continue?

4. Do any foreign countries hold substantial monetary reserves of silver apart from those contained in silver coins in circulation?

5. Do any foreign countries issue paper currency, such as silver certificates, backed by silver?

6. What is the importance of silver in the monetary systems of other countries? Would its complete demonetization have any harmful effects on the monetary systems of the world?

F. Nonmonetary Use of Silver.

1. What are the nonmonetary silver stocks in leading silver-holding countries? In the world?

2. How much silver is currently consumed in nonmonetary uses? What are the principal nonmonetary uses of silver?

3. What potential uses for silver are there if it becomes available at substantially lower prices?

4. How low would the price of silver be likely to go (a) if no additional purchases were made by the United States; (b) if in addition our present stock were liquidated within 5 years?

5. How would a lower price affect present industrial users of silver?

6. How much silver is now absorbed or released by India? How much silver in the future is likely to be absorbed or released by India?

G. Policy.

1. What purposes are achieved by the present policy of buying domestic silver? What would be the probable results of its discontinuance?

2. Assuming that we are to continue purchasing domestic silver, what criterion should Congress or the Treasury use in determining the price?

3. Are there other commodities which should be bought and stored by the Treasury on terms similar to those offered (a) to domestic silver producers; (b) to foreign silver producers?

4. What would be the probable economic effects of a cessation of Treasury purchases of foreign silver? Of substantially lowering the Treasury's buying price for foreign silver?

(a) On our foreign trade?

(b) On employment in the United States?

(c) On the status of American-owned mining and other properties in Latin-American countries?

(d) On Mexico and other Latin-American countries? On China?

(e) On other countries, and on world trade?

5. Assuming that we are to continue purchasing foreign silver, upon what criteria should the Treasury base its buying price for foreign silver?

II. GOLD

A. General.

1. What changes have taken place in the rate of world gold production since 1900 and particularly since 1930? Can you assess the influence of the fall in the general level of prices, and of the change in the price of gold on output since 1930?

2. What are the current forecasts with respect to gold production in the next decade?

3. What changes have taken place in the distribution of monetary gold since 1914?

4. Is it possible to develop an objective measure of the appropriate price for gold in terms of any given currency?

5. What criteria should be used to determine whether the price of gold is too high or too low?

6. Why has the United States been getting so much gold? In the current inflow of gold, what has been the importance of:

(a) The price of gold;

(b) Capital movements;

(c) The balance of trade; and

(d) Action of foreign governments?

7. With the continuation of our present gold policy, what will be the probable nature of gold movements (a) as long as the current war continues; (b) when the war ends?

8. Assuming that we continue to purchase gold at the present price, what factors will be likely to prevent the demonetization of gold by the rest of the world? What would be the influence on possible demonetization of a reduction of the price? Of an embargo on gold imports?

9. What is the legal status of gold held on earmark? What are the economic advantages of earmarking gold? Are there any disadvantages?

B. The Cost of Gold Acquisitions.

1. How was our gold stock paid for? Does the acquisition of gold involve a direct cost to the Federal Government? A contingent cost? A deferred cost? Who owns our gold stocks?

2. Does the acquisition of gold constitute a direct charge against the national income? A contingent charge? A deferred charge?

3. Do our gold purchases operate to bring about an increase in the national income? If so, under what conditions?

4. Is the effect of purchases of foreign gold different from the effect of purchases of domestic gold?

C. The Gold Standard.

1. What were the essential features of the traditional gold standard? Specifically, what function did gold perform under this standard?

2. In what countries of the world does gold still perform its traditional functions? Why has it ceased to do so in others?

3. What function does gold perform in (a) foreign monetary systems; (b) international affairs?

4. Why have so many countries abandoned the gold standard? How widespread is the desire in each of the leading countries to return to the gold standard?

5. What are the probabilities of a general restoration of the gold standard?

6. What line of action on the part of the United States would facilitate such restoration—if deemed desirable?

7. Would measures tending to reduce the production of gold be appropriate? If so, what are the merits of the following:

(a) International agreement to reduce the price of gold;

(b) Unilateral reduction of the price by the United States;

(c) Agreement among gold-importing countries to restrict its importation;

D. Gold and Domestic Monetary Policy.

1. What has been the traditional role of gold in determining our domestic monetary policy? What developments since 1930 have altered this role? Do the size of our gold reserve and/or the volume of gold inflows (or outflows) have any influence on the credit policy of the Reserve System? On the volume of excess reserves?

2. Do our present gold reserve and/or the prospective gold inflow interfere with making effective the credit policies now deemed appropriate? Are circumstances likely to arise in which gold would so interfere?

3. In particular, is there danger that our large gold holdings may interfere with a program of monetary control at some time when it is deemed necessary to check monetary expansion?

4. What effect would follow if restrictions on the convertibility of currency into gold coins or bullion at a fixed rate were removed? What amount of gold coins or bullion would the public be likely to absorb?

5. What would be the results of reintroducing gold certificates into circulation?

6. Specifically, would private holding of gold and/or gold certificates make monetary control more or less difficult?

7. Would a restoration of convertibility increase confidence in the dollar? How does lack of confidence show itself? What would be the effect of increased confidence?

8. Assuming that there is reason to expect the ultimate restoration and indefinite retention of gold in the world's monetary systems, which of the following methods of reducing the gold inflow into this country would be most appropriate? (In evaluating them, consideration should be given both to the immediate and to the long-run effects on our international relations and trade, and on our domestic economy and price levels.)

(a) An embargo on gold imports; cessation of purchases by the United States.

(b) Reduction in the price the Treasury pays for gold.

(c) Buying only a certain amount of gold in the open market.

(d) Purchasing only gold that comes from certain countries.

(e) Requiring that foreign governments acquire a definite agreed portion of their dollar needs through liquidation of their holdings of American securities, rather than through gold shipments.

(f) Reduction of our tariff schedules. On what category of items and to what extent, if any?

(g) Extension of foreign loans. To whom and on what terms?

(h) Increasing the spread between the Treasury buying and selling prices for gold.

(i) Segregating monetary gold from nonmonetary gold, and acquiring only monetary gold.

(j) Exchange control.

(k) Resumption by international agreement of (a) convertibility; (b) use of specie reserve against notes and deposits.

9. Are there other feasible devices which should help to curtail the inflow of gold?

III. MONETARY POWERS

1. Describe the existing distribution of monetary and credit powers between Federal agencies.

2. If you believe any changes to be desirable, indicate any new powers of monetary and credit control which are needed, any redistribution of powers which would be desirable, and any changes which would promote a proper coordination of the exercise of the powers.

3. What is the purpose of each of the monetary and banking powers possessed by the Treasury? How effective for each purpose are these powers?

4. In planning such of its operations as are likely to have a direct influence on the expansion and contraction of credit what criteria are employed by the Treasury?

5. As a practical matter, what influence does the Treasury exercise in determining the policy of the Federal Reserve System with respect to:

(a) Rediscount rates;

(b) Open market operations;

(c) Reserve requirements;

(d) Standards for extension of Federal Reserve credit?

6. What influence does the Board of Governors of the Federal Reserve System exercise with respect to the operations of the stabilization fund and the inactive gold account?

7. What significant economic differences, if any, exist between the increase of the supply of money arising from the expansion of loans and investments of commercial banks, and an increase arising from issuance of Treasury non-interest-bearing currency?

8. Are variations in the size and location of the Treasury's cash balances used as an instrument of monetary control? Are silver purchases? If so, how far is Treasury policy in the use of these powers coordinated with Federal Reserve policy?

9. To what extent, if any, does the Treasury seek the support of the Federal Reserve System in its fiscal operations?

10. Does the Treasury consider that it is desirable as a general policy that the Government bond market be protected against sudden declines? If so, by whom, and why?

11. What are the repercussions on monetary and banking conditions of additions to the Social Security reserves? What discretionary authority does the Treasury possess in investing these reserves? What has been the basis of past decisions?

12. Which of the existing Treasury and Presidential monetary powers should (a) be made permanent; (b) retained for a specified period; (c) made contingent on specified circumstances?

13. What is the purpose of the provision of law that the Treasury may, under certain circumstances, issue \$3,000,000,000 in greenbacks? Should this authority be continued (a) permanently? (b) Temporarily? If the latter is recommended, under what circumstances should it be permitted to lapse? Should the Treasury also have the power to retire greenbacks?

14. If this power should be continued, would it be desirable that it be transferred to, or exercised jointly with, the Board of Governors of the Federal Reserve System?

15. Is it desirable that the activities of the Government lending agencies be coordinated more closely with monetary and credit policy? If so, how can this be achieved?

16. Should the Secretary of the Treasury become a member of the Board of Governors of the Federal Reserve System? What disadvantages resulted from the membership of the Secretary of the Treasury prior to 1935?

IV. FISCAL POLICY

1. Can fiscal policies (such as deficit or surplus financing, control of size or location of cash balances, choice of securities to be issued or retired, forms of taxation) advantageously be used as instruments of monetary-credit policy? If so, can you suggest any means by which fiscal policy and credit policy could be more closely coordinated?

2. Analyze the general relationship between Government surpluses and deficits on the one hand and credit and monetary conditions on the other. Illustrate the analysis from the facts of American financial history, 1917 to date.

3. Can you suggest any criteria for determining the appropriate size of the deficit (or surplus)? Should it be related in some specific way to—

- (a) The amount of unemployment;
- (b) The level of output;

- (c) The volume of new investment;
- (d) An index of prices?

4. Is the size of the existing public debt an important factor in determining the desirable magnitude of a current surplus or deficit?

5. One of the major objections advanced against Federal deficits is the associated growth of the public debt. What are the specific objections to a growing public debt? Discuss the significance of the following points, which are commonly cited:

- (a) Refunding problem;
- (b) Tax burden to pay off principal;
- (c) Tax burden to pay interest;
- (d) The effect on private investment;
- (e) The effect on business conditions;
- (f) The effect on the distribution of wealth and income;
- (g) Preparedness for another war.

6. If it is desired to produce an increased deficit (or decreased surplus) what are the respective advantages of decreasing tax rates and increasing expenditures?

7. Assuming that a deficit in certain years is unavoidable or desirable, discuss the effects of different methods of financing the deficit. What differences are to be expected from financing all or part of a deficit by:

- (a) Issuance of long-term bonds;
- (b) Issuance of short-term debt;
- (c) Issuance of greenbacks;
- (d) Creation of Reserve Bank credit against non-interest-bearing United States bonds?

8. To what extent were the policies followed in the exercise of monetary powers by the Federal Reserve System and the Treasury's management of the inactive gold account in the spring of 1937, and the reversal of those policies in the autumn of 1937, responsible for the changes in business activity which followed them?

9. If a part or all of a deficit were financed by the issuance of greenbacks, what economic groups would gain and what groups would lose because of the saving of interest to the Treasury?

10. What considerations now determine the types of securities issued by the Treasury? Cite the basis of the choice in some specific cases in recent years.

11. How does each of the several types of securities issued by the Treasury affect the supply of money of the country?

12. What basic factors determine the rates at which the Treasury can borrow on bills; on notes; on bonds?

13. What is the present distribution of holdings of—

- (a) Government bonds;
- (b) Treasury notes;
- (c) Treasury bills;
- (d) Government-guaranteed obligations?

14. To what extent does the Treasury depend upon the banking system to finance new issues of bonds, notes, and bills? Is there an upper limit to the amount of Treasury bonds, notes, and bills which the banks in this country can absorb?

15. What, if any, differences in economic effects follow if commercial banks rather than individuals buy and hold Government obligations?

16. What has been the effect of Government borrowing on various categories of interest rates?

17. Is the interest rate expected to rise or decline in the near future? What factors are expected to cause such a rise or fall?

18. Who is now bearing the risk of possible changes in interest rates as affecting the value of outstanding Treasury securities? Should the Treasury assume this risk?

V. FOREIGN EXCHANGE

1. What are the advantages and disadvantages of fixed versus fluctuating exchange rates with respect to:

- (a) The volume of foreign trade;
- (b) Exporters and importers;
- (c) The "terms of trade";
- (d) The tourist, shipping, and other service items in the balance of payments;
- (e) Capital movements and foreign investment;
- (f) The stability of domestic economic activity and domestic price levels;
- (g) Speculation in foreign exchange;
- (h) National control of monetary policy;
- (i) International commercial relations?

2. What are the prerequisites of long-run stability of exchange rates? Are these likely to be fulfilled?

3. What are the monetary consequences of:

- (a) Exchange control;
- (b) Clearing, compensation, and payment agreements;
- (c) Barter agreements;
- (d) Multivalued currencies;
- (e) Export subsidies?

4. In view of the extensive and increasing use by foreign powers of such devices as those listed in the preceding question, is there any advantage in our maintaining stability in terms of gold? Any disadvantage?

5. If fixed exchange rates are preferable, what lines of policy are open to us to achieve this objective? If flexible rates are preferable, should they be freely fluctuating, or flexible by international agreement?

6. Should we actively take steps to establish a dollar bloc? What role could the Inter-American Bank play in a dollar bloc?

7. What special measures should the administration take to promote the foreign exchange stability of Latin-American countries? Appraise each of the following as an aid in achieving such stability:

- (a) Widening the field for capital investments in Latin America;
- (b) Debt settlements;
- (c) Gold or currency loans;
- (d) Commercial policy;
- (e) Proposed Inter-American Bank?

8. What measures can we take, and should we prepare to take, to protect ourselves against the possibility of complete collapse of the currencies of any of the belligerent countries in Europe or Asia during or after the war?

9. Is there any danger of an era of intensified competitive currency depreciation at the end of the war? If so, what should be done about it?

10. When is a country justified in adopting and maintaining exchange controls? Is the abolition of exchange restrictions the *sine qua non* of a higher level of world trade? Is it expected that most countries will abandon exchange restrictions after the war?

11. What consideration should be given to the possibility of gold loans for the stabilization of world currencies when the war is over?

12. What is meant by equilibrium in discussions of exchange rates? Is it possible to tell when a currency is too high or too low with relation to other currencies, or when a country is indulging in competitive currency depreciation? Can overvaluation or undervaluation of a currency be measured, and if so, how?

13. What are the consequences of overvaluation or undervaluation of a currency upon:

- (a) Our export trade;
- (b) Competition from imports;
- (c) General level of prices;
- (d) Agricultural prices;
- (e) Employment in the United States;
- (f) World distribution of gold;
- (g) Monetary stability;
- (h) Restrictions on international trade?

14. Has the dollar been too high or too low in terms of the leading currencies in the last 6 years? Is it too high or too low now?

15. What are the best methods for correcting overvaluation or undervaluation?

16. Were the pound, franc, and yen overvalued during 1933-36 and 1936-39? Are they overvalued now?

17. Under what conditions should the dollar be permitted to appreciate or depreciate?

18. Has our stabilization fund fulfilled the purpose for which it was founded? How does it function? Is it more active now than before the war?

19. How do its role and methods of operation compare with those of the stabilization funds of England, France, and other countries? How are the stabilization funds of belligerent countries working in war time?

20. Has the stabilization fund carried on, and does it now carry on, forward exchange operations? If so, explain the technique of such operations.

21. Can the tripartite accord serve as a basis or a model for the stabilization of European currencies at the termination of hostilities? Can its principles be extended in such a way as to make this objective obtainable?

22. What effects does the present Anglo-French currency agreement have on exchange rates? What would be the consequences of its retention after the war? Is the principle it contains with respect to

foreign balances and the franc-sterling exchange rate capable of extension?

23. Should the present powers of our stabilization fund with relation to foreign exchanges be retained, modified, or abolished?

VI. INTERNATIONAL CAPITAL ASSETS AND LIABILITIES OF THE UNITED STATES

A. General.

1. What is the volume, character, and source of foreign capital in the United States? Of American investments abroad? What changes have taken place in the last two decades?

2. How large are the holdings of foreign governments or central banks of:

(a) Dollar balances—both time and demand; (b) United States Government obligations?

Is there any significant difference between these holdings and the holdings of foreign individuals and private banks?

3. Last year our balance of payments contained an item of 1.2 billion dollars classified as "residual." What proportion of the residual item can be explained by unrecorded capital inflows?

4. What are the relationships between the various types of capital inflows and gold flows?

B. Causes of Capital Inflows.

1. Why has capital come to this country in such large amounts since 1935? To what extent has each of the following factors been significant in the flow of capital to the United States?

(a) Safety.

(b) Higher interest rates.

(c) Prospective speculative exchange gains.

(d) Prospective capital gains on securities.

(e) Evasion of taxation in home countries.

(f) Increase in the price of gold from \$20.67 to \$35 an ounce.

(g) Better investment opportunities.

2. From which countries have Americans repatriated their capital from abroad in the last few years? What are the prospects that they will continue to do so?

3. Is it expected that the inflow of capital will be maintained with the continuation of the war? Will foreigners continue to purchase our securities and accumulate dollar deposits? How much capital has come to this country since the outbreak of war, and how much is expected in 1940?

C. Effect of Capital Inflows on Our Economy.

1. What is the effect of capital inflows on—

(a) Bank reserves; (b) interest rates; (c) exchange rates; (d) gold flows; (e) amount of capital investment in the United States; (f) our security markets; (g) tax revenues; (h) foreign capital markets; (i) fluctuations in business activity; (j) national income?

2. What is the net effect on the national income of the United States of foreign direct investments here? Of foreign holdings of American securities?

D. Policy With Respect to Further Inflows and Outflows.

1. Under what conditions is it desirable to prevent or discourage further inflows of foreign capital? Under what conditions would it be desirable to control the outflow of capital already here?

2. What are the prospects of an outflow of capital from the United States after the resumption of world peace? Will private capital seek foreign investment after the resumption of peace?

3. Should foreign investment by Americans be subjected to greater restrictions or should the restrictions which now exist be removed?

4. Will free international movements of capital contribute to or detract from the stability of foreign exchanges and the prospects of world economic recovery?

E. Under the assumption that it is desirable to restrict further capital inflows into the United States and encourage outflows, what measures to achieve those objectives are feasible?

1. The following measures have been suggested at one time or another. What are the merits of each of the proposals?

a. Adoption of exchange restrictions on the movement of capital.

b. Foreign deposits in the United States:

(1) Increasing the reserve requirements on foreign deposits.

(2) Introduction of a licensing system on foreign deposits.

(3) Creation of a Presidential power to stop the withdrawal or expenditure of foreign balances if and when an emergency arises.

(4) Taxation of foreign deposits.

(5) Action by the Board of Governors of the Federal Reserve System or by agreement among the banks to make the holding of foreign deposits less attractive.

c. Security holdings by foreigners and direct investments in American plants, real estate, hotels, etc.:

(1) Revision of taxes applying to alien-held property and alien corporations—income taxes, capital gains taxes, and transfer taxes.

(2) Nontax measures such as registration, use of American nominees and embargoes.

2. Have any important countries adopted any of the above devices? How effective have they been? What were the consequences of such adoption?

VII. CURRENCY

1. What is the explanation for the increase in the volume of currency in circulation during the past 7 years?

2. What factors in general determine the total quantity of currency and coin in circulation? What is the effect upon the total volume of currency in circulation of (a) increase in the gold stock, (b) silver purchases and the issuance of silver certificates, (c) deficit financing?

3. Is the power to issue currency a source of profit to the Federal Reserve banks? Would the power to issue currency be a source of

profit to commercial banks? Would the Government earn a profit if the Treasury had the sole right of issue?

4. What purposes do the requirements of specie "backing" or collateral for the various kinds of currency serve? What do the silver, gold, Federal Reserve assets, etc., as the case may be, have to do with the value of the currency? Could all the "backing" be dispensed with? What would be the advantages and disadvantages of doing so?

5. Should anything be done to reduce the diversity of currencies? What would be gained by doing so?

* 6. Proposals have been made to make United States Government bonds legal tender. What are the merits of this proposal?

7. What purpose is served by the redemption provisions of Federal Reserve notes? of silver certificates? Should the reserve for redemption of Federal Reserve notes now required to be maintained in the Treasury be continued?

8. The proposal has been made to meet part or all of the annual Treasury deficit by issuing new currency. What are the merits of such a proposal?

9. What is the relationship between the quantity of currency in circulation and the level of commodity prices?

(a) Can prices be controlled by changing the quantity of currency in circulation?

(b) Is the monetary authority able to control the volume of currency in circulation? What measures can be used to achieve this control?

(c) Under what circumstances would it be desirable to control the volume of currency? Would it be desirable to change the volume of currency in circulation now?

10. Why should the gold reserve requirements against the currency portion of the circulating medium be different from the gold reserve requirements against the checking account portion of the circulating medium?

11. What effect would the issuance of one to two billion dollars a year of stamp money, as described by Irving Fisher, have on (a) our currency system; (b) commodity prices; (c) the national income?

2. COMPTROLLER OF THE CURRENCY

I. SUPERVISION

A. General.

1. What characteristics of the banking business justify or explain the relatively greater amount of public supervision which is given to it than to most other businesses?

2. What are the objectives of bank supervision? Do they include any or all of the following:

(a) Promotion of business stability, through easing or tightening credit conditions as needed?

(b) Maintenance of competition between banks?

(c) Protection of banks against competition?

(d) Prevention of usurious or oppressive tactics toward borrowers?

(e) Keeping local money at home?

(f) Making funds more readily available for particular groups (e. g., agriculture, small business) or less available for other groups (e. g., stock market operation)?

(g) Facilitating the Government's fiscal operations?

3. Is any change of law with regard to objectives of supervision desirable?

4. What effect in your judgment does bank supervision have upon—

(a) The quantity and quality of the debt owed to commercial banks; and

(b) The total volume of debt in the country?

5. How does bank supervision affect the outstanding volume of bank credit? In what way does supervision influence the expansion or contraction of credit during the different phases of the business cycle? If supervisory policy were to be so directed as to contribute to the protection of the economy from the effects of undue expansion or contraction of credit, how could this best be done? Would appropriate policy require a revision of supervisory standards during the course of the cycle, or can standards be devised which will give the desired results at every stage in the cycle?

6. Describe the work of a bank examiner. Does he simply engage in fact finding, or does he also engage in corrective or advisory activities?

7. Do your standards of supervisory responsibility differ in any respect as between large and small banks? Give details.

8. Enumerate the unsafe or unsound practices in which you have found any director or officer of a national bank (or a bank or trust company doing business in the District of Columbia) to have engaged since the effective date of the Banking Act of 1933.

9. In how many cases have you found it necessary to warn a director or officer of a bank (a) to discontinue unsafe or unsound practices; (b) to discontinue violations of law?

10. Should officers or directors removed under section 30 of the Banking Act of 1933 be prohibited from ever again engaging in the operation of insured banks?

11. Should there be provided some effective remedy against unsound control when exercised by stockholders rather than by officers and directors?

12. Do you think that the bank failure experience of the period 1920-33 was in any substantial measure due to inadequate principles or practices of bank supervision? If not, to what do you ascribe that unfavorable experience? If not, do you know any means whereby such unfavorable experience can be avoided in the future? If so, have the principles and practices been altered in a proper manner? Do you have any suggestions as to needed changes of law which will permit more adequate supervision?

13. Does your office or its examiners make any attempt to restrict speculative trading in securities on the part of banks? If so, why? Is any revision of law in this connection desirable?

14. What policies should a commercial bank be required to follow in order to be able to meet abnormal demands for cash? Do you in any way control the practice of the banks in this respect?

15. Explain in detail the allocation of functions in bank supervision and examination between the Comptroller of the Currency, the District Chief National Bank examiners and the national bank examiners. How is uniformity of practice achieved?

16. Is there any evidence that bank examiners (under any supervisory agency) have at any time since 1933 exercised a retarding influence upon the development of recovery in this country?

17. Is there danger that bank supervision in the hands of the F. D. I. C. will be so stringent, because designed to reduce to the minimum the losses of that corporation, that the restrictions on bank credit extension will unduly hamper business enterprise?

18. To what extent do you or your examiners give banks "advice" with regard to policies or practices in the operation of a bank which are not the subject of supervisory control enforced by legal sanctions? Do you think that the giving of "advice" and the enforcement of requirements of law can properly be carried out simultaneously by the same agency? Do bankers and examiners see a clear demarcation between the two functions?

19. Are the principles, procedures, and practices which you require banks to follow available to banks in the form of published rules and regulations, or are they made known to banks on a case by case basis? Which of the two methods do you consider the more satisfactory? Which would banks prefer?

B. Asset Quality and Type.

1. What principles guide your policy with respect to the types and quality of bank assets? Which of these principles are now embodied in law? Should any of the principles now in law be revised; and should any additional principles be enacted into law?

2. Does the influence of bank examiners keep many banks from making loans or investments they would otherwise be willing to make? If so, what kinds of loans and investments?

3. What is the justification for the requirement that all securities purchased by banks members of the Federal Reserve System must be marketable? Would you favor any modification of the law in this respect?

4. Would you favor altering the law to permit national banks to invest in high-grade preferred stock? Why, or why not?

5. What, if any, merit do you see in the proposal that certain assets be segregated in savings departments to offset time and savings deposits?

6. What use is made of the securities ratings of the recognized rating agencies in your examination and supervision of banks? By what means do you ascertain that the ratings are made in a manner appropriate to the use to which you put them?

7. Do many national banks hold securities which they have bought in violation of section 5136 of the United States Revised Statutes? What steps do you take in such cases?

8. What steps do you take with respect to securities held by banks which were eligible for investment when purchased but which subsequently become ineligible?

9. Do national bank examiners discourage (a) long-term loans as such; (b) capital loans as such; (c) real-estate loans as such?

10. Which, if any, of the following do you consider as inappropriate assets for purchase, either by banks having demand deposits in substantial volume, or by banks having chiefly time and savings deposits:

(a) Real estate mortgages:

- (1) Farm?
- (2) Urban, uninsured?
- (3) Urban, insured by F. H. A.?
- (4) Limited to 3 or 5 years' duration?

(b) Loans to customers for working capital purposes:

- (1) Repayable over a period of 5 years; 10 years?
- (2) Nominally repayable within 90 days but actually repayable only by liquidating the business?

(c) Stock market call loans?

(d) Railroad and industrial bonds of corporations with good credit standing?

(e) Bonds issued by local industries of good credit standing but having only restricted market?

(f) Finance company paper secured by installment notes?

(g) Acceptances issued by high-grade institutions covering goods in storage?

(h) Notes collateralized by warehouse receipts for commodities:

- (1) Hedged;
- (2) Unhedged?

11. Do you have authority or responsibility to exercise control over policies of the banks with regard to any of the types of assets mentioned in the preceding question?

12. If any of the items listed in question 10 are deemed acceptable for a restricted proportion of a bank's assets, indicate the criteria of a proper proportion.

13. Should banks be permitted to operate personal loan departments making small loans on a high interest basis (for instance, 4 to 6 percent deducted in advance, on a monthly installment loan spread over 1 year)?

14. What is the effect of the law that national banks may not hold real estate which they have held for a period longer than 5 years (U. S. Rev. Stat., sec. 5137)? Is it practicable to enforce this? Do you favor any revision?

15. What do you estimate to be the total amount of securities now outstanding which are eligible for investment by member banks under your regulations issued pursuant to United States Revised Statutes, section 5136? What proportion of the total do you estimate to be held by commercial banks?

16. In determining upon supervisory standards with respect to bank asset quality, how are the needs for bank safety and the credit needs of business weighted or reconciled? What consideration do you give to the undesirability of placing obstructions in the way of the investment process?

17. What is the nature of each of the four classes in which loans are placed by examiners? What is the purpose of the classification? Do you require or influence banks to collect class II loans?

C. Valuation of Assets:

1. What principles should guide public policy with respect to the valuation of bank assets? Which of these principles could and should be enacted into law?

2. What new principles were established by the agreement between Federal supervisory agencies of June 1938 (published in Federal Reserve Bulletin, July 1938, and in the Annual Report of the F. D. I. C. for 1938)? What have been the results?

3. In a discussion of the revision of bank examination procedure and of investment securities regulation which was agreed upon in June 1938, appearing in the Federal Reserve Bulletin (July 1938, pp. 563-564), the following comments were made:

Under the new designations, the principle is clearly recognized that in making loans, whether for working capital or fixed capital purposes, the banks should be encouraged to place the emphasis upon intrinsic value rather than upon liquidity or quick maturity.

Similarly, the revised examination procedure recognizes the principle that bank investments should be considered in the light of inherent soundness rather than on a basis of day-to-day market fluctuations.

In the light of experience since that time has the revised procedure been effective in accomplishing the purposes indicated in this quotation? To what extent does examination and valuation procedure differ from that which was prevalent before June 1938? Has the change been beneficial and if so in what way?

4. If the capital and required surplus of a bank are unimpaired when its assets are valued in accordance with the agreement of June 1938, but are impaired when its securities are valued at current market price, is the payment of dividends illegal, unsafe, or unsound?

5. What benefit or harm follows from requiring publication of bank balance sheets? Would you favor any change in the current law on this subject? Does any harm follow from requiring banks to make public the amount of their borrowings?

6. Does the law authorize you to require national banks to adjust their books to the examiner's valuation of assets? If not, what control, if any, is exercised over the valuation of bank assets? If you do not control the valuation of assets as set up on books of the

banks, is it desirable to continue requiring the publication of bank statements? Is any revision or clarification of law in this respect needed?

D. Capital.

1. Can and does the Comptroller control the capital ratios of national banks? What principles should guide public policy with respect to the capital of banks? Which of these principles should be enacted into law? Should there be capital-ratio requirements? If so, what bases and ratios would be appropriate? Outline the procedure for putting your suggestion into effect.

2. Give your reaction to a proposal that supervisory authorities be given power to require the retention of earnings by banks which are found to have an inadequate amount of capital.

3. Does the taxation of banks in accordance with the provisions of section 5219 of the United States Revised Statutes keep down the volume of bank capital? Do you favor any change in this section of law?

4. Would retirement of all the stock of national banks now held by the Reconstruction Finance Corporation be desirable? Please indicate reasons for your answer.

E. Procedures and Sanctions.

1. List the sanctions which you may invoke in order to secure compliance with your supervisory requirements. Indicate by what specific or general legislative grant you exercise each sanction. Have you found these sanctions effective? Indicate any additions to or changes in your sanctions which you consider desirable.

2. What right of appeal do banks have from the requirements of your examiners or other supervisory requirements of the office of the Comptroller of the Currency?

3. Analyze in full the power of, and principles followed in, the revocation of a national bank charter.

F. Granting of National Charters.

1. Discuss the relative merits of granting national charters to all banks which meet minimum specific requirements fixed by law and agree to operate in accordance with the laws and regulations applicable to national banks, as compared with the present system of case-by-case decisions.

2. What standards guide you in determining whether each of the following characteristics of a bank is such as to permit a bank to be allowed to transact the business of banking as a national bank: (a) The financial history and condition of the bank; (b) the adequacy of its capital structure; (c) its future earnings prospects; (d) the general character of its management; (e) the convenience and needs of the community to be served by the bank? How do you determine whether the standards enumerated in answer to this question are met by an applicant bank?

3. By what standards do you determine whether to grant or withhold approval of a proposed consolidation of two or more national banks?

4. Would you in general permit the merger of two banks which could not legally have interlocking directorates?

5. By what standards do you determine whether to approve the establishment of new branches by a national bank, in cases where such approval is discretionary?

6. Are there too many banks? What is the test of a proper number? Are there any communities not adequately served by banks?

II. LEGAL STATUS OF BANKS

A. National Charters.

1. Is it desirable to maintain the present dual (National and State) system of chartering commercial banks and/or of bank supervision?

2. Are you inhibited from effectively supervising the national banks by the possibility that they may withdraw from the national system and continue operations under State charters? How many cases are known in which a bank has withdrawn from the national system because of the relatively lax supervision anticipated under State law?

3. What advantages or disadvantages would follow from requiring all banks holding demand deposits, or all insured banks, to operate under national charters and Federal supervision? Under State charters and State supervision?

B. Membership in the Federal Reserve System.

1. Do you think any substantial economic disadvantages have resulted (a) from the fact that a considerable number of banks have not had full access to Federal Reserve credit facilities over the past 25 years; (b) from the fact that a considerable number of banks have not been in the par collection system over the past 25 years; (c) from the fact that a considerable number of banks have not been subject to the Federal Reserve requirements for reserve against deposits?

2. Should all insured banks be required to be members of the Federal Reserve System under present requirements for membership? Under some other requirements for membership? If the latter, what alterations in requirements do you suggest?

C. Deposit Insurance.

1. Should Federal deposit insurance be retained permanently in substantially its present form, retained in a specified revised form, abandoned in the near future, abandoned if certain specified conditions appear, or abandoned at once?

2. Do you believe that all banks holding demand deposits should be required to be insured?

3. Please state your reaction and the reasons therefor to the contention that the existence of Federal deposit insurance tends to cause bad banking.

III. RELATIONS AMONG SUPERVISORY AGENCIES

1. Should the bank supervisory and bank examining functions of the Federal Government be concentrated in the hands of a single agency and a single integrated examining force?

2. Should all Federal bank supervisory laws be unified and codified and made to apply uniformly to all insured banks, or to all banks holding demand deposits? Please submit a tentative uniform bank

supervision code which you think should be applied to all insured banks or all banks holding demand deposits and which you think would give the best possible supervision.

3. In what manner do you supervise the receiverships of national banks in which the Federal Deposit Insurance Corporation is the receiver? Is undesirable duplication of effort involved? Do you favor any alteration of the law in this respect?

IV. BANK EARNINGS

1. Are the earnings and profits of commercial banks of particular public interest? If so, in what respects? If so, evaluate those aspects of law and supervision which pertain thereto, indicating any desirable alteration of law and regulations. Are earnings of commercial banks sufficient from the standpoint of the public interest?

2. Should earnings statements submitted to the supervisory authority be required to be published?

3. Can you visualize any possible developments which would render inadvisable a continuation of the present prohibition of payment of interest on demand deposits and limitation of interest on time deposits? Please enumerate and discuss. What, in your opinion, are the chief justifications for these regulations?

V. BANK ORGANIZATION AND STRUCTURE

1. Indicate in detail what, if any, changes you think should be made in existing laws which affect the banking structure of the country, i. e., branch banking, unit banking, group and chain banking, bank competition, concentration of banking power.

2. Give in detail your appraisal of the following: (1) Nation-wide branch banking; (2) Federal Reserve district-wide branch banking; (3) "trade area" branch banking; (4) prohibiting further extension of branch banking; (5) breaking up existing branch banking; (6) prohibiting further extension of group and chain banking; (7) breaking up existing groups and chains; (8) prohibition of the concentration of more than a given percentage of the bank deposits and offices of a given area under common control.

VI. MISCELLANEOUS

1. What advantages or disadvantages would result from the restoration of the membership of the Comptroller in the Board of Governors of the Federal Reserve System? What advantages or disadvantages result from the membership of the Comptroller in the Board of Directors of the Federal Deposit Insurance Corporation?

2. Would you favor any revision of that section of law which defines "bad debts" as "all debts * * * on which interest is past due and unpaid for a period of 6 months, unless the same are well secured, and in process of collection?" If so, what do you suggest? If not, please explain the logic of this provision. Do you in fact classify any other loans to be bad debts in computing the sound position of a bank?

3. Even if no changes are to be made in the content of the Federal banking law, should that law be rewritten and codified with a view to

clarity and unambiguity? If so, indicate at what points the present law is most in need of clarification, and submit a rough outline of such codification.

4. Do you have any suggestion for changes in the holding company and affiliates provisions of law?

5. What benefit or harm arose from divorcing banks from securities companies and prohibiting banks from doing a securities business?

6. Does the experience of your office indicate that the abandonment of double liability of bank stockholders was wise?

7. Does the limitation of interest on time and savings deposits have any effect on the total volume of such deposits?

8. In a report submitted to the Senate Select Committee to Investigate the Executive Agencies of the Government (75th Cong., 1st sess., S. Rept. 1275, 1937, at pp. 213-223), certain recommendations were made affecting the Office of the Comptroller of the Currency. Comment on the advisability of carrying out such of these recommendations as are still applicable.

3. BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

I. MONETARY AND CREDIT POWERS AND POLICIES

A. Internal Organization.

1. What is the distribution of the functions between the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Reserve banks, and the Open Market Committee? In what matters and to what extent does the Board of Governors determine the policy to be followed by Federal Reserve banks?

2. What has been the function of the Open Market Committee? Is there any good reason why final responsibility for open market policy and for rediscount rates should rest in different hands?

3. As a practical matter, what is the relative influence of the Board of Governors, the Federal Reserve Bank of New York, the other Reserve banks, and the Open Market Committee in determining the policy of the Federal Reserve System with respect to the following matters:

- (a) Rediscount rates;
- (b) Open market operations;
- (c) Reserve requirements;
- (d) Standards for extension of Federal Reserve credit;
- (e) Bank examinations?

4. What function does the Federal Advisory Council perform?

5. To what extent have there been differences of opinion within recent years with respect to major questions of policy within the Federal Reserve System?

6. Is there any reason for altering the present number of members of the Board of Governors of the Federal Reserve System, their tenure of office, or annual salaries? What changes, if any, should be made in the requirements for eligibility for appointment to the Board?

7. Should the staff of the Board of Governors be placed under civil service?

8. Should the Secretary of the Treasury become a member of the Board of Governors of the Federal Reserve System? Should any other Government officials be added to the Board? What advantages or disadvantages resulted from the membership of the Secretary of the Treasury and the Comptroller of the Currency prior to 1935?

9. Is it desirable to change the composition of the boards of directors of the Federal Reserve banks to give wider representation to the general public? Are any changes desirable in their method of appointment, or in their annual salaries?

10. Would it be desirable to transfer the ownership of the Federal Reserve banks to the United States Government? Would this transfer result in any benefit to the Government in financing its bonds and other evidence of debt?

11. Should any change be made in the disposition of Federal Reserve bank earnings? In the rate of dividends on Reserve bank stock?

12. Do the provisions of the Federal Reserve Act concerning taxes on any deficiency of the reserve of Federal Reserve banks serve any useful purpose?

13. Would the Reserve System be improved if a single Reserve bank with necessary branches were substituted for the present 12 banks?

14. What type of decisions and type of discussions is it against the public interest to make available to the public? Why? Should any matters dealt with or decisions made by the directors of the Federal Reserve banks which are now kept confidential be made available to the public?

B. Monetary Powers.

1. Describe the distribution of monetary powers which now obtains among Federal agencies. If you think any changes are desirable, indicate any new powers which are needed, any redistribution of powers which would be desirable, and any changes necessary for proper coordination of the exercise of the powers.

2. What is the purpose of each of the monetary and banking powers possessed by the Federal Reserve System? How effective for each purpose are these powers?

3. In what directions and to how great a degree have each of the powers been used during the last 15 years?

4. What is the present significance, from the standpoint of credit control (a) of the regulations governing the eligibility for rediscount, (b) of rediscount rates? Does it appear likely that the significance of these regulations will increase materially in the near future?

5. What is the nature of the tradition with reference to (a) inter-bank borrowing; (b) rediscounting at a Federal Reserve bank? Do the Board of Governors, the Reserve banks, or the examiners encourage this tradition?

6. Is it desirable to increase the significance of eligibility regulations and rediscount rates? If so, would it be practicable to do so by selling bonds from the Reserve banks' portfolios in the hope that banks would thereby be put under pressure to rediscount?

7. What is the volume of eligible paper held by member banks of the Federal Reserve System? Does it appear likely that the amount of such paper would increase if eligibility became more important?

8. At what period in the past 15 years has there been an inadequacy of monetary power on the part of the Federal Government? Specify the nature of such inadequacy.

9. Should Reserve System authority over reserve requirements be extended? Within what limits?

10. Can and should credit control include control over the uses to which bank credit is put, rather than merely control of the volume of outstanding credit?

11. What is the purpose of the provision of law that the Treasury may, under certain circumstances, issue \$3,000,000,000 in greenbacks? Should this authority be continued (a) permanently, (b) temporarily? If the latter is recommended, under what circumstances should it be permitted to lapse? Should the Treasury also have the power to retire greenbacks?

12. If this power should be continued, would it be desirable that it be transferred to, or exercised jointly with, the Board of Governors of the Federal Reserve System?

C. Monetary Policy.

1. What were the principal original purposes in establishing the Federal Reserve System? How far have these purposes been achieved?

2. Have the objectives been modified in the last 20 years? Have these modifications been embodied in legislation, or are they part of an oral tradition? Is the public aware of these objectives, so that it can predict the action of the System under given conditions?

3. What criteria have been and are employed by the Board of Governors of the Federal Reserve System, and by the Federal Reserve banks, in determining how far each of the following powers should be employed either in checking expansion or in promoting expansion: (a) market operations, (b) the rediscount rate, (c) reserve requirements of member banks?

4. To what extent, if any, are open market operations influenced by the need of the Federal Reserve banks to earn profits to pay operating expenses and dividends on stock? By fiscal operations of the Treasury? To support the bond market?

5. Is this an appropriate time to formulate permanent rules of monetary policy? Should such rules be embodied in legislative enactment? If not, should the Board of Governors adopt such rules, and specify them in a public pronouncement? Are the present general objectives adequate?

6. What are the present criteria of monetary policy? For legislative enactment or Board pronouncement, what are the merits of the following criteria, singly or in some combination? (Specify the combination.)

(a) Stability of prices:

- (1) Index of general wholesale prices.
- (2) Cost-of-living index.
- (3) Nonfarm commodity prices.
- (4) Any specially devised composite price index.

(b) A stable relationship between price indexes of various significant groups of commodities.

(c) A price level declining in accordance with increased efficiency of production.

(d) A slowly rising price level.

(e) Amount of unemployment.

(f) An index of production.

(g) An index of national money income.

(h) Stability of foreign-exchange rates.

(i) Reserve position of Reserve banks.

(j) Stable quantity of money or a secular increase in the quantity of money (including or excluding rate of turn-over of money).

(k) Stable relationship among the various categories of income groups.

(l) Prices of Government bonds.

(m) Interest rates.

7. Specify the lines of action that would be appropriate on the adoption of any of the above criteria.

8. If any of the above guides to monetary policy had been formally adopted, say in 1919, what changes in reserve policy would have been made? What would have been the consequences of such action, in contrast with the consequences of the lines of action that were followed?

9. Are the necessary quantitative data for any criteria you favor now available? If not, specify the deficiencies.

10. What objectives are aimed at and what criteria are used in exercising the authority which you possess with respect to margin requirements at the stock exchanges? Are the powers now possessed adequate for their purpose?

11. In what sense, if any, is it true that stock market loans can absorb the lending capacity of banks? Can a reduction of such loans (otherwise than through an inflow of funds from abroad) make funds more readily available for financing industry, commerce, and agriculture?

12. Apart from considerations involved in the preceding question, is it desirable to restrict the volume of activity or control the level of prices at the stock exchanges? If so, by what kinds of criteria is the need for action best judged?

13. To what extent do you and the Securities and Exchange Commission cooperate in exercise of control over the stock exchanges?

14. What purpose is served by restrictions on stock exchange lending by others than banks?

D. Fiscal Policy.

1. Can fiscal policies (such as deficit or surplus financing, control of size or location of cash balances, choice of securities to be issued or retired, forms of taxation) advantageously be used as instruments of monetary-credit policy? If so, can you suggest any means by which fiscal policy and credit policy could be more closely coordinated?

2. Analyze the general relationship between Government surpluses and deficits on the one hand and credit and monetary conditions on the other. Illustrate the analysis from the facts of American financial history, 1917 to date.

3. Can you suggest any criteria for determining the appropriate size of the deficit (or surplus)? Should it be related in some specific way to—

- (a) The amount of unemployment;
- (b) The level of output;
- (c) The volume of new investment;
- (d) An index of prices?

4. Is the size of the existing public debt an important factor in determining the desirable magnitude of a current surplus or deficit?

5. One of the major objections advanced against Federal deficits is the associated growth of the public debt. What are the specific objections to a growing public debt? Discuss the significance of the following points, which are commonly cited:

- (a) Refunding problem.
- (b) Tax burden to pay off principal.
- (c) Tax burden to pay interest.

- (d) The effect on private investment.
- (e) The effect on business conditions.
- (f) The effect on the distribution of wealth and income.
- (g) Preparedness for another war.

6. If it is desired to produce an increased deficit (or decreased surplus), what are the respective advantages of decreasing tax rates and increasing expenditures?

7. Assuming that a deficit in certain years is unavoidable or desirable, discuss the effects of different methods of financing the deficit. What differences are to be expected from financing all or part of a deficit by—

- (a) Issuance of long-term bonds;
- (b) Issuance of short-term debt;
- (c) Issuance of greenbacks; and
- (d) Creation of Reserve bank credit against non-interest-bearing United States bonds?

8. Do you consider variations in the size and location of the Treasury's cash balances as an instrument of monetary control? If so, how far is Treasury policy in this connection coordinated with Federal Reserve policy?

9. To what extent, if any, does the Treasury seek the support of the Federal Reserve System in its fiscal operations?

10. Do you consider that it is desirable as a general policy that the Government bond market be protected against sudden declines? If so, how, by whom and why?

11. Is it desirable that the activities of the Government lending agencies be coordinated more closely with monetary and credit policy? If so, how can this be achieved?

E. Monetary Policy and the Business Cycle.

1. What monetary policies have been followed, particularly during the post-war period, in dealing with depressions (a) in the United States, (b) in other countries?

2. What particular powers of the Reserve System have been relied upon in the past to bring about monetary expansion as a means of restoring employment?

3. What economic and monetary developments since 1930 have made these powers inadequate?

4. In the light of experience of the past 10 years, what can be said as to the influence of cheap money, (a) on stock market prices, (b) on commodity prices, (c) on the level of employment?

5. What have been the traditional checks to monetary expansion? What checks are now available?

6. Is it possible for a policy of monetary ease to be carried too far in a period of depression?

7. What facts would indicate that a policy of monetary ease had gone too far? Have there been indications that a policy of monetary ease was carried too far at any time within the last 20 years? Was this an important factor in bringing on the depression of 1929?

8. Would there ever be occasion when a policy of monetary ease should be limited, abandoned, or revised before the restoration of full employment, because of danger that the monetary expansion could not be controlled? Or for other reasons?

9. Is it possible to check monetary expansion without at the same time initiating a contraction of business activity? Is it possible to check price increases by monetary means in any particular field (for instance in the stock market) without initiating a general contraction of business activity?

10. What, in your judgment, were the causes of the marked increase in the ratio of the volume of time deposits to that of demand deposits which occurred during the twenties? Of the increase in the proportion of demand deposits during recent years? What changes, if any, in banking policy are rendered necessary by major shifts in the proportion of time and demand deposits?

11. Is there any good reason for requiring a different reserve ratio against demand and time deposits?

12. What are the causes of the relatively low rate of turn-over of bank deposits in recent years as compared with the period of the middle twenties?

13. In 1931 a committee of the Federal Reserve System recommended a plan under which the velocity of turn-over, as well as the volume of deposits, would be taken into consideration in computing reserve requirements. Please comment on the merits of this recommendation.

14. What determines the magnitude of excess reserves held by banks? Are there important variations as to excess reserves in different types of banks?

15. What is the cause of the great volume of excess reserves? Is it likely that the banking system will return to a position where excess reserves will not exist? If so, describe the process by which this will most likely come about.

16. Should the problem of excess reserves be dealt with now, or only after undesirable monetary expansion is under way? If no action to reduce reserves is now appropriate, should any legislative power necessary to control excess reserves be enacted now?

17. What are the merits and demerits of each of the following methods of dealing with excess reserves:

- (a) Raising reserve requirements;
- (b) Establishing different and high reserve requirements against additional deposits;
- (c) Relating deposit expansion to an increasing ratio of capital to deposits;
- (d) Supplement existing requirements with special requirements of reserve privilege bonds?
- (e) Sale of bonds by the Treasury or the Reserve System?
- (f) Other?

18. To what extent were the policies followed in the exercise of monetary powers by the Federal Reserve System and the Treasury's management of the inactive gold account in the spring of 1937, and the reversal of those policies in the autumn of 1937, responsible for the changes in business activity which followed them?

19. What factors have been mainly responsible for the low interest rates which have obtained in recent years? What is likely to be the course of interest rates in the near future?

20. What is the impact of low interest rates on the various economic groups?

21. What would be the effect of levying taxes on (a) bank deposits, (b) on currency holdings?

F. Currency.

1. What is the explanation for the increase in the volume of currency in circulation during the past 7 years?

2. What factors in general determine the total quantity of currency and coin in circulation? What is the effect upon the total volume of currency in circulation of: (a) Increase in the gold stock; (b) silver purchases and the issuance of silver certificates; (c) deficit financing?

3. Is the power to issue currency a source of profit to the Federal Reserve banks? Would the power to issue currency be a source of profit to commercial banks? Would the Government earn a profit if the Treasury had the sole right of issue?

4. What purposes do the requirements of specie "backing" or collateral for the various kinds of currency and deposits serve? What do the silver, gold, Federal Reserve assets, etc., as the case may be, have to do with the value of the currency? Could all the "backing" be dispensed with? What would be the advantages and disadvantages of doing so?

5. Should anything be done to reduce the diversity of currencies? What would be gained by doing so?

6. Proposals have been made to make United States Government bonds legal tender. What are the merits of this proposal?

7. What purpose is served by the redemption provisions of Federal Reserve notes? of silver certificates? Should the reserve for redemption of Federal Reserve notes now required to be maintained in the Treasury be continued?

8. The proposal has been made to meet part or all of the annual Treasury deficit by issuing new currency? What are the merits of such a proposal?

9. What is the relationship between the quantity of currency in circulation and the level of commodity prices?

(a) Can prices be controlled by changing the quantity of currency in circulation?

(b) Is the Government able to control the volume of currency in circulation? What measures can be used to achieve this control?

(c) Under what circumstances would it be desirable to control the volume of currency? Would it be desirable to change the volume of currency in circulation now?

10. Why should the gold-reserve requirements against the currency portion of the circulating medium be different from the gold-reserve requirements against the checking account portion of the circulating medium?

11. What effect would the issuance of one to two billion dollars a year of stamp money, as described by Irving Fisher, have on (a) our currency system; (b) commodity prices; (c) the national income?

G. The gold standard.

1. What were the essential features of the traditional gold standard? Specifically, what function did gold perform under this standard?

2. In what countries of the world does gold still perform its traditional functions? Why has it ceased to do so in others?

3. What function does gold perform in (a) foreign monetary systems; (b) international affairs?

4. Why have so many countries abandoned the gold standard? How widespread is the desire in each of the leading countries to return to the gold standard?

5. What are the probabilities of a general restoration of the gold standard?

6. What line of action on the part of the United States would facilitate such restoration—if deemed desirable?

7. Would measures tending to reduce the production of gold be appropriate? If so, what are the merits of the following:

(a) International agreement to reduce the price of gold;

(b) Unilateral reduction of the price by the United States;

(c) Agreement among gold-importing countries to restrict its importation?

8. Why has the United States been getting so much gold? In the current inflow of gold, what has been the importance of:

(a) The price of gold;

(b) Capital movements;

(c) The balance of trade; and

(d) Action of foreign governments?

9. With the continuation of our present gold policy, what will be the probable nature of gold movements (a) as long as the current war continues; (b) when the war ends?

10. Assuming that we continue to purchase gold at the present price, what factors will be likely to prevent the demonetization of gold by the rest of the world? What would be the influence on possible demonetization of a reduction of the price? Of an embargo on gold imports?

11. What is the legal status of gold held on earmark? What are the economic advantages of earmarking gold? Are there any disadvantages?

H. Gold and Domestic Monetary Policy.

1. What has been the traditional role of gold in determining our domestic monetary policy? What developments since 1930 have altered this role? Do the size of our gold reserve and/or the volume of gold inflows (or outflows) have any influence on the credit policy of the Reserve System? On the volume of excess reserves?

2. Do our present gold reserve and/or the prospective gold inflow interfere with making effective the credit policies now deemed appropriate? Are circumstances likely to arise in which gold would so interfere?

3. In particular, is there danger that our large gold holdings may interfere with a program of monetary control at some time when it is deemed necessary to check monetary expansion?

4. What effect would follow if restrictions on the convertibility of currency into gold coins or bullion at a fixed rate were removed? What amount of gold coins or bullion would the public be likely to absorb?

5. What would be the results of reintroducing gold certificates into circulation?

6. Specifically, would private holding of gold and/or gold certificates make monetary control more or less difficult?

7. Assuming that there is reason to expect the ultimate restoration and indefinite retention of gold in the world's monetary systems, which of the following methods of reducing the gold inflow into this country would be most appropriate? (In evaluating them, consideration should be given both to the immediate and to the long-run effects, on our international relations and trade, and on our domestic economy and price levels.)

(a) An embargo on gold imports; cessation of purchases by the United States.

(b) Reduction in the price the Treasury pays for gold.

(c) Buying only a certain amount of gold in the open market.

(d) Purchasing only gold that comes from certain countries.

(e) Requiring that foreign governments acquire a definite agreed portion of their dollar needs through liquidation of their holdings of American securities, rather than through gold shipments.

(f) Reduction of our tariff schedules. On what category of items and to what extent, if any?

(g) Extension of foreign loans. To whom and on what terms?

(h) Increasing the spread between the Treasury buying and selling prices for gold.

(i) Segregating monetary gold from nonmonetary gold, and acquiring only monetary gold.

(j) Exchange control.

(k) Resumption by international agreement of (a) convertibility; (b) use of specie reserve against notes and deposits.

I. Foreign Exchange.

1. What are the advantages and disadvantages of fixed versus fluctuating exchange rates with respect to:

(a) The volume of foreign trade;

(b) Exporters and importers;

(c) The "terms of trade";

(d) The tourist, shipping, and other service items in the balance of payments;

(e) Capital movements and foreign investment;

(f) The stability of domestic economic activity and domestic price levels;

(g) Speculation in foreign exchange;

(h) National control of monetary policy;

(i) International commercial relations?

2. What are the prerequisites of long-run stability of exchange rates? Are these likely to be fulfilled?

3. What are the monetary consequences of:

(a) Exchange control;

(b) Clearing, compensation, and payment agreements;

(c) Barter agreements;

(d) Multivalued currencies;

(e) Export subsidies?

4. In view of the extensive and increasing use by foreign powers of such devices as those listed in the preceding question, is there any advantage in our maintaining stability in terms of gold? Any disadvantage?

5. If fixed exchange rates are preferable, what lines of policy are open to us to achieve this objective? If flexible rates are preferable, should they be freely fluctuating, or flexible by international agreement?

6. Should we actively take steps to establish a dollar bloc? What role could the Inter-American Bank play in a dollar bloc?

7. What special measures should the administration take to promote the foreign exchange stability of Latin-American countries? Appraise each of the following as an aid in achieving such stability:

- (a) Widening the field for capital investments in Latin America;
- (b) Debt settlements;
- (c) Gold or currency loans;
- (d) Commercial policy;
- (e) Proposed Inter-American Bank?

8. What measures can we take, and should we prepare to take, to protect ourselves against the possibility of complete collapse of the currencies of any of the belligerent countries in Europe or Asia during or after the war?

9. Is there any danger of an era of intensified competitive currency depreciation at the end of the war? If so, what should be done about it?

10. When is a country justified in adopting and maintaining exchange controls? Is the abolition of exchange restrictions the sine qua non of a higher level of world trade? Is it expected that most countries will abandon exchange restrictions after the war?

11. What consideration should be given to the possibility of gold loans for the stabilization of world currencies when the war is over?

12. What is meant by equilibrium in discussions of exchange rates? Is it possible to tell when a currency is too high or too low with relation to other currencies, or when a country is indulging in competitive currency depreciation? Can overvaluation or undervaluation of a currency be measured, and if so, how?

13. What are the consequences of overvaluation or undervaluation of a currency upon:

- (a) Our export trade;
- (b) Competition from imports;
- (c) General level of prices;
- (d) Agricultural prices;
- (e) Employment in the United States;
- (f) World distribution of gold;
- (g) Monetary stability;
- (h) Restrictions on international trade?

14. Has the dollar been too high or too low in terms of the leading currencies in the last 6 years? Is it too high or too low now?

15. What are the best methods for correcting overvaluation or undervaluation?

16. Under what conditions should the dollar be permitted to appreciate or depreciate?

17. Should the present powers of our stabilization fund with relation to foreign exchange be retained, modified, or abolished?

J. International Capital Movements.

1. How large are the holdings of foreign governments or central banks of: (a) Dollar balances—both time and demand; (b) United States Government obligations? Is there any significant difference between these holdings and the holdings of foreign individuals and private banks?

2. Why has capital come to this country in such large amounts since 1935? To what extent has each of the following factors been significant in the flow of capital to the United States?

- (a) Safety.
- (b) Higher interest rates.
- (c) Prospective speculative exchange gains.
- (d) Prospective capital gains on securities.
- (e) Evasion of taxation in home countries.
- (f) Increase in the price of gold from \$20.67 to \$35 an ounce.
- (g) Better investment opportunities.

3. Is it expected that the inflow of capital will be maintained with the continuation of the war? Will foreigners continue to purchase our securities and accumulate dollar deposits? How much capital has come to this country since the outbreak of war, and how much is expected in 1940?

4. What is the effect of capital inflows on (a) Bank reserves; (b) interest rates; (c) exchange rates; (d) gold flows; (e) amount of capital investment in the United States; (f) our security markets; (g) tax revenues; (h) foreign capital markets; (i) fluctuations in business activity; (j) national income?

5. Under what conditions is it desirable to prevent or discourage further inflows of foreign capital? Under what conditions would it be desirable to control the outflow of capital already here?

6. Will free international movements of capital contribute to or detract from the stability of foreign exchanges and the prospects of world economic recovery?

II. SUPERVISION OF BANKS

A. General.

1. What characteristics of the banking business justify or explain the relatively greater amount of public supervision which is given to it than to most other businesses?

2. What are the objectives of bank supervision? Do they include any or all of the following:

- (a) Promotion of business stability, through easing or tightening credit conditions as needed;
- (b) Maintenance of competition between banks;
- (c) Protection of banks against competition;
- (d) Prevention of usurious or oppressive tactics toward borrowers;
- (e) Keeping local money at home;
- (f) Making funds more readily available for particular groups (e. g. agriculture, small business) or less available for other groups (e. g. stock-market operations); and
- (g) Facilitating the Government's fiscal operations?

3. Is any change of law with regard to objectives of supervision desirable?

4. What effect does bank supervision have upon:

(a) The quantity and quality of the debt owed to commercial banks;

(b) The total volume of debt in the country?

5. How does bank supervision affect the outstanding volume of bank credit? In what way does supervision influence the expansion or contraction of credit during the different phases of the business cycle? If supervisory policy were to be so directed as to contribute to the protection of the economy from the effects of undue expansion or contraction of credit, how could this best be done? Would appropriate policy require a revision of supervisory standards during the course of the cycle, or can standards be devised which will give the desired results at every stage in the cycle?

6. Do Federal Reserve standards of supervisory responsibility differ in any respect as between large and small banks? Give details.

7. Does the Federal Reserve System, through its supervisory activities, make any attempt to restrict speculative trading in securities on the part of banks? If so, why? Is any revision of law in this connection desirable?

8. Explain in detail the allocation of functions in bank supervision and examination among the Board of Governors of the Federal Reserve System, the respective Federal Reserve banks, and their examiners. How is uniformity of practice achieved?

9. Does the Board of Governors have control over the method and content of Reserve bank examination of State member banks? Is any change of law in this respect desirable?

10. Is there any evidence that bank examiners (under any supervisory agency) have at any time since 1933 exercised a retarding influence upon the development of recovery in this country?

11. Why does the Federal Reserve System examine state member banks, thus duplicating the examinations of the States?

12. What is the purpose and character of the review of national bank examination reports made by the Federal Reserve System? Does it involve an avoidable duplication of activities?

B. Bank Failures.

1. Do you think that the bank-failure experience of the period 1921-33 was in any substantial measure due to inadequate principles or practices of bank supervision? If not, to what do you ascribe that unfavorable experience? If not, do you know any means whereby such unfavorable experience can be avoided in the future? If so, have the principles and practices been altered in a proper manner? Do you have any suggestions as to needed changes of law which will permit more adequate supervision?

2. What alteration of public policy at any time in the past could have substantially mitigated the bank-failure problem during the 14-year period 1921-33?

3. What, if any, change of public policy renders impossible a catastrophic bank-failure experience in the future?

4. What policies should a commercial bank be required to follow in order to be able to meet abnormal demands for cash? Does the Federal Reserve System in any way control the practice of the banks in this respect?

5. If the Federal Deposit Insurance Corporation insured all the liabilities of the insured banks, would the Federal Reserve banks be more willing to make cash available to banks in case of need than they are at present? If so, would bank failures be rendered less likely?

C. Asset Quality and Type.

1. What principles guide Federal Reserve policy with respect to the types and quality of bank assets? Which of these principles are now embodied in law? Should any of the principles now in law be revised; and should any additional principles be enacted into law?

2. Does the influence of bank examiners keep many banks from making loans or investments they would otherwise be willing to make? If so, what kinds of loans and investments?

3. What is the justification for the requirement that all securities purchased by bank members of the Federal Reserve System must be marketable? Would you favor any modification of the law in this respect?

4. Would you favor altering the law to permit national banks to invest in high-grade preferred stock? Why, or why not?

5. What use is made of the securities ratings of the recognized rating agencies in your examination and supervision of banks?

6. If so, by what means do you ascertain that the ratings are made in a manner appropriate to the use to which you put them?

7. Do many State member banks hold securities which they have bought in violation of section 5136 of the United States Revised Statutes? What steps does the System take in such cases?

8. What steps does the System take with respect to securities held by banks which were eligible for investment when purchased, but which subsequently become ineligible?

9. Which, if any, of the following do you consider as inappropriate assets for purchase either by banks having demand deposits in substantial volume, or by banks having chiefly time and savings deposits:

(a) Real estate mortgages:

(1) Farm.

(2) Urban, uninsured.

(3) Urban, insured by Federal Housing Administration.

(4) Limited to 3 or 5 years' duration.

(b) Loans for working capital purposes:

(1) Repayable over a period of 5 years; 10 years.

(2) Nominally repayable within 90 days, but actually repayable only by liquidating the business.

(c) Stock market call loans.

(d) Railroad and industrial bonds of corporations with good credit standing.

(e) Bonds issued by local industries of good credit standing, but having only restricted market.

(f) Finance company paper secured by installment notes.

(g) Acceptances issued by high-grade institutions covering goods in storage.

(h) Notes collateralized by warehouse receipts for commodities:

(1) Hedged.

(2) Unhedged.

10. If any of the items listed in the preceding question are deemed acceptable for a restricted proportion of a bank's assets, indicate the criteria of a proper proportion.

11. Should banks be permitted to operate personal loan departments making small loans on a high-interest basis (for instance, 4 to 6 percent deducted in advance, on a monthly installment loan spread over 1 year)?

12. What are the causes of the decline of the importance of the commercial paper market over the last 20 years? Would this market be likely to revive if member banks were under considerably greater pressure to rediscount than they are at present?

13. Do you consider it desirable that banks (a) buy installment paper direct from commercial concerns selling goods on the installment plan; (b) extend credit to such firms on the collateral of installment paper; (c) lend to finance companies on the collateral of installment paper; (d) make installment loans direct to private consumers to enable them to buy for cash goods which are customarily sold on the installment plan?

14. Do you consider the expansion of installment selling which has taken place during the last 20 years to have been an important factor determining fluctuations in the level of employment and business activity? If so, in what way?

15. What do you estimate to be the total amount of securities now outstanding which are eligible for investment by member banks under regulations issued pursuant to United States Revised Statutes, section 5136? What proportion of the total do you estimate to be held by commercial banks?

16. In determining upon supervisory standards with respect to bank asset quality, how are the needs for bank safety and the credit needs of business weighted or reconciled? What consideration is given to the undesirability of placing obstructions in the way of the investment process?

17. What is the nature of each of the four classes in which loans are placed by examiners? What is the purpose of the classification? Do you require or influence State member banks to collect class II loans?

D. Valuation of Assets.

1. What principles should guide public policy with respect to the valuation of bank assets? Which of these principles could and should be enacted into law?

2. What new principles were established by the agreement between Federal supervisory agencies of June 1938 (published in Federal Reserve bulletin, July 1938)? What have been the results?

3. In a discussion of the revision of bank examination procedure and of investment securities regulation which was agreed upon in June 1938, appearing in the Federal Reserve bulletin (July 1938, pp. 563-564), the following comments were made:

Under the new designations, the principle is clearly recognized that in making loans, whether for working capital or fixed capital purposes, the banks should be encouraged to place the emphasis upon intrinsic value rather than upon liquidity or quick maturity.

Similarly, the revised examination procedure recognizes the principle that bank investments should be considered in the light of inherent soundness rather than on a basis of day-to-day market fluctuations.

In the light of experience since that time has the revised procedure been effective in accomplishing the purposes indicated in this quotation? To what extent does examination and valuation procedure differ from that which was prevalent before June 1938? Has the change been beneficial and if so in what way?

4. If the capital and required surplus of a bank are unimpaired when its assets are valued in accordance with the agreement of June 1938, but are impaired when its securities are valued at current market price, is the payment of dividends illegal, unsafe, or unsound?

5. What benefit or harm follows from requiring publication of bank balance sheets? Would you favor any change in the current law on this subject? Does any harm follow from requiring banks to make public the amount of their borrowings?

6. Should banks be required to adjust their books to examiners' valuation of their assets? If not, what control should be exercised over the valuation of bank assets? If supervisors do not control the valuation of assets set up on the books of the banks, is it desirable that publication of bank statements be required? Is any revision or clarification of law in this respect needed?

E. Capital.

1. What capital standards other than those specified by law does the Federal Reserve System require or urge banks to meet? Are present minimum capital requirements adequate?

2. Should there be minimum capital ratio requirements? If so, what bases and ratios would be appropriate? Outline the procedure for putting your suggestion into effect.

3. Give your reaction to a proposal that supervisory authorities be given power to require the retention of earnings by banks which are found to have an inadequate amount of capital.

4. Does the taxation of banks in accordance with the provisions of section 5219 of the United States Revised Statutes keep down the volume of bank capital? Do you favor any change in this section of law?

5. Would retirement of all the stock of member banks now held by the Reconstruction Finance Corporation be desirable? Please indicate reasons for your answer.

F. Procedures and Sanctions.

1. Are the principles, procedures, and practices which you require banks to follow available to banks in the form of published rules and regulations, or are they made known to banks on a case by case basis? Which of the two methods do you consider the more satisfactory? Which would banks prefer?

2. List the sanctions which the Federal Reserve System may invoke in order to secure compliance with its supervisory requirements. Indicate by what specific or general legislative grant such sanctions are exercised. Have these sanctions been found effective? Indicate any additions to or changes in sanctions which you consider desirable.

3. What right of appeal do member banks have from the supervisory requirements of the Federal Reserve System?

4. Analyze in full the power of, and principles followed in, the expulsion of a bank from the Federal Reserve System.

G. Admission to Membership.

1. Discuss the relative merits of granting charters to all banks which meet minimum specific requirements fixed by law and agree to operate in accordance with the laws and regulations applicable to banks, as compared with the present system of case-by-case decisions.

2. What standards guide you in determining whether each of the following characteristics of a bank is such as to permit a bank to be admitted to membership in the Federal Reserve System: (a) the financial history and condition of the bank, (b) the adequacy of its capital structure, (c) its future-earnings prospects, (d) the general character of its management, (e) the convenience and needs of the community to be served by the bank? How do you determine whether the standards enumerated in answer to this question are met by an applicant bank?

3. In general, do you consider that the merger of two banks which could not legally have interlocking directorates is in accord with public policy?

4. What standards should govern the approval of establishment of new branches by a commercial bank?

5. Are there too many banks or banking offices in the United States? To what extent are there communities not adequately supplied with banking facilities? What method do you suggest for determining the proper number of banking offices in a given area?

H. Relations Among Supervisory Agencies.

1. Should the bank supervisory and bank examining functions of the Federal Government be concentrated in the hands of a single agency and a single integrated examining force?

2. Should all Federal bank supervisory law be unified and codified and made to apply uniformly to all insured banks, or to all banks holding demand deposits? Please submit a tentative uniform bank-supervision code which you think should be applied to all insured banks or all banks holding demand deposits and which you think would give the best possible supervision.

I. Bank Earnings.

1. Are the earnings and profits of commercial banks of particular public interest? If so, in what respects? If so, evaluate those aspects of law and supervision which pertain thereto, indicating any desirable alteration of law and regulations. Are earnings of commercial banks sufficient from the standpoint of the public interest?

2. Should earnings statements submitted to the supervisory authority be required to be published?

3. How do you determine what maximum interest rate to permit to be paid on time and savings deposits?

4. Do you think your power to control interest paid on time deposits should be a permanent or a temporary power? What is the justification for this particular kind of price-fixing? Do you think you should also have power to control interest rates charged by banks?

5. Does the question of bank service charges need legislation or Government regulation? Is it in the public interest to promote or discourage competition among banks in such charges?

6. Does the limitation of interest on time and savings deposits have any effect on the total volume of such deposits? Do you visualize any possible developments which would render inadvisable a contin-

uation of the present prohibition of payment of interest on demand deposits and limitation of interest on time deposits? What in your opinion are the chief justifications for these regulations?

III. ORGANIZATION OF THE BANKING SYSTEM

A. National Charters.

1. Is it desirable to maintain the present dual (National and State) system of chartering commercial banks and/or of bank supervision?

2. Are you inhibited from effectively supervising member banks by the possibility that they may withdraw from the System? How many cases are known in which a bank has withdrawn from the System because of the relatively lax supervision anticipated under State law?

3. What advantages or disadvantages would follow from requiring all banks holding demand deposits, or all insured banks, to operate under national charters and Federal supervision? Under State charters and State supervision?

B. Membership in the Federal Reserve System.

1. Do you think any substantial economic disadvantages have resulted (a) from the fact that a considerable number of banks have not had full access to Federal Reserve credit facilities over the past 25 years; (b) from the fact that a considerable number of banks have not been in the par collection system over the past 25 years; (c) from the fact that a considerable number of banks have not been subject to the Federal Reserve requirements for reserve against deposits?

2. Should all insured banks, or all banks which hold demand deposits, be required to be members of the Federal Reserve System under present requirements for membership? Under some other requirements for membership? If the latter, what alterations in requirements do you suggest?

3. Is it better from the general monetary and economic standpoint for banks with \$15,000 capital to operate outside the Federal Reserve System than to have such banks in the System?

C. Deposit Insurance.

1. Should Federal deposit insurance be retained permanently in substantially its present form, retained in a specified revised form, abandoned if certain specified conditions appear, or abandoned at once?

2. Is it desirable that insurance coverage be extended to deposits up to \$10,000, \$25,000, \$100,000, to all deposits, to all liabilities?

3. Do you favor requiring all banks which hold demand deposits to be insured?

4. Is the present assessment on insured banks adequate to build up reserves to cover future losses? If the present assessment is inadequate, is it desirable to increase it?

5. Should the Government meet deposit insurance losses if the reserves and current assessments prove inadequate?

6. Please state your reaction and the reasons therefor to the contention that the existence of Federal deposit insurance tends to cause bad banking.

7. Is there danger that bank supervision in the hands of the F. D. I. C. will be so stringent, because designed to reduce to the

minimum the losses of that corporation, that the restrictions on bank credit extension will unduly hamper business enterprise?

D. Bank Organization and Structure.

1. Indicate in detail what, if any, changes you think should be made in existing laws which affect the banking structure of the country; that is, branch banking, unit banking, group and chain banking, bank competition, concentration of banking power.

2. Give in detail your appraisal of the following: (1) Nation-wide branch banking, (2) Federal Reserve district-wide branch banking, (3) "trade area" branch banking, (4) prohibiting further extension of branch banking, (5) breaking up existing branch banking, (6) prohibiting further extension of group and chain banking, (7) breaking up existing groups and chains, (8) prohibition of the concentration of more than a given percentage of the bank deposits and offices of a given area under common control.

IV. DIRECT LOANS TO INDUSTRY

1. What is the outstanding volume of direct loans to industry under section 13 (b) of the Federal Reserve Act as amended?

2. To what extent do you consider it desirable that Reserve banks make loans under section 13 (b) which would not be considered desirable loans for member banks?

3. Is there any significant difference between the loans made by Reserve banks under section 13 (b) and those made by the Reconstruction Finance Corporation under section 5 (d) of the Reconstruction Finance Corporation Act? Is there any advantage in having two agencies offer a service as nearly alike as these? If not, which is the more appropriate agency?

4. Does your experience with industrial loans under section 13 (b) indicate that there is need for a continued or a greatly expanded service, whether in the Federal Reserve banks or elsewhere, in the making of direct loans to industry? Are there ways in which the present service could be made more useful by appropriate legislation?

5. Does your experience with applications for industrial loans indicate that bank-examiner criticism prevents banks from making loans that would be desirable bank investments? If so, what types of loans are most affected?

6. Do you consider that the provision for Reconstruction Finance Corporation loans to closed banks has served any useful purpose from the standpoint of the monetary system of the country? Should such loans be continued?

V. AGRICULTURE

1. What special consideration needs to be given to agriculture in the formulation of a national monetary policy? Is there any conflict in this respect between the agricultural and other interests of the country?

2. What has been the influence of Reserve credit policy on the level and variations of agricultural prices since 1914, as distinct from its influence on prices in general?

3. To what extent have bank failures since 1920 been due to the adverse conditions of the agricultural community?

4. Have many agricultural communities been left with inadequate banking facilities in consequence of the large number of bank failures?
5. Have banks been inclined to pursue a more cautious policy of extending credit to the agricultural community in consequence of the bank failures through 1933? If so, has this been an important factor in the agricultural depression?
6. Do the Reserve eligibility regulations tend to restrict the credit facilities open to the agricultural community? If so, are changes of law or regulation appropriate?
7. To what extent does the present practice of keeping country bank balances with city bank correspondents increase the cost of borrowing in rural areas?
8. To what extent has the relative increase of bank investments and loans on securities made it more difficult for the agricultural community to obtain bank credit?

VI. MISCELLANEOUS

1. Even if no changes are to be made in the content of the Federal banking law, should that law be rewritten and codified with a view to clarity and unambiguity? If so, indicate at what points the present law is most in need of clarification, and submit a rough outline of such codification.
2. Do you have any suggestion for changes in the holding company and affiliate provisions of law?
3. Should officers or directors removed under section 30 of the Banking Act of 1933 be prohibited from ever again engaging in the operation of insured banks?
4. Should there be provided some effective remedy against unsound control when exercised by stockholders rather than by officers and directors?
5. What benefit or harm arose from divorcing banks from securities companies and prohibiting banks from doing a securities business?
6. In a report submitted to the Senate Select Committee to Investigate the Executive Agencies of the Government (75th Cong., 1st sess., S. Rept. 1275, 1937, at pp. 198-203, 213-223), certain recommendations were made affecting the Federal Reserve System. Comment on the advisability of carrying out such of these recommendations as are still applicable.
7. What is the present role of inter-bank deposits? What advantages and disadvantages would follow from the prevention of all inter-bank deposits other than those with Reserve banks?

4. FEDERAL RESERVE BANKS

I. ORGANIZATION OF THE FEDERAL RESERVE SYSTEM

1. What is the distribution of the functions between the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Reserve banks, and the Open-Market Committee? In what matters and to what extent does the Board of Governors determine the policy to be followed by Federal Reserve banks?

2. What has been the function of the open-market committee? Is there any good reason why final responsibility for open-market policy and for rediscount rates should rest in different hands?

3. As a practical matter, what is the relative influence of the Board of Governors, the Federal Reserve Bank of New York, the other Reserve banks, and the open-market committee, in determining the policy of the Federal Reserve System with respect to the following matters:

- (a) Rediscount rates;
- (b) Open-market operations;
- (c) Reserve requirements;
- (d) Standards for extension of Federal Reserve credit; and
- (e) Bank examinations?

4. What function does the Federal Advisory Council perform?

5. Is it desirable to change the composition of the boards of directors of the Federal Reserve banks to give wider representation to the general public?

6. Would it be desirable to transfer the ownership of the Federal Reserve banks to the United States Government? Would this transfer result in any benefit to the Government in financing its bonds and other evidence of debt?

7. Should any change be made in the disposition of Federal Reserve bank earnings? In the rate of dividends on Reserve bank stock?

8. Do the provisions of the Federal Reserve Act concerning taxes on any deficiency of the reserve of Federal Reserve banks serve any useful purpose?

9. Would the Reserve System be improved, if a single Reserve bank with necessary branches were substituted for the present 12 banks?

10. In a report submitted to the Senate Select Committee to Investigate the Executive Agencies of the Government (75th Cong. 1st sess., S. Rept. 1275, at pp. 198-203, 213-223) certain recommendations were made affecting the Federal Reserve System. Comment on the advisability of carrying out such of these recommendations as are still applicable.

II. MONETARY POWERS AND POLICIES

1. What is the present significance, from the standpoint of credit control, (a) of the regulations governing the eligibility for rediscount, (b) of rediscount rates? Does it appear likely that the significance of these regulations will increase materially in the near future?

2. Is it desirable to increase the significance of eligibility regulations and rediscount rates? If so, would it be practicable to do so by selling bonds from the Reserve banks' portfolios in the hope that banks would thereby be put under pressure to rediscount?

3. What is the volume of eligible paper held by member banks of the Federal Reserve System? Does it appear likely that the amount of such paper would increase if eligibility became more important?

4. What is the nature of the tradition with reference to (a) inter-bank borrowing? (b) rediscounting at a Federal Reserve bank? Do the Reserve banks or their examiners encourage this tradition?

5. Should Reserve System authority over reserve requirements be extended? Within what limits?

6. What were the principal original purposes in establishing the Federal Reserve System? How far have these purposes been achieved?

7. Have the objectives been modified in the last 20 years? Have these modifications been embodied in legislation, or are they part of an oral tradition? Is the public aware of these objectives, so that it can predict the action of the system under given conditions?

8. What criteria have been and are employed by the Board of Governors of the Federal Reserve System, and by the Federal Reserve banks, in determining how far each of the following powers should be employed either in checking expansion or in promoting expansion: (a) market operations, (b) the rediscount rate, (c) reserve requirements of member banks?

9. To what extent, if any, are open-market operations influenced by the need of the Federal Reserve banks to earn profits to pay operating expenses and dividends on stock? By fiscal operations of the Treasury? To support the bond market?

10. Is this an appropriate time to formulate permanent rules of monetary policy? Should such rules be embodied in legislative enactment? If not, should the Board of Governors adopt such rules and specify them in a public pronouncement? Are the present general objectives adequate?

11. What are the present criteria of monetary policy? For legislative enactment or Board pronouncement, what are the merits of the following criteria, singly or in some combination? (Specify the combination.)

(a) Stability of prices:

- (1) Index of general wholesale prices.
- (2) Cost of living index.
- (3) Nonfarm commodity prices.
- (4) Any specially devised composite price index.

(b) A stable relationship between price indexes of various significant groups of commodities.

(c) A price level declining in accordance with increased efficiency of production.

(d) A slowly rising price level.

(e) Amount of unemployment.

(f) An index of production.

(g) An index of national money-income.

(h) Stability of foreign exchange rates.

(i) Reserve position of Reserve banks.

(j) Stable quantity of money or a secular increase in the quantity of money (including or excluding rate of turn-over of money).

(k) Stable relationship among the various categories of income groups.

(l) Prices of Government bonds.

(m) Interest rates.

12. Specify the lines of action that would be appropriate on the adoption of any of the above criteria.

13. In what sense, if any, is it true that stock-market loans can absorb the lending capacity of banks? Can a reduction of such loans (otherwise than through an inflow of funds from abroad) make funds more readily available for financing industry, commerce, and agriculture?

14. Apart from considerations involved in the preceding question, is it desirable to restrict the volume of activity or control the level of prices at the stock exchange? If so, by what kinds of criteria is the need for action best judged?

15. Is it desirable that the lending activities of the Government agencies be coordinated more closely with monetary and credit policy? If so, how can this be achieved?

16. What, in your judgment, were the causes of the marked increase in the ratio of the volume of time deposits to that of demand deposits which occurred during the twenties? Of the increase in the proportion of demand deposits during recent years? What changes, if any, in banking policy are rendered necessary by major shifts in the proportion of time and demand deposits?

17. Is there any good reason for requiring a different reserve ratio against demand and time deposits?

18. What are the causes of the relatively low rate of turn-over of bank deposits in recent years as compared with the period of the middle twenties?

19. In 1931 a committee of the Federal Reserve System recommended a plan under which the velocity of turn-over, as well as the volume of deposits, would be taken into consideration in computing reserve requirements. Please comment on the merits of this recommendation.

20. What determines the magnitude of excess reserves held by banks? Are there important variations as to excess reserves in different types of banks?

21. What is the cause of the great volume of excess reserves? Is it likely that the banking system will return to a position where excess reserves will not exist? If so, describe the process by which this will most likely come about.

22. Should the problem of excess reserves be dealt with now, or only after undesirable monetary expansion is under way? If no action to reduce reserves is now appropriate, should any legislative power necessary to control excess reserves be enacted now?

23. What are the merits and demerits of each of the following methods of dealing with excess reserves:

(a) Raising reserve requirements;

(b) Establishing different and high reserve requirements against additional deposits;

- (c) Relating deposit increases to an increasing ratio of capital to deposits;
- (d) Supplementing existing requirements with special requirements of reserve privilege bonds?
- (e) Sale of bonds by the Treasury or the Reserve System?
- (f) Other?

24. What factors have been mainly responsible for the low interest rates which have obtained in recent years? What is likely to be the course of interest rates in the near future? Is there any considerable chance of a serious decline in bond prices and necessity for banks to sell bonds with resulting enormous losses to the banks and bank failures? Explain.

25. What would be the effect of levying taxes on (a) bank deposits, (b) on currency holdings?

26. Can and should credit control include control over the uses to which bank credit is put, rather than merely control of the volume of outstanding credit?

III. GOLD AND FOREIGN EXCHANGE

A. The Gold Standard.

1. What were the essential features of the traditional gold standard? Specifically, what function did gold perform under this standard?

2. In what countries of the world does gold still perform its traditional functions? Why has it ceased to do so in others?

3. What function does gold perform in (a) foreign monetary systems; (b) international affairs?

4. Why have so many countries abandoned the gold standard? How widespread is the desire in each of the leading countries to return to the gold standard?

5. What are the probabilities of a general restoration of the gold standard?

6. What line of action on the part of the United States would facilitate such restoration—if deemed desirable?

7. Would measures tending to reduce the production of gold be appropriate? If so, what are the merits of the following:

- (a) International agreement to reduce the price of gold;
- (b) Unilateral reduction of the price by the United States;
- (c) Agreement among gold-importing countries to restrict its importation?

8. Why has the United States been getting so much gold? In the current inflow of gold, what has been the importance of:

- (a) The price of gold;
- (b) Capital movements;
- (c) The balance of trade; and
- (d) Action of foreign governments?

9. With the continuation of our present gold policy, what will be the probable nature of gold movements (a) as long as the current war continues; (b) when the war ends?

10. Assuming that we continue to purchase gold at the present price, what factors will be likely to prevent the demonetization of gold by the rest of the world? What would be the influence on possible

demonetization of a reduction of the price? Of an embargo on gold imports?

11. What is the legal status of gold held on earmark? What are the economic advantages of earmarking gold? Are there any disadvantages?

B. Gold and Domestic Monetary Policy.

1. What has been the traditional role of gold in determining our domestic monetary policy? What developments since 1930 have altered this role? Do the size of our gold reserves and/or the volume of gold inflows (or outflows) have any influence on the credit policy of the Reserve System? On the volume of excess reserves?

2. Do our present gold reserves and/or the prospective gold inflow interfere with making effective the credit policies now deemed appropriate? Are circumstances likely to arise in which gold would so interfere?

3. In particular, is there danger that our large gold holdings may interfere with a program of monetary control at some time when it is deemed necessary to check monetary expansion:

4. What effect would follow if restrictions on the convertibility of currency into gold coins or bullion at a fixed rate were removed? What amount of gold coins or bullion would the public be likely to absorb?

5. What would be the results of reintroducing gold certificates into circulation?

6. Specifically, would private holding of gold and/or gold certificates make monetary control more or less difficult?

7. Assuming that there is reason to expect the ultimate restoration and indefinite retention of gold in the world's monetary systems, which of the following methods of reducing the gold inflow into this country would be most appropriate? (In evaluating them, consideration should be given both to the immediate and to the long-run effects, on our international relations and trade, and on our domestic economy and price levels.

(a) An embargo on gold imports; cessation of purchases by the United States.

(b) Reduction in the price the Treasury pays for gold.

(c) Buying only a certain amount of gold in the open market.

(d) Purchasing only gold that comes from certain countries.

(e) Requiring that foreign governments acquire a definite agreed portion of their dollar needs through liquidation of their holdings of American securities, rather than through gold shipments.

(f) Reduction of our tariff schedules. On what category of items and to what extent, if any?

(g) Extension of foreign loans. To whom and on what terms?

(h) Increasing the spread between the Treasury buying and selling prices for gold.

(i) Segregating monetary gold from nonmonetary gold, and acquiring only monetary gold.

(j) Exchange control.

(k) Resumption by international agreement of (a) convertibility; (b) use of specie reserve against notes and deposits.

C. Foreign exchange.

1. What are the advantages and disadvantages of fixed versus fluctuating exchange rates with respect to:

- (a) The volume of foreign trade;
- (b) Exporters and importers;
- (c) The "terms of trade";
- (d) The tourist, shipping, and other service items in the balance of payments;
- (e) Capital movements and foreign investment;
- (f) The stability of domestic economic activity and domestic price levels;
- (g) Speculation in foreign exchange;
- (h) National control of monetary policy;
- (i) International commercial relations?

2. What are the prerequisites of long-run stability of exchange rates? Are these likely to be fulfilled?

3. What are the monetary consequences of:

- (a) Exchange control;
- (b) Clearing, compensation, and payment agreements;
- (c) Barter agreements;
- (d) Multivalued currencies;
- (e) Export subsidies?

4. In view of the extensive and increasing use by foreign powers of such devices as those listed in the preceding question, is there any advantage in our maintaining stability in terms of gold? Any disadvantage?

5. If fixed exchange rates are preferable, what lines of policy are open to us to achieve this objective? If flexible rates are preferable, should they be freely fluctuating, or flexible by international agreement?

6. Should we actively take steps to establish a dollar bloc? What role could the Inter-American Bank play in a dollar bloc?

7. What special measures should the administration take to promote the foreign exchange stability of Latin-American countries? Appraise each of the following as an aid in achieving such stability:

- (a) Widening the field for capital investments in Latin America;
- (b) Debt settlements;
- (c) Gold or currency loans;
- (d) Commercial policy;
- (e) Proposed Inter-American Bank.

8. What measures can we take, and should we prepare to take, to protect ourselves against the possibility of complete collapse of the currencies of any of the belligerent countries in Europe or Asia during or after the war?

9. Is there any danger of an era of intensified competitive currency depreciation at the end of the war? If so, what should be done about it?

10. When is a country justified in adopting and maintaining exchange controls? Is the abolition of exchange restrictions the sine qua non of a higher level of world trade? Is it expected that most countries will abandon exchange restrictions after the war?

11. What consideration should be given to the possibility of gold loans for the stabilization of world currencies when the war is over?

12. What is meant by equilibrium in discussions of exchange rates? Is it possible to tell when a currency is too high or too low with relation to other currencies, or when a country is indulging in competitive currency depreciation? Can overvaluation or undervaluation of a currency be measured, and if so, how?

13. What are the consequences of overvaluation or undervaluation of a currency upon:

- (a) Our export trade;
- (b) Competition from imports;
- (c) General level of prices;
- (d) Agricultural prices;
- (e) Employment in the United States;
- (f) World distribution of gold;
- (g) Monetary stability;
- (h) Restrictions on international trade?

14. Has the dollar been too high or too low in terms of the leading currencies in the last 6 years? Is it too high or too low now?

15. What are the best methods for correcting overvaluation or undervaluation?

16. Under what conditions should the dollar be permitted to appreciate or depreciate?

17. Should the present powers of our stabilization fund with relation to foreign exchanges be retained, modified, or abolished?

D. International Capital Movements.

1. How large are the holdings of foreign governments or central banks of: (a) Dollar balances—both time and demand; (b) United States Government obligations? Is there any significant difference between these holdings and the holdings of foreign individuals and private banks?

2. Why has capital come to this country in such large amounts since 1935? To what extent has each of the following factors been significant in the flow of capital to the United States?

- (a) Safety.
- (b) Higher interest rates.
- (c) Prospective speculative exchange gains.
- (d) Prospective capital gains on securities.
- (e) Evasion of taxation in home countries.
- (f) Increase in the price of gold from \$20.67 to \$35 an ounce.
- (g) Better investment opportunities.

3. Is it expected that the inflow of capital will be maintained with the continuation of the war? Will foreigners continue to purchase our securities and accumulate dollar deposits? How much capital has come to this country since the outbreak of war, and how much is expected in 1940?

4. What is the effect of capital inflows on (a) bank reserves; (b) interest rates; (c) exchange rates; (d) gold flows; (e) amount of capital investment in the United States; (f) our security markets; (g) tax revenues; (h) foreign capital markets; (i) fluctuations in business activity; (j) national income?

5. Under what conditions is it desirable to prevent or discourage further inflows of foreign capital? Under what conditions would it be desirable to control the outflow of capital already here?

6. Will free international movements of capital contribute to or detract from the stability of foreign exchanges and the prospects of world economic recovery?

IV. SUPERVISION

A. General.

1. What characteristics of the banking business justify or explain the relatively greater amount of public supervision which is given to it than to most other businesses?

2. What are the objectives of bank supervision? Do they include any or all of the following:

(a) Promotion of business stability, through easing or tightening credit conditions as needed;

(b) Maintenance of competition between banks;

(c) Protection of banks against competition;

(d) Prevention of usurious or oppressive tactics toward borrowers;

(e) Keeping local money at home;

(f) Making funds more readily available for particular groups (e. g., agriculture, small business) or less available for other groups (e. g., stock-market operation);

(g) Supporting the Government's fiscal program;

(h) Any other objectives?

3. Is any change of law with regard to objectives of supervision desirable?

4. What effect, in your judgment, does bank supervision have upon—

(a) The quantity and quality of the debt owed to commercial banks;

(b) The total volume of debt in the country?

5. How does bank supervision affect the outstanding volume of bank credit? In what way does supervision influence the expansion or contraction of credit during the different phases of the business cycle? If supervisory policy were to be so directed as to contribute to the protection of the economy from the effects of undue expansion or contraction of credit, how could this best be done? Would appropriate policy require a revision of supervisory standards during the course of the cycle, or can standards be devised which will give the desired results at every stage in the cycle?

6. Describe the work of a bank examiner. Does he simply engage in fact finding, or does he also engage in corrective or advisory activities?

7. Does the Federal Reserve System, through its supervisory activities, make any attempt to restrict speculative trading in securities on the part of banks? If so, why? Is any revision of law in this connection desirable?

8. Explain in detail the allocation of functions in bank supervision and examination among the Board of Governors of the Federal Reserve System, the respective Federal Reserve banks, and their examiners. How is uniformity of practice achieved?

9. Is there any evidence that bank examiners (under any supervisory agency) have at any time since 1933 exercised a retarding influence upon the development of recovery in this country?

10. Is it necessary for the Federal Reserve System to examine State member banks, thus duplicating the examinations of the States?

11. Do you think that the bank-failure experience of the period 1921-33 was in any substantial measure due to inadequate principles or practices of bank supervision? If not, to what do you ascribe that unfavorable experience? If not, do you know any means whereby such unfavorable experience can be avoided in the future? If so, have the principles and practices been altered in a proper manner? Do you have any suggestions as to needed changes of law which will permit more adequate supervision?

12. What policies should a commercial bank be required to follow in order to be able to meet abnormal demands for cash? Do you in any way control the practice of the banks in this respect?

13. To what extent do you or your examiners give banks "advice" with regard to policies or practices in the operation of a bank which are not the subject of supervisory control enforced by legal sanctions? Do you think that the giving of "advice" and the enforcement of requirements of law can properly be carried out simultaneously by the same agency? Do bankers and examiners see a clear demarcation between the two functions?

14. Do your standards of supervisory responsibility differ in any respect as between large and small banks? Give details.

15. Are the principles, procedures, and practices which you require banks to follow available to banks in the form of published rules and regulations, or are they made known to banks on a case-by-case basis? Which of the two methods do you consider the more satisfactory?

B. Asset Quality and Type.

1. What principles guide your policy with respect to the types and quality of bank assets? Which of these principles are now embodied in law? Should any of the principles now in law be revised; and should any other additional principles be enacted into law?

2. Does the influence of bank examiners keep many banks from making loans or investments they would otherwise be willing to make? If so, what kinds of loans and investments?

3. What is the justification for the requirement that all securities purchased by banks, members of the Federal Reserve System, must be marketable? Would you favor any modification of the law in this respect?

4. Would you favor altering the law to permit national banks to invest in high-grade preferred stock? Why, or why not?

5. What use is made of the securities ratings of the recognized rating agencies in your examination and supervision of banks? By what means do you ascertain that the ratings are made in a manner appropriate to the use to which you put them?

6. Do many State member banks hold securities which they have bought in violation of section 5136 of the United States Revised Statutes? What steps do you take in such cases?

7. What steps do you take with respect to securities held by State member banks which were eligible for investment when purchased but which subsequently become ineligible?

8. Do your examiners discourage (a) long-term loans as such? (b) capital loans as such? (c) real-estate loans as such?

9. Which, if any, of the following do you consider as inappropriate assets for purchase, either by banks having demand deposits in substantial volume, or by banks having chiefly time and savings deposits:

(a) Real estate mortgages:

- (1) Farm?
- (2) Urban, uninsured?
- (3) Urban, insured by Federal Housing Administration?
- (4) Limited to 3 or 5 years' duration?

(b) Loans to customers for working-capital purposes:

- (1) Repayable over a period of 5 years; 10 years?
- (2) Nominally repayable within 90 days but actually repayable only by liquidating the business?

(c) Stock market call loans?

(d) Railroad and industrial bonds of corporations with good credit standing?

(e) Bonds issued by local industries of good credit standing but having only restricted market?

(f) Finance company paper secured by installment notes?

(g) Acceptance issued by high-grade institutions covering goods in storage?

(h) Notes collateralized by warehouse receipts for commodities:

- (1) Hedged?
- (2) Unhedged?

10. Do you have authority or responsibility to exercise control over policies of the banks with regard to any of the types of assets mentioned in the preceding question?

11. If any of the items listed in question 9 are deemed acceptable for a restricted proportion of a bank's assets, indicate the criteria of a proper proportion.

12. Should banks be permitted to operate personal loan departments making small loans on a high interest basis (for instance, 4 to 6 percent deducted in advance, on a monthly installment loan spread over 1 year)?

13. What is the effect of the law that national banks may not hold real estate which they have held for a period longer than 5 years (U. S. Rev. Stat., sec. 5137)? Is it practicable to enforce this? Do you favor any revision?

15. What do you estimate to be the total amount of securities now outstanding which are eligible for investment by member banks under regulations issued pursuant to United States Revised Statutes, section 5136? What proportion of the total do you estimate to be held by commercial banks?

16. In determining upon supervisory standards with respect to bank asset quality, how are the needs for bank safety and the credit needs of business weighted or reconciled? What consideration do you give to the undesirability of placing obstructions in the way of the investment process?

17. What is the nature of each of the four classes in which loans are placed by examiners? What is the purpose of the classification? Do you require or influence banks to collect class II loans?

C. Valuation of Assets.

1. What principles should guide public policy with respect to the valuation of bank assets? Which of these principles could and should be enacted into law?

2. What new principles were established by the agreement between Federal supervisory agencies of June 1938 (published in Federal Reserve Bulletin, July 1938, and in the Annual Report of the Federal Deposit Insurance Corporation for 1938)? What have been the results?

3. In a discussion of the revision of bank-examination procedure and of investment-securities regulation which was agreed upon in June 1938, appearing in the Federal Reserve Bulletin (July 1938, pp. 563-564), the following comments were made:

Under the new designations, the principle is clearly recognized that in making loans, whether for working capital or fixed capital purposes, the banks should be encouraged to place the emphasis upon intrinsic value rather than upon liquidity or quick maturity.

Similarly, the revised examination procedure recognizes the principle that bank investments should be considered in the light of inherent soundness rather than on a basis of day-to-day market fluctuations.

In the light of experience since that time has the revised procedure been effective in accomplishing the purposes indicated in this quotation? To what extent does examination and valuation procedure differ from that which was prevalent before June 1938? Has the change been beneficial, and if so in what way?

4. If the capital and required surplus of a bank are unimpaired when its assets are valued in accordance with the agreement of June 1938, but are impaired when its securities are valued at current market price, is the payment of dividends illegal, unsafe, or unsound?

5. What benefit or harm follows from requiring publication of bank balance sheets? Would you favor any change in the current law on this subject? Does any harm follow from requiring banks to make public the amount of their borrowings?

6. Should banks be required to adjust their books to the examiner's valuation of assets? If not, what control should be exercised over the valuation of bank assets? If supervisors do not control the valuation of assets as set up on books of the banks, is it desirable that publication of bank statements be required? Is any revision or clarification of law in this respect needed?

D. Capital.

1. What capital standards other than those specified by law do you require or urge banks to meet? Are present minimum capital requirements adequate? Should there be minimum capital ratio requirements? If so, what bases and ratios would be appropriate? Outline the procedure for putting your suggestion into effect.

2. Give your reaction to a proposal that supervisory authorities be given power to require the retention of earnings by banks which are found to have an inadequate amount of capital.

3. Does the taxation of banks in accordance with the provisions of section 5219 of the United States Revised Statutes keep down the

volume of bank capital? Do you favor any change in this section of law?

4. Would retirement of all the stock of national banks now held by the Reconstruction Finance Corporation be desirable?

E. Procedures and Sanctions.

1. List the sanctions which you may invoke in order to secure compliance with your supervisory requirements. Indicate by what specific or general legislative grant you exercise each sanction. Have you found these sanctions effective? Indicate any additions to or changes in your sanctions which you consider desirable.

2. What right of appeal do banks have from the requirements of your examiners or other supervisory requirements?

3. Analyze in full the power of, and principles followed in, the expulsion of a bank from the Federal Reserve System.

F. Granting of National Charters.

1. Discuss the relative merits of granting charters to all banks which meet minimum specific requirements fixed by law and agree to operate in accordance with the laws and regulations applicable to banks, as compared with the present system of case-by-case decisions.

2. What standards guide you in determining whether each of the following characteristics of a bank is such as to permit a bank to be admitted to membership in the Federal Reserve System: (a) The financial history and condition of the bank; (b) the adequacy of its capital structure; (c) its future earnings prospects; (d) the general character of its management; (e) the convenience and needs of the community to be served by the bank? How do you determine whether the standards enumerated in answer to this question are met by an applicant bank?

3. Are there too many banks or banking offices in your Federal Reserve district? To what extent are there communities not adequately supplied with banking facilities? What method do you suggest for determining the proper number of banking offices in a given area?

V. LEGAL STATUS OF BANKS

A. National Charters.

1. Is it desirable to maintain the present dual (national and State) system of chartering banks and/or bank supervision?

2. Are you inhibited from effectively supervising member banks by the possibility that they may withdraw from the Reserve System? How many cases are known in which a bank has withdrawn from the System because of the relatively lax supervision anticipated under State law?

3. What advantages or disadvantages would follow from requiring all banks holding demand deposits, or all insured banks, to operate under national charters and Federal supervision? Under State charters and State supervision?

B. Membership in the Federal Reserve System.

1. Do you think any substantial economic disadvantages have resulted (a) from the fact that a considerable number of banks have not had full access to Federal Reserve credit facilities over the past

25 years; (b) from the fact that a considerable number of banks have not been in the par collection system over the past 25 years; (c) from the fact that a considerable number of banks have not been subject to the Federal Reserve requirements for reserve against deposits?

2. Should all insured banks, or all banks which hold demand deposits, be required to be members of the Federal Reserve System under present requirements for membership? Under some other requirements for membership? If the latter, what alterations in requirements do you suggest?

C. Deposit Insurance.

1. Should Federal deposit insurance be retained permanently in its present form? Retained in a specified revised form? Abandoned if certain specified conditions appear? Abandoned at once?

2. Is it desirable that insurance coverage be extended to deposits up to \$10,000? \$25,000? \$100,000? to all deposits? to all liabilities? direct or contingent?

3. Do you favor requiring all banks which hold demand deposits to be insured? If so, why?

4. Please state your reaction and the reasons therefor to the contention that the existence of Federal deposit insurance tends to cause bad banking.

5. If the Federal Deposit Insurance Corporation insured all the liabilities of the insured banks, both direct and contingent, would the Federal Reserve banks be more willing to make cash available to banks in case of need than it is at present? If so, would bank failures be rendered less likely?

VI. RELATIONS AMONG SUPERVISORY AGENCIES

1. Should the bank supervisory and bank examining functions of the Federal Government be concentrated in the hands of a single agency and a single integrated examining force?

2. Should all Federal bank supervisory law be unified and codified and made to apply uniformly to all insured banks, or to all banks holding demand deposits? Please submit a tentative uniform bank-supervision code which you think should be applied to all insured banks or all banks holding demand deposits and which you think would give the best possible supervision.

VII. BANK EARNINGS

1. Are the earnings and profits of commercial banks of particular public interest? If so, in what respects? If so, evaluate those aspects of law and supervision which pertain thereto, indicating any desirable alteration of law and regulations. Are earnings of commercial banks sufficient from the standpoint of the public interest?

2. Should earnings statements submitted to the supervisory authority be required to be published?

3. Can you visualize any possible developments which would render inadvisable a continuation of the present prohibition of payment of interest on demand deposits and limitation of interest on time deposits? Please enumerate and discuss. What, in your opinion, are the chief justifications for this particular form of price fixing?

VIII. BANK ORGANIZATION AND STRUCTURE

1. Indicate in detail what, if any, changes you think should be made in existing laws which affect the banking structure of the country, that is, branch banking, unit banking, group and chain banking, bank competition, concentration of banking power.

2. Give in detail your appraisal of the following: (1) Nation-wide branch banking; (2) Federal Reserve district-wide branch banking; (3) "trade area" branch banking; (4) prohibiting further extension of branch banking; (5) breaking up existing branch banking; (6) prohibiting further extension of group and chain banking; (7) breaking up existing groups and chains; (8) prohibition of the concentration of more than a given percentage of the bank deposits and offices of a given area under common control.

IX. DIRECT LOANS OF RESERVE BANKS TO INDUSTRY

1. What is the dollar volume of your outstanding direct loans to business under section 13 (b) of the Federal Reserve Act? What is the dollar volume of financial institution participation in such loans? Carry this information back as time series (on an annual basis as of December 31) to the beginning of such disbursements.

2. What is the outstanding volume of your commitments to make direct loans to business under section 13 (b)? Carry answer back as time series (on an annual basis as of December 31) to the beginning of such commitments.

3. What are your definitely known losses to date on direct loans to business, and your estimated future losses? How does this compare with income from this source?

4. What proportion, by number and amount, of applications for direct loans to industry have been rejected, by years, since the program started? What are the principal reasons for such rejections?

5. To what extent do you stand ready to make loans under section 13 (b) which you would not consider proper or desirable for a member bank?

6. Is there any significant difference between the loans made by you under section 13 (b) and those made by the Reconstruction Finance Corporation under section 5 (d) of the Reconstruction Finance Corporation Act? Is there any advantage in having two agencies offer a service as nearly alike as these? If not, which is the more appropriate agency?

7. Does your experience with industrial loans under section 13 (b) indicate that there is need for a continued or a greatly expanded service, whether in the Federal Reserve banks or elsewhere, in the making of direct loans to industry? Are there ways in which the present service could be made more useful by appropriate legislation?

8. Does your experience with applications for industrial loans indicate that bank examiner criticism prevents banks from making loans that would be desirable bank investments? If so, what types of loans are most affected?

X. MISCELLANEOUS

1. Even if no changes are to be made in the content of the Federal banking law, should that law be rewritten and codified with a view to clarity and unambiguity? If so, indicate at what points the present law is most in need of clarification, and submit a rough outline of such clarification.

2. Do you have any suggestion for changes in the holding company and affiliates provisions of law?

3. What benefit or harm arose from divorcing banks from securities companies and prohibiting banks from doing a securities business?

4. Does the limitation of interest on time and savings deposits have any effect on the total volume of such deposits?

5. In a report submitted to the Senate Select Committee to Investigate the Executive Agencies of the Government (75th Cong., 1st sess., S. Rept. 1275, 1937, at pp. 198-203, 213-223), certain recommendations were made affecting the Federal Reserve System. Comment on the advisability of carrying out such of these recommendations as are still applicable.

6. What is the present role of inter-bank deposits? What advantages and disadvantages would follow from the prevention of all inter-bank deposits, other than those with Reserve banks?

5. DEPARTMENT OF COMMERCE

1. What is the volume, character, and source of foreign capital in the United States? Of American investments abroad? What changes have taken place in the last two decades?

2. How large are the holdings of foreign governments or central banks of: (a) Dollar balances—both time and demand; (b) United States Government obligations? Is there any significant difference between these holdings and the holdings of foreign individuals and private banks?

3. Last year our balance of payments contained an item of 1.2 billion dollars classified as "residual." What proportion of the residual item can be explained by unrecorded capital inflows?

4. What have been the principal factors underlying international capital movements as reflected in the United States balance of international payments? How have these movements been related to gold movements?

5. Why has capital come to this country in such large amounts since 1935? To what extent has each of the following factors been significant in the flow of capital to the United States?

- (a) Safety;
- (b) Higher interest rates;
- (c) Prospective speculative exchange gains;
- (d) Prospective capital gains on securities;
- (e) Evasion of taxation in home countries;
- (f) Increase in the price of gold from \$20.67 to \$35 an ounce;
- (g) Better investment opportunity.

6. From which countries have Americans repatriated their capital from abroad in the last few years? What are the prospects that they will continue to do so?

7. Is it expected that the inflow of capital will be maintained with the continuation of the war? Will foreigners continue to purchase our securities and accumulate dollar deposits? How much capital has come to this country since the outbreak of the war, and how much is expected in 1940?

8. What is the effect of capital inflows on: (a) Amount of capital investment in the United States; (b) our security markets; (c) tax revenues; (d) foreign capital markets; (e) fluctuations in business activity.

9. Under what conditions is it desirable to prevent or discourage further inflows of foreign capital? Under what conditions would it be desirable to control the outflow of capital already here?

10. What are the prospects of an outflow of capital from the United States after the resumption of world peace? Will private capital seek foreign investment after the resumption of peace?

11. Should foreign investment by Americans be subjected to greater restrictions or should the restrictions which now exist be removed?

6. FEDERAL DEPOSIT INSURANCE CORPORATION

I. ORGANIZATION: RELATIONSHIP TO OTHER AGENCIES

1. Should Federal deposit insurance be retained permanently in substantially its present form, retained in a specified revised form; abandoned in the near future, abandoned if certain specified conditions appear, or abandoned at once?

2. Assuming that deposit insurance is to be continued in substantially its present form, are the present form of organization and corporate powers of the Federal Deposit Insurance Corporation appropriate and adequate?

3. What advantage results from the provision that the Comptroller of the Currency shall be a member of the Board of Directors of the Corporation? Should the Board of Directors be enlarged to include representatives of any other Federal agencies?

4. Would there be any economy or gain in efficiency in enlarging the scope of the Corporation's work to include any other insurance activities of the Federal Government?

5. Should the Federal Deposit Insurance Corporation be receiver for all failed insured banks? What would be the advantage? How important is this? In what manner does the Comptroller of the Currency supervise your receivership of failed national banks? How much undesirable duplication of effort is involved? Outline the principles and practices whereby the Federal Deposit Insurance Corporation liquidates the assets of banks for which it is receiver and assets which it has acquired or upon which it has made loans.

6. In a report submitted to the Senate Select Committee to Investigate the Executive Agencies of the Government (75th Cong., 1st sess., S. Rept. 1275, 1937, at pp. 199-201 and 213-223) certain recommendations were made affecting the Federal Deposit Insurance Corporation. Comment on the advisability of carrying out such of these recommendations as are still applicable.

II. FEDERAL DEPOSIT INSURANCE

1. Is it desirable that insurance coverage be extended to deposits up to \$10,000, \$25,000, \$100,000, to all deposits, all liabilities?

2. How does the Federal Deposit Insurance Corporation decide whether to permit a distressed bank to fail or to assist it, by a loan or purchase of assets, to merge with another bank?

3. Is the deposit insurance assessment adequate to build up reserves to cover your estimate of future losses? If the present assessment is inadequate, is it desirable to increase it?

4. Should the Government meet deposit-insurance losses if the reserves and current assessments prove inadequate?

5. Do you favor any change in present law, regulation, or practice governing the computation of the base upon which deposit-insurance assessments are levied?

6. Please state your reaction to the contention that the existence of Federal deposit insurance tends to cause bad banking.

III. SUPERVISION

A. General.

1. What characteristics of the banking business justify or explain the relatively greater amount of public supervision which is given to it than to most other businesses?

2. What are the objectives of bank supervision? Do they include any or all of the following:

(a) Promotion of business stability, through easing or tightening credit conditions as needed;

(b) Maintenance of competition between banks;

(c) Protection of banks against competition;

(d) Prevention of usurious or oppressive tactics toward borrowers;

(e) Keeping local money at home;

(f) Making funds more readily available for particular groups (e. g., agriculture, small business) or less available for other groups (e. g., stock market operation); and

(g) Facilitating the Government's fiscal operations?

3. Is any change of law with regard to objectives of supervision desirable?

4. What effect in your judgment does bank supervision have upon—

(a) The quantity and quality of the debt owed to commercial banks; and

(b) The total volume of debt in the country?

5. How does bank supervision affect the outstanding volume of bank credit? In what way does supervision influence the expansion or contraction of credit during the different phases of the business cycle? If supervisory policy were to be so directed as to contribute to the protection of the economy from the effects of undue expansion or contraction of credit, how could this best be done? Would appropriate policy require a revision of supervisory standards during the course of the cycle, or can standards be devised which will give the desired results at every stage in the cycle?

6. To what extent does the Federal Deposit Insurance Corporation have power to impose standards of bank operation?

7. Describe the work of a bank examiner. Does he simply engage in fact finding, or does he also engage in corrective or advisory activities? What measures do you take to insure uniform application of your supervisory standards by examiners?

8. Do your standards or practices of supervisory responsibility differ in any respect as between large and small banks? Give details.

9. Enumerate the unsafe or unsound practices in which you have found any insured bank or its directors or trustees to have engaged since the effective date of the Banking Act of 1933.

10. In how many cases have you found it necessary to give to the appropriate supervisory agency a statement with respect to (a) unsafe or unsound practices, (b) violation of law, for the purpose of securing correction thereof?

11. Do you think that the bank-failure experience of the period 1921-33 was in any substantial measure due to inadequate principles or practices of bank supervision? If not, to what do you ascribe that unfavorable experience? If not, do you know any means whereby such unfavorable experience can be avoided in the future? If so, have the principles and practices been altered in a proper manner? Do you have any suggestions as to needed changes of law which will permit more adequate supervision?

12. Does your office or its examiners make any attempt to restrict speculative trading in securities on the part of banks? If so, why? Is any revision of law in this connection desirable?

13. What policies should a commercial bank be required to follow in order to be able to meet abnormal demands for cash? Do you in any way control the practices of the banks in this respect?

14. Is there any evidence that bank examiners (under any supervisory agency) have at any time since 1933 exercised a retarding influence upon the development of recovery in this country?

15. To what extent do you or your examiners give banks "advice" with regard to policies or practices in the operation of a bank which are not the subject of supervisory control enforced by legal sanctions? Do you think that the giving of "advice" and the enforcement of requirements of law can properly be carried out simultaneously by the same agency? Do bankers and examiners see a clear demarcation between the two functions?

16. Are the principles, procedures, and practices which you require banks to follow available to banks in the form of published rules and regulations, or are they made known to banks on a case by case basis? Which of the two methods do you consider the more satisfactory? Which would banks prefer?

B. Asset Quality and Type.

1. What principles guide your policy with respect to the types and quality of bank assets? Which of these principles are now embodied in law? Should any of the principles now in law be revised; and should any other additional principles be enacted into law?

2. Does the influence of bank examiners keep many banks from making loans or investments they would otherwise be willing to make? If so, what kinds of loans and investments?

3. What is the justification for the requirement that all securities purchased by banks, members of the Federal Reserve System, must be marketable? Would you favor any modification of the law in this respect?

4. Would you favor permitting commercial banks to invest in high-grade preferred stock? Why, or why not?

5. What, if any, merit do you see in the proposal that certain assets be segregated in savings departments to offset time and savings deposits?

6. What use is made of the securities ratings of the recognized rating agencies in your examination and supervision of banks? By what means do you ascertain that the ratings are made in a manner appropriate to the use to which you put them?

7. Which, if any, of the following do you consider as inappropriate assets for purchase, either by banks having demand deposits in

substantial volume, or by banks having chiefly time and savings deposits:

(a) Real-estate mortgages:

- (1) Farm;
- (2) Urban, uninsured;
- (3) Urban, insured by F. H. A.;
- (4) Limited to 3 or 5 years' duration?

(b) Loans to customers for working-capital purposes:

- (1) Repayable over a period of 5 years; 10 years?
- (2) Nominally repayable within 90 days but actually repayable only by liquidating the business?

(c) Stock market call loans?

(d) Railroad and industrial bonds of corporations with good credit standing?

(e) Bonds issued by local industries of good credit standing but having only restricted market?

(f) Finance company paper secured by installment notes?

(g) Acceptances issued by high-grade institutions covering goods in storage?

(h) Notes collateralized by warehouse receipts for commodities:

- (1) Hedged;
- (2) Unhedged?

8. Does an examiner have authority or responsibility to exercise control over policies of the banks with regard to any of the types of assets mentioned in the preceding question?

9. If any of the items listed in question 7 are deemed acceptable for a restricted proportion of a bank's assets, indicate the criterion of a proper proportion.

10. Can and does the Federal Deposit Insurance Corporation control minimum quality of bond purchases of insured banks? Are there any regulations?

11. Should banks be permitted to operate personal-loan departments making small loans on a high interest basis (for instance, 4 to 6 percent deducted in advance, on a monthly installment loan spread over 1 year)?

12. What is the policy with respect to the holding or disposition of real estate other than bank premises acquired by a bank in settlement of a debt previously contracted?

13. What do you estimate to be the total amount of securities now outstanding which are eligible for investment by member banks under regulations issued pursuant to United States Revised Statutes 5136? What proportion of the total do you estimate to be held by commercial banks?

14. In determining upon supervisory standards with respect to bank asset quality, how are the needs for bank safety and the credit needs of business weighted or reconciled? What consideration do you give to the undesirability of placing obstructions in the way of the investment process?

15. What is the nature of each of the four classes in which loans are placed by examiners? What is the purpose of the classification? Do you require or influence banks to collect class II loans?

16. Is there a danger that bank supervision in the hands of the Federal Deposit Insurance Corporation will be so stringent, so designed to reduce to the absolute minimum the losses to that Corporation, that the restrictions on bank credit extension will unduly hamper business enterprise?

C. Valuation of Assets.

1. What principles should guide public policy with respect to the valuation of bank assets? Which of these principles or evidences could and should be enacted into law?

2. What new principles were established by the agreement between Federal supervisory agencies of June 1938 (published in the Annual Report of the Federal Deposit Insurance Corporation for 1938)? What have been the results?

3. In a discussion of the revision of bank examination procedure and of investment securities regulation which was agreed upon in June 1938, appearing in the Federal Reserve Bulletin (July 1938, pp. 563-564), the following comments were made:

Under the new designations, the principle is clearly recognized that in making loans, whether for working capital or fixed capital purposes, the banks should be encouraged to place the emphasis upon intrinsic value rather than upon liquidity or quick maturity.

Similarly, the revised examination procedure recognizes the principle that bank investments should be considered in the light of inherent soundness rather than on a basis of day-to-day market fluctuations.

In the light of experience since that time has the revised procedure been effective in accomplishing the purposes indicated in this quotation? To what extent does examination and valuation procedure differ from that which was prevalent before June 1938? Has the change been beneficial and if so in what way?

4. If the capital and required surplus of a bank are unimpaired when its assets are valued in accordance with the agreement of June 1938, but are impaired when its securities are valued at current market price, is the payment of dividends illegal, unsafe, or unsound?

5. What benefit or harm follows from requiring publication of bank balance sheets? Would you favor any change in the current law on this subject? Does any harm follow from requiring banks to make public the amount of their borrowings?

6. Does the law as now interpreted authorize you to require banks to adjust their books to the examiner's valuation of assets? If not, what control, if any, is exercised over the valuation of bank assets? If you do not control the valuation of assets as set up on books of the banks, is it desirable to continue requiring the publication of bank statements? Is any revision or clarification of law in this respect needed?

D. Capital.

1. Can and does the Federal Deposit Insurance Corporation control the capital ratios of insured banks? Are there any regulations on this subject? What principles should guide public policy with respect to the capital of banks? Which of these principles should be enacted into law? Should there be capital-ratio requirements? If so, what bases and ratios would be appropriate? Outline the procedure for putting your suggestion into effect.

2. Give your reaction to a proposal that supervisory authorities be given power to require the retention of earnings by banks which are found by their supervisory authority to have an inadequate amount of capital.

3. Does the taxation of banks in accordance with the provisions of section 5219 of the United States Revised Statutes keep down the volume of bank capital? Do you favor any change in this section of law?

E. Procedures and Sanctions.

1. List the sanctions which you may invoke in order to secure compliance with your supervisory requirements. Indicate by what specific or general legislative grant you exercise each sanction. Have you found these sanctions effective? Indicate any additions to or changes in your sanctions which you consider desirable.

2. What right of appeal do banks have from the requirements of your examiners or other supervisory requirements?

3. Analyze in full the power of, and principles followed in terminating the insurance of an insured bank. Of influencing the closing of a bank.

F. Admission to Insurance.

1. Discuss the relative merits of admitting to insurance all banks which meet minimum specific requirements fixed by law and agree to operate in accordance with the laws and regulations applicable to insured banks, as compared with the present system of case-by-case decisions.

2. What standards guide you in determining whether each of the following characteristics of a bank is such as to permit a bank to be admitted to insurance: (a) The financial history and condition of the bank; (b) the adequacy of its capital structure; (c) its future earnings prospects; (d) the general character of its management; (e) the convenience and needs of the community to be served by the bank? How do you determine whether the standards enumerated in answer to this question are met?

3. Are there too many banks or banking offices in the United States? To what extent are there communities not adequately supplied with banking facilities? What method do you suggest for determining the proper number of banking offices in a given area?

IV. LEGAL STATUS OF BANKS

1. Are there any advantages in maintaining the present dual system of commercial banking and bank supervision (Federal and State)?

2. Are you inhibited from effectively supervising banks by the possibility that they may withdraw from the insurance system and continue operations under State charters? In how many cases has a bank withdrawn from the insurance system?

3. What advantages or disadvantages would follow from requiring all banks holding demand deposits, or all insured banks, to operate under National charters and Federal supervision? Under State charters and State supervision?

4. Do you think any substantial economic disadvantages have resulted (a) from the fact that a considerable number of banks have not had full access to Federal Reserve credit facilities over the past

25 years; (b) from the fact that a considerable number of banks have not been in the par collection system over the past 25 years? (c) from the fact that a considerable number of banks have not been subject to the Federal Reserve requirements for reserve against deposits?

5. Should all insured banks be required to be members of the Federal Reserve System under present requirements for membership? Under some other requirements for membership? If the latter, what alterations in requirements do you suggest?

6. Do you favor requiring all banks which hold demand deposits to be insured? Why?

7. Is it better from the general monetary and economic standpoint for a bank with \$15,000 capital to be uninsured than to carry on banking operations on an insured basis?

8. As measured both by number of banks and by volume of deposits, to what extent are the noninsured commercial banks in that condition by choice and to what extent by necessity?

V. RELATIONS AMONG SUPERVISORY AGENCIES

1. Should the bank supervisory and bank examining functions of the Federal Government be concentrated in the hands of a single agency and a single integrated examining force?

2. Should all Federal bank supervisory law be unified and codified and made to apply uniformly to all insured banks, or to all banks holding demand deposits? Please submit a tentative uniform bank supervision code which you think should be applied to all insured banks or all banks holding demand deposits and which you think would give the best possible supervision.

3. In what manner does the Comptroller of the Currency supervise the receiverships of national banks in which the Federal Deposit Insurance Corporation is the receiver? Is undesirable duplication of effort involved? Do you favor any alteration of the law in this respect?

4. Do you review bank examinations made by the national bank examiners and by examiners of the Federal Reserve System? What is the nature of this review? What is its purpose? Does it not involve an unwarranted duplication of activities? Do you review the examinations of insured banks made by the State supervisors?

VI. BANK EARNINGS AND INTEREST PAYMENTS

1. Are the earnings and profits of commercial banks of particular public interest? If so, in what respects? If so, evaluate those aspects of law and supervision which pertain thereto, indicating any desirable alteration of law and regulations. Are earnings of commercial banks sufficient from the standpoint of the public interest?

2. Should earnings statements submitted to the supervisory authority be required to be published?

3. How do you determine what maximum interest rate to permit to be paid on time and savings deposits?

4. Do you think your power to control interest paid on time deposits should be a permanent or temporary power? What is the justification for this particular kind of price fixing? Do you think you should also have power to control interest rates charged by banks?

5. Does the question of bank service charges need legislation or governmental regulation? Is it in the public interest to promote or discourage competition among banks in such charges?

6. Does the limitation of interest on time and savings deposits have any effect on the total volume of such deposits?

7. Do you visualize any possible developments which would render inadvisable a continuation of the present prohibition of payment of interest on demand deposits? Please enumerate and discuss. What, in your opinion, are the chief justifications for this regulation?

VII. BANK ORGANIZATION AND STRUCTURE

1. Indicate in detail what, if any, changes you think should be made in existing laws which affect the banking structure of the country; that is, branch banking, unit banking, group and chain banking, bank competition, concentration of banking power.

2. Give in detail your appraisal of the following: (1) Nation-wide branch banking; (2) Federal Reserve district-wide branch banking; (3) "trade area" branch banking; (4) prohibiting further extension of branch banking; (5) breaking up existing branch banking; (6) prohibiting further extension of group and chain banking; (7) breaking up existing groups and chains; (8) prohibition of the concentration of more than a given percentage of the bank deposits and offices of a given area under common control.

VIII. MISCELLANEOUS

1. Even if no changes are to be made in the content of the Federal banking law, should that law be rewritten and codified with a view to clarity and unambiguity? If so, indicate at what points the present law is most in need of clarification, and submit a rough outline of such codification.

2. Do you have any suggestion for changes in the holding-company and affiliates provisions of law?

3. Should officers or directors removed under section 30 of the Banking Act of 1933 be prohibited from ever again engaging in the operation of insured banks?

4. Should there be provided some effective remedy against unsound control when exercised by stockholders rather than by officers and directors?

5. Does the experience of your corporation indicate that the abandonment of double liability was wise?

6. What benefit or harm arose from divorcing banks from securities companies and prohibiting banks from doing a securities business?

7. RECONSTRUCTION FINANCE CORPORATION

1. What is the dollar volume currently outstanding of loans on and purchases of preferred stock and capital notes and debentures of open commercial banks? Give distribution between National, State member, and nonmember banks.

2. What are your definitely known losses to date on these investments? What are your estimated losses?

3. What is the number and dollar amount of the cases in which the retirable value of Reconstruction Finance Corporation investment in bank stock or capital notes originally exceeded book value? Describe the experience with these cases, the present status, and the future prospects.

4. In general, what degree of supervision do you exercise over banks in which you have holdings of preferred stock?

5. In how many banks have you formally taken a hand in management? In how many banks have you informally taken a hand in management? What has been the nature of such participations in management?

6. Describe in full the present provisions for retirement of this preferred stock, including a discussion of the differential dividend requirements.

7. What criteria are applied in determining whether a bank shall be permitted to retire preferred stock owned by you? In making a decision on this point, how much cooperation exists between your office and the bank supervisory agency or agencies having supervision of such banks? Does the responsibility of deciding whether a bank shall be permitted to retire preferred stock rest primarily with you or with the supervisory agency or agencies?

8. Do you favor any revision of current programs and practices in retirement of preferred bank stock held by the Reconstruction Finance Corporation?

9. What should be the permanent policy of the Federal Government in respect to continuation of the power of the Reconstruction Finance Corporation to invest in preferred stock of banks?

10. What is the dollar volume of your outstanding direct loans to business under section 5 (d) of the Reconstruction Finance Corporation Act? Carry this answer back as time series to the beginning of such disbursements.

11. What volume of bank loans are currently outstanding in which you participated at the time the loan was disbursed? What is the present volume of these loans not covered by the participations?

(a) Carry these back as time series to the beginning of such participations.

12. What is the dollar volume of currently outstanding bank loans in which you have a deferred participation? What is the volume of your commitments on these loans? What part of these commitments has been disbursed? Carry these items back as time series to the beginning of such participations.

13. What are your definitely known losses to date on direct loans to business, and your estimated future losses? How does this compare with income from this source?

14. What are your definitely known losses to date on deferred participations in bank loans to business, and your estimated future losses? How does this compare with income from this source?

15. What proportion, by number and amount, of applications for direct loans to industry have been rejected, by years, since the program started? What are the principal reasons for such rejections?

16. To what extent do you stand ready to make loans under section 5 (d) of the Reconstruction Finance Corporation Act which you would not consider proper or desirable for a commercial bank in which you hold preferred stock?

17. Is there any significant difference between the loans made by you under section 5 (d) of the Reconstruction Finance Corporation Act and those made by the Federal Reserve banks under section 13 (b) of the Federal Reserve Act? Is there any advantage in having two agencies offer a service as nearly alike as these? If not, which is the more appropriate agency?

18. Does your experience with industrial loans under section 5 (d) indicate that there is need for a continued or a greatly expanded service, whether in the Reconstruction Finance Corporation or elsewhere, in the making of direct loans to industry? Are there ways in which the present service could be made more useful by appropriate legislation?

19. What is the volume of currently outstanding Reconstruction Finance Corporation loans to closed banks? To open banks? Carry both series back at quarterly intervals to their origin. Do you favor a continuation of the powers to make these loans? Explain.

20. What was the original purpose of the provision for loans to closed banks? Under what circumstances are loans now made to closed banks? In view of the existence of a system of insurance of bank deposits and in view of the F. D. I. C. having power to make loans to closed banks, is it necessary or desirable that provision be made for further loans to closed banks by you?

21. What has been the loss and net income experience of the two types of loans mentioned in question 19?

22. Does your experience with applications for industrial loans indicate that bank-examiner criticism prevents banks from making loans that would be desirable bank investments? If so, what types of loans are most affected?

23. Does the Reconstruction Finance Corporation have power under section 5 (d) to purchase securities or make loans which are not secured? Does the Reconstruction Finance Corporation make such loans?

24. In a report submitted to the Senate Select Committee to Investigate the Executive Agencies of the Government (75th Cong., 1st sess., S. Rept. 1275, 1937, at pp. 199-203), certain recommendations were made affecting the Reconstruction Finance Corporation. Comment on the advisability of carrying out such of these recommendations as are still applicable.

8. STATE BANK SUPERVISORS

I. SUPERVISION—GENERAL

1. Describe the work of a bank examiner in your State. Does he simply engage in fact finding or does he also during his examination engage in direct corrective activities?

2. To what extent do the Federal Deposit Insurance Corporation and the Federal Reserve System have power to impose standards on State banks which are not imposed by State law or regulation? For example, can they prevent banks from purchasing preferred stock in States in which such purchases are legal?

3. Do you think that the bank-failure experience of your State for the period 1921-33 was in any substantial measure due to inadequate principles or practices of bank supervision? If not, to what do you ascribe that unfavorable experience? If not, do you know any means whereby such unfavorable experience can be avoided in the future? If so, have the principles and practices been altered in the proper manner? Please detail. If so, do you have any suggestions as to needed changes of law which will permit more adequate supervision?

4. Do you or your examiners make any attempt to restrict speculative trading in securities on the part of banks? If so, why?

5. What policy if any do you think a commercial bank should follow in order to be able to meet abnormal demands for cash? Do you in any way influence the policy of commercial banks in this respect?

6. Should a bank supervisor have power to proscribe any and all banking practices which he may deem unsafe or unsound or should he simply have power to enforce the proscriptions of law; what is the case in this respect in your State? Should a bank supervisor have power to remove officers and directors for any and all continued violations of law? Do you have such power under the laws of your State?

7. What public benefit derives from your supervision of commercial banks? Has the prime purpose of your supervision changed since 1933?

8. To what extent do you or your examiners give banks "advice" with regard to policies or practices in the operation of a bank which are not the subject of supervisory control enforced by legal sanctions? Do you think that the giving of "advice" and the enforcement of requirements of law can properly be carried out simultaneously by the same agency? Do the bankers and examiners see a clear demarcation between the two functions?

9. Are the principles, procedures, and practices which you require banks to follow available to banks in the form of published rules and regulations, or are they made known to banks on a case-by-case basis? Which of the two methods would banks prefer?

II. ASSET QUALITY AND TYPE

1. Does the influence of bank examiners keep many banks from making loans or investments they would otherwise be willing to make? If so, what kinds of loans and investments are thus forestalled?

2. What use is made of the securities ratings of the recognized rating agencies in your examination and supervision of banks? What alternative criteria may be suggested?

3. What is your policy with respect to the holding or disposition of real estate acquired by a bank in settlement of a debt previously contracted?

4. Do your examiners in the line of duty discriminate against (a) long-term loans as such; (b) capital loans as such; (c) real-estate loans as such?

5. Do you favor allowing commercial banks to invest in high-grade preferred stock? Why or why not?

III. ASSET VALUATION

1. What was the purpose of the supervisory agreement of June 1938? For what purposes, if any, do you use any valuation principles in the supervision of banks other than the principles contained in that agreement?

2. Do you require commercial banks to adjust their books to the examiner's valuation of assets? If not, what control do you exercise over the values as presented in a banker's books? If you do not control this bookkeeping, what virtue is there in requiring the publication of bank statements?

3. What benefit or harm follows from requiring publication of bank balance sheets? Would you favor any change in the current law on this subject? Does any harm follow from requiring banks to make public the amount of their borrowings?

IV. CAPITAL

1. What principles should guide public policy with respect to the capital of banks? Which of these principles should be enacted into law? Should there be capital ratio requirements? If so, what bases and ratios would be appropriate? Outline the procedure for putting your suggestion into effect.

2. Does the taxation of banks keep down the volume of bank capital? If so, what suggestions do you have for changing the situation?

V. PROCEDURES AND SANCTIONS

1. List the sanctions which you may invoke in order to secure compliance with your supervisory requirements. Indicate by what specific or general legislative grant you exercise each sanction. Have you found these sanctions effective?

2. What right of appeal do banks have from your requirements or those of your examiners?

3. Set forth your views with respect to the relative merits of granting charters to all banks which meet minimum specific requirements fixed by law and agree to operate in accordance with all laws and

regulations applicable to commercial banks as compared with the present system of case-by-case decisions with respect to charters.

4. By what standards do you determine whether to grant or withhold your approval of a proposed consolidation of two or more commercial banks?

VI. LEGAL STATUS OF BANKS

1. Do you favor requiring all banks which hold demand deposits to be insured?

2. Should Federal deposit insurance be retained permanently in substantially its present form, retained in a specified revised form, abandoned if certain specified conditions appear, or abandoned at once?

3. Is it desirable that insurance coverage be extended to deposits up to \$10,000, \$25,000, \$100,000, to all deposits, to all liabilities?

5. Is the present assessment on insured banks adequate to build up reserves to cover future losses? If the present assessment is inadequate, is it desirable to increase it?

6. Are you inhibited from effectively supervising State banks by the possibility that they may withdraw from the State system and continue operations under national charters? How many known cases are there in your State in which a bank has withdrawn from the State system because of the relatively lax supervision anticipated under Federal law?

7. What advantages or disadvantages would follow from requiring all banks holding demand deposits, or all insured banks, to operate under national charters and Federal supervision? Under State charters and State supervision?

8. Should all insured banks or all banks holding demand deposits be required to be members of the Federal Reserve System under present requirements for membership? Under some other requirements for membership? If the latter, what alterations in requirements do you suggest?

9. Should banks which meet the standards set by their respective State laws be given access to Federal Reserve credit even though they do not meet the standards now required for membership in the Reserve System?

10. Are there any advantages in maintaining the present dual system of commercial banking and bank supervision (Federal and State)?

10. Please state your reaction and the reasons therefor to the contention that the existence of Federal deposit insurance tends to cause bad banking.

11. In what respects is it your observation that the supervision and examination of state member banks in your state by the Federal Reserve System differs from the supervision and examination of non-member insured banks by the Federal Deposit Insurance Corporation?

12. In what respects do you consider the banking law and regulations applicable to state banks in your state to be either more liberal or less liberal than the National Banking Act?

13. What considerations, in general, lead bank managements in your State to prefer State charters to national, or national charters to State?

VII. RELATIONS AMONG SUPERVISORY AGENCIES

1. Should the bank-supervisory and bank-examining functions of the Federal Government relating to State banks be concentrated in the hands of a single agency and a single integrated examining force?

2. Should all Federal bank supervisory law be unified and codified and made to apply uniformly (a) to all insured banks, or (b) to all banks holding demand deposits?

3. What case can be made for or against the examination and supervision by the Federal Reserve System and the Federal Deposit Insurance Corporation of banks supervised by you? Would you favor elimination of either the examining activities of these Federal agencies or your own examining activities?

4. Is there a danger that bank supervision in the hands of the Federal Deposit Insurance Corporation will be so stringent, because designed to reduce to the absolute minimum the losses to that corporation, that the restrictions on bank-credit extension will unduly hamper business enterprise?

VIII. BANK ORGANIZATION AND STRUCTURE

1. What, if any, merit do you see in the proposal that certain assets be segregated in savings departments to offset time and savings deposits?

2. Indicate in detail what, if any, changes you think should be made in existing laws which affect the banking structure of the country. That is, branch banking, group and chain banking, bank competition, concentration of banking power.

3. Give in detail your appraisal of the following: (1) Nation-wide banking; (2) Federal Reserve district-wide branch banking; (3) trade-area branch banking; (4) prohibition of further extension of branch banking; (5) dissolution of existing branch banking; (6) prohibition of further extension of group and chain banking; (7) dissolution of existing groups and chains; (8) prohibition of the concentration of more than a given percentage of the bank deposits and offices of a given area under common control.

4. Are there too many banks or banking offices in your state? To what extent are there communities not adequately supplied with banking facilities? What method do you suggest for determining the proper number of banking offices in a given area?

IX. MISCELLANEOUS

1. Is there any considerable chance of a decline in bond prices and concomitant necessity for banks in your state to sell bonds with resulting enormous losses to the banks and bank failures? Explain.

2. Do you think that bankers and bank examiners in your state have been unduly prejudiced against bank borrowings? What do you think could and should be done to reduce this prejudice?

3. To what extent have bank failures since 1921 been due to the adverse conditions of the agricultural community?

4. Have many agricultural communities in your State been left with inadequate banking facilities in consequence of the large number of bank failures?

5. Have banks been inclined to pursue a more cautious policy of extending credit to the agricultural community in consequence of the bank failures through 1933? If so, has this been an important factor in the agricultural depression?

6. Do the Reserve eligibility regulations tend to restrict the credit facilities open to the agricultural community? If so, are changes of law or regulation appropriate?

7. To what extent does the present practice of keeping country bank balances with city bank correspondents increase the cost of borrowing in rural areas?

8. To what extent has the relative increase of bank investments and loans on securities made it more difficult for the agricultural community to obtain bank credit?

9. AMERICAN BANKERS ASSOCIATION AND ASSOCIATION OF RESERVE CITY BANKERS

I. DEPOSIT INSURANCE

1. Should Federal deposit insurance be retained permanently in substantially its present form? retained in a specified revised form? abandoned if certain specified conditions appear? or abandoned at once?

2. Is it desirable that the insurance coverage be increased to deposits up to \$10,000? \$25,000? \$100,000? to all deposits? to all liabilities?

3. Should the Government meet deposit insurance losses if the reserves and current assessments of the Federal Deposit Insurance Corporation prove inadequate?

4. Should the Federal Deposit Insurance Corporation be receiver for all failed insured banks? What would be the advantages? How important is this? How much undesirable duplication of effort do you think is involved by the Comptroller of the Currency supervising the Federal Deposit Insurance Corporation's receivership of failed national banks? Outline the purposes and practices you think should apply in the liquidation of assets of banks in receivership and of assets which the Federal Deposit Insurance Corporation has acquired or upon which it has made loans.

5. Please state your reaction and the reasons therefor to the contention that the existence of Federal deposit insurance tends to cause bad banking.

6. Do you favor any change in present law or regulation governing the computation of the base upon which deposit insurance assessments are levied?

7. If the deposit insurance assessment is not adequate to build up reserves to cover probable future losses should the assessment be increased?

II. SUPERVISION

A. General.

1. What characteristics of the banking business justify or explain the relatively greater amount of public supervision which is given to it than to most other businesses?

2. How does bank supervision affect the outstanding volume of bank credit? In what way does supervision influence the expansion or contraction of credit during the different phases of the business cycle? If supervisory policy were to be so directed as to contribute to the protection of the economy from the effects of undue expansion or contraction of credit, how could this best be done? Would appropriate policy require a revision of supervisory standards during the course of the cycle or can standards be devised which will give the desired results at every stage in the cycle? Appraise the influence of present supervisory standards upon credit conditions now and under other cyclical conditions.

3. Do you think that the bank failure experience of the period 1921-33 was in any substantial measure due to inadequate principles

or practices of bank supervision? If not, to what do you ascribe that unfavorable experience? If not, do you know any means whereby such unfavorable experience can be avoided in the future? If so, have the principles and practices been altered in a proper manner? Please detail. If so, do you have any suggestions as to needed changes of law which will permit more adequate supervision?

4. To what extent do bank supervisors and examiners give banks "advice" with regard to policies or practices in the operation of a bank which are not the subject of supervisory control enforced by legal sanctions? Do you think that the giving of "advice" and the enforcement of requirements of law can properly be carried out simultaneously by the same agency? What evidence do you have that the bankers and examiners see a clear demarcation between the two functions?

5. Submit any arguments or evidence which create a presumption that bank examiners have or have not at any time since 1933 exercised a socially undesirable influence upon the development of recovery in this country.

6. What policy, if any, do you think a commercial bank should follow in order to be able to meet abnormal demands for cash? Do supervisors and examiners in any way influence the policy of banks in this respect?

7. Do supervisors and examiners make any attempt to limit the speculative activities of banks? If so, is this desirable? Would you suggest any revision of law or policies in this connection?

B. Asset Quality and Type.

1. Does the influence of bank examiners keep many banks from making loans or investments they would otherwise be willing to make? If so, what kinds of loans and investments are thus forestalled?

2. What is your opinion of current methods whereby the supervisors exercise control over the credit quality of bonds purchased and held by banks? Particularly what is your opinion of any use made by them in this connection of any recognized rating agencies? What is your opinion of any requirements which they make concerning the marketability of securities purchased and held?

3. What is your opinion of current methods whereby the supervisory authorities exercise control over the credit quality of loans made by banks? Do examiners discriminate against (a) long term loans as such; (b) capital loans as such; (c) real estate loans as such?

4. What determines the relative amounts of various types of assets held by commercial banks? Should Federal law and supervisory policy be altered in any manner with a view to affecting the distribution?

5. Should commercial banks be permitted by law to invest in high-grade preferred stock? Why or why not?

6. Which, if any, of the following do you consider as inappropriate assets for purchase (a) by banks having demand deposits in substantial volume, (b) by banks having chiefly time and savings deposits:

(a) Real-estate mortgages:

- (1) Farm?
- (2) Urban, uninsured?
- (3) Urban, insured by Federal Housing Administration?
- (4) Limited to 3 or 5 years' duration?

(b) Loans to customers for working capital purposes:

- (1) Repayable over a period of 5 years; 10 years?
- (2) Nominally repayable within 90 days but actually repayable only by liquidating the business?

(c) Stock-market call loans?

(d) Railroad and industrial bonds of corporations with good credit standing?

(e) Bonds issued by local industries of good credit standing but having only restricted market?

(f) Finance company paper secured by installment notes?

(g) Acceptances issued by high-grade institutions covering goods in storage?

(h) Notes collateralized by warehouse receipts for commodities:

(1) Hedged?

(2) Unhedged?

7. If any of the items listed in the preceding question are deemed acceptable for a restricted proportion of a bank's assets, indicate the criteria of a proper proportion.

8. Should banks be permitted to operate personal-loan departments making small loans on a high interest basis (for instance, 4 to 6 percent deducted in advance, on a monthly installment loan spread over 1 year)?

C. Valuation of Assets.

1. What are the purposes served by the valuation of bank assets by supervisors and examiners?

2. For purposes of bank supervision and examination what principles should guide public policy with respect to the valuation of bank assets? For these purposes what are appropriate evidences of the value of bank assets? Which of these principles or evidences can and should be law? How do and should these principles manifest themselves in practical application?

3. Should commercial banks be required by law or practice to charge off their books all losses as determined by bank examiners and supervisors?

4. What benefit or harm follows from requiring publication of bank balance sheets? Would you favor any change in the current law on this subject? Can any harm follow from requiring banks to make public the amount of their borrowings?

D. Capital.

1. What principles should guide public policy with respect to the capital of banks? Which of these principles should be enacted into law? What is your opinion of minimum capital ratio requirements? What are the respective merits of various capital ratio bases? What is a proper minimum ratio? Outline the procedure for putting your suggestion into effect.

2. Are the capital ratios of commercial banks currently controlled by the supervisory authorities? If so, explain the nature and extent of this control.

3. Give your reaction to a proposal that supervisory authorities be given the power to require the retention of earnings by banks which

are found by their supervisory authority to have an inadequate amount of capital.

4. Does the taxation of banks in accordance with the provisions of section 5219 of the United States Revised Statutes keep down the volume of bank capital? Do you favor any change in this section of law?

5. Do you have any suggestions for any change of Government policy with respect to retirement of the stock of commercial banks held by the Reconstruction Finance Corporation? Please indicate the nature of any desirable changes.

E. Procedures and Sanctions.

1. Are the principles, procedures, and practices which the supervisory authorities require banks to follow available to banks in the form of published rules and regulations, or are they made known to banks on a case by case basis? Which of the two methods would banks prefer?

2. What are the sanctions which supervisors of commercial banks invoke in order to secure compliance with their requirements? Do you have any suggestions for changes in these sanctions? Specifically, have you any criticisms or suggestions for revision of those sections of law which provide for the removal of officers or directors or the termination of deposit insurance in cases of violation of law, or of unsafe or unsound practices?

3. What rights of appeal and appeal procedures do banks have from the requirements of supervisors and examiners? Do these procedures offer adequate protection?

F. Relations Among Supervisory Agencies.

1. Should the bank supervisory and bank examining functions of the Federal Government be concentrated in the hands of a single agency and a single integrated examining force?

2. Should all Federal bank supervisory laws be unified and codified and made to apply uniformly to all insured banks, or to all banks holding demand deposits?

3. Is there a danger that bank supervision in the hands of the Federal Deposit Insurance Corporation will be so stringent, because designed to reduce to the absolute minimum the losses to that Corporation, that the restrictions on bank-credit extension will unduly hamper business enterprise? Has there been any evidence of this during the past 6 years?

4. In your opinion is there at present any significant undesirable duplication of bank supervision by Federal and State authorities? If so, what suggestions do you have for remedying this situation?

III. LEGAL STATUS OF BANKS

A. Granting of Charters, and Admission to Insurance.

1. Set forth your views with respect to the relative merits of granting charters to all banks and admitting to insurance all banks which meet certain specific requirements fixed by law and agree to operate in accordance with all laws and regulations applicable to them as compared with the present system of case by case decisions with respect to the granting of charters and admission to insurance. If you prefer the former alternative, what should be the specific legal requirements?

2. By what standards should a supervisor determine whether to grant or withhold approval of a consolidation or merger of two or more commercial banks? Should permission be granted for the merger or consolidation of banks which could not legally have interlocking directorates?

3. Are there too many banks or banking offices in the United States at the present time? To what extent are there communities not adequately supplied with banking facilities? What method do you suggest for determining the proper number of banks or banking offices for the country?

4. Are bank supervisors in any substantial degree inhibited from effectively supervising banks by the possibility that they may avoid their current supervision by transfer of charter or change of status with respect to the Federal Reserve System? What evidence is there on this subject? If there is a major problem involved, what solution do you suggest?

5. What advantages or disadvantages would follow from requiring all banks holding demand deposits, or all insured banks, to operate under national charters and Federal supervision? Under State charters and State supervision?

6. Do you favor requiring all banks which hold demand deposits to be insured? Why?

B. Federal Reserve Membership.

1. Do you think any substantial economic disadvantages have resulted from the fact that: (a) a considerable number of banks have not had full access to Federal Reserve credit facilities over the past 25 years; (b) a considerable number of banks have not been in the par collection system over the past 25 years; (c) a considerable number of banks have not been subject to the Federal Reserve requirements of reserve against deposits?

2. Should all insured banks be required to be members of the Federal Reserve System under present requirements for membership? Under some other requirements for membership? If the latter, what alterations and requirements do you suggest?

IV. EARNINGS AND INTEREST PAYMENTS

1. Are the earnings and profits of commercial banks of particular public interest? If so, in what respect? If so, evaluate those aspects of law and supervision which pertain thereto, indicating any desirable alteration of law and regulations. Are earnings of commercial banks sufficient from the standpoint of the public interest? How do and how have they compared with the earnings of other types of businesses?

2. Would you favor a requirement for publication of all earnings statements submitted to the supervisory authority?

3. How should supervisory authorities determine the maximum permissible rate of interest payable on time and savings deposits? Should the power of bank supervisors to control interest paid on time deposits be a permanent or temporary power? What is the justification for this particular kind of price control? Should supervisors also have power to control interest rates charged by banks?

4. Can you visualize any possible developments which would render inadvisable a continuation of the present prohibition on payment of interest on demand deposits? Please enumerate and discuss. What,

in your opinion, are the chief justifications for the prohibition at the present time?

5. Does the question of bank service charges need legislation or governmental regulation? Is it in the public interest to promote or discourage competition among banks in such charges?

V. BANK ORGANIZATION AND STRUCTURE

1. Indicate in detail what, if any, changes you think should be made in existing law which affects the banking structure of the country; that is, branch banking, unit banking, group and chain banking, bank competition, concentration of banking power.

2. Give in detail your appraisal of the following: (1) Nation-wide branch banking; (2) Federal Reserve district-wide branch banking; (3) "trade area" branch banking; (4) prohibition of further extension of branch banking; (5) dissolution of existing branch banking; (6) prohibition of further extension of group and chain banking; (7) dissolution of existing groups and chains; (8) prohibition of the concentration of more than a given percentage of the bank deposits and offices of a given area under common control.

3. Even if no changes are to be made in the Federal law with relation to banking, should that law be rewritten and codified with a view to clarity and removal of ambiguity? If so, submit a rough outline of such codification and indicate at what points the present law is most in need of clarification.

4. What, if any, merit do you see in the proposal that certain assets be segregated in savings departments to offset time and savings deposits?

5. Did benefit or harm arise from divorcing banks from securities companies and prohibiting banks from doing securities business?

6. Do you have any suggestion for changes in the holding company and affiliates provisions of law?

VI. CREDIT CONTROL

1. Is there any reason for altering the present number of members of the Board of Governors of the Federal Reserve System, their tenure of office, or annual salaries? What changes, if any, should be made in the requirements for eligibility for nomination to the Board?

2. Is it desirable to change the composition of the boards of directors of the Federal Reserve banks to give wider representation to the general public? Are any changes desirable in their method of appointment, or in their annual salaries?

3. Would it be desirable to transfer the ownership of the Federal Reserve banks to the United States Government? Should any change be made in the disposition of Federal Reserve bank earnings? In the rate of dividends on Reserve bank stock?

4. Should the Secretary of the Treasury become a member of the Board of Governors of the Federal Reserve System? Should any other Government officials be added to the Board?

5. Would the Reserve System be improved, if a single Reserve bank with necessary branches were substituted for the present 12 banks?

6. What is the present significance, from the standpoint of credit control, (a) of the regulations governing the eligibility for rediscount,

(b) of rediscount rates? Does it appear likely that the significance of these regulations will increase materially in the near future?

7. Is it desirable to increase the significance of eligibility regulations and rediscount rates? If so, would it be practicable to do so by selling bonds from the Reserve banks' portfolio in the hope that banks would thereby be put under pressure to rediscount?

8. What is the nature of the tradition with reference to (a) inter-bank borrowing; (b) rediscounting at a Federal Reserve bank? Do the Board of Governors of the Reserve System, the Reserve banks, or the examiners encourage this tradition?

9. Is this an appropriate time to formulate permanent rules of monetary policy? Should such rules be embodied in legislative enactment? If not, should the Board of Governors adopt such rules, and specify them in a public pronouncement? Are the present general objectives adequate?

10. What are the present criteria of monetary policy? For legislative enactment or Board pronouncement, what are the merits of the following criteria, singly or in some combination? (Specify the combination.)

(a) Stability of prices:

- (1) Index of general wholesale prices.
- (2) Cost-of-living index.
- (3) Nonfarm commodity prices.
- (4) Any specially devised composite price index.

(b) A stable relationship between price indexes of various significant groups of commodities.

(c) A price level declining in accordance with increased efficiency of production.

(d) A slowly rising price level.

(e) Amount of unemployment.

(f) An index of production.

(g) An index of national money income.

(h) Stability of foreign exchange rates.

(i) Reserve position of Reserve banks.

(j) Stable quantity of money or a secular increase in the quantity of money (including or excluding rate of turn-over of money).

(k) Stable relationship among the various categories of income groups.

(l) Prices of Government bonds.

(m) Interest rates.

11. Specify the action that would be appropriate on the adoption of any of the above criteria.

12. Can fiscal policies (such as deficit or surplus financing, control of cash balance, choice of securities to be issued or retired, forms of taxation) advantageously be used as instruments of monetary credit policy? If so, can you suggest any means by which fiscal policy and credit policy could be more closely coordinated?

13. Is it possible for a policy of monetary ease to be carried too far in a period of depression?

14. Would there ever be occasion when a policy of monetary ease should be limited, abandoned, or revised before the restoration of

full employment, because of danger that the monetary expansion could not be controlled? Or for other reasons?

15. What facts would indicate that a policy of monetary ease had gone too far? Have there been indications that a policy of monetary ease was carried too far at any time within the last 20 years? Was this an important factor in bringing on the depression of 1929?

16. Is it possible to check monetary expansion without at the same time initiating a contraction of business activity? Is it possible by such means to check price increases in any particular field (for instance in the stock market) without initiating a general contraction of business activity?

17. Why has the rediscount rate apparently lost its effectiveness? Is the discount rate likely to be of any influence in controlling the level of interest rates and the volume of business activity in the foreseeable future?

18. What factors have been mainly responsible for the low interest rates which have obtained in recent years? What is likely to be the course of interest rates in the near future? Is there any considerable chance of a serious decline in bond prices and necessity for banks to sell bonds with resulting enormous losses to the banks and bank failures? What Federal Reserve policy would you consider appropriate in this connection?

19. What determines the magnitude of excess reserves held by banks? Are there important variations as to excess reserves in different types of banks?

20. What is the cause of the great volume of excess reserves? Is it likely that the banking system will return to a position where excess reserves will not exist? If so, describe the process by which this will most likely come about.

21. In the light of experience of the past 10 years, what can be said as to the influence of cheap money (a) on stock-market prices, (b) on commodity prices, (c) on the level of employment?

22. What, in your judgment, were the causes of the marked increase in the ratio of the volume of time deposits to that of demand deposits which occurred during the twenties? Of the increase in the proportion of demand deposits during recent years? What changes, if any, in banking policy are rendered necessary by major shifts in the proportion of time and demand deposits?

23. Is there any good reason for requiring a different reserve ratio against demand and time deposits?

24. What are the causes of the relatively low rate of turn-over of bank deposits in recent years as compared with the period of the middle twenties?

25. In 1931 a committee of the Federal Reserve System recommended a plan under which the velocity of turn-over, as well as the volume of deposits, would be taken into consideration in computing reserve requirements. Please comment on the merits of this recommendation.

26. Should the problem of excess reserves be dealt with now, or only after undesirable monetary expansion is under way? If no action to reduce reserves is now appropriate, should any legislative power necessary to control excess reserves be enacted now?

27. What are the merits and demerits of each of the following methods of dealing with excess reserves?

- (a) Raising reserve requirements.
- (b) Establishing different and high reserve requirements against additional deposits.
- (c) Relating deposit increases to an increasing ratio of capital to deposits.
- (d) Supplementing existing requirements with special requirements of reserve privilege bonds.
- (e) Sale of bonds by the Treasury or the Reserve System?
- (f) Other?

28. To what extent were the policies followed in the exercise of monetary powers by the Federal Reserve System and the Treasury's management of the inactive gold account in the spring of 1937, and the reversal of those policies in the autumn of 1937, responsible for the changes in business activity which followed them?

29. Would you favor the proposal that no inter-bank deposits, other than those with Reserve banks, should be permitted?