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THE FEDERAL RESERVE BOARD AND THE TREASURY

By the Banking Act of 1935 Congress placed upon the Federal Reserve System, and more particularly upon its Governing Board, responsibility for the regulation of the country's supply of money and credit, and instructed it to use its powers to contribute to the restoration of prosperity and the subsequent maintenance of economic stability. The great powers entrusted to the Board carry with them a correspondingly great responsibility.

Monetary powers of the Treasury

The Board's ability to exercise its powers effectively, however, is restricted by the fact that it is not the only agency of the Government that has monetary powers. The Secretary of the Treasury and the President also have vast powers over the supply of money and credit. These powers include: (1) issuance of \$3,000,000,000 of greenbacks under the Thomas amendment; (2) disbursement of the stabilization fund, amounting to \$2,000,000,000; (3) issuance of silver certificates, of which \$250,000,000 can be paid out on the basis of the silver now held by the Treasury, and additional amounts will be available as more silver is acquired; (4) further reduction of the gold content of the dollar from 59 to 50 percent of its old weight, which would result in further additions to the gold resources of the Treasury. In the aggregate, the Treasury has the power to increase member bank reserves, which are now \$2,500,000,000 in excess of legal requirements, by an additional \$5,000,000,000 or more.

It is clear that in these circumstances the Federal Reserve System is not in a position to discharge its responsibilities, unless its policies be in close coordination with those pursued by the Treasury. On the other hand, the Treasury, in the exercise of its monetary powers, might be hindered by conflicting actions of the Reserve administration. It is, therefore, imperative in the public interest that a definite understanding be established with the Treasury that neither of the two monetary authorities will undertake an important move in the exercise of its powers without consultation with the other.

A phase of this problem is the operation of the Exchange Stabilization Fund. In the operation of the fund the Treasury works through its fiscal agent, the New York Federal Reserve Bank. That bank, being located in the money center, is best equipped for doing the work. An incidental result of this, however, is that the New York Reserve Bank, which is represented on the Open Market Committee, always has in its possession information, not available to the Federal Reserve Board, that has a bearing on monetary problems. An arrangement by which the Board, or at least the Chairman of the Board, would be kept advised of the operations through the fund would assist the Board in its consideration of open-market policies. Since the Board under the law must assume responsibility for the policies adopted, it should have at its command all the available information that has a bearing on the problems involved.

The emphasis laid on this point is not occasioned by a lack of a

spirit of cooperation between the Reserve System and the Treasury; on the contrary, such a spirit has always been manifest. A somewhat more formal understanding between the two agencies, sanctioned by the President, however, would give this essential cooperation a firmer basis than personal relationships. The fact that the Secretary of the Treasury is no longer a member of the Board and that the Board is no longer housed in the Treasury Building makes such a basis for cooperation more than ever desirable.

Influence of other powers of the Treasury

In addition to its monetary powers, many of the fiscal operations of the Treasury exert an influence on banking conditions, money rates, and the investment market. The volume of Treasury security issues, the rates at which they are put out, the distribution of its deposits between its own vaults, the different Federal Reserve banks, and the depositary institutions, sales and purchases of securities on account of trust funds, all have an important bearing on banking and money market developments.

A close cooperation between the Governing Board of the Federal Reserve System and the Treasury in these matters is as essential as their cooperation in monetary matters. In this case also the fact that information about Treasury problems is available to some of the Reserve banks in their capacity as fiscal agents is not sufficient to give the Board the information essential for formulating open-market policies.

From the broadest point of view, monetary policies should be coordinated also with the Government's budgetary and taxation policies. In order to be able to carry the necessary weight at policy-making conferences, the Governing Board of the Federal Reserve System must, therefore, be familiar with current fiscal problems and developments. For this purpose, also, it must be in close touch with Treasury plans and considerations.

In view of all these interrelationships it would be desirable to have an understanding between the Treasury and the Federal Reserve Board that would embrace not only the exercise of monetary powers by either agency, but also the general field of Government financing and fiscal operations, which are, and are likely to remain for a long time, the dominant factors in the money market and in the banking situation.