Mr. Eccles

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 16, 1949

To Board of Governors

Subject:

From Woodlief Thomas

Professor Lester Chandler, who has been employed as Staff Expert to the Joint Committee on the Economic Report in connection with the inquiry relating to the effectiveness and coordination of monetary, credit, and fiscal policies, has from time to time informally discussed with the Board's staff matters relating to the possible conduct of this investigation. He has recently sent to us a draft of a proposed questionnaire to be addressed to the Federal Reserve System and has requested our comments and suggestions. It is to go to the Reserve Bank Presidents as well as to the Board. A copy of this draft is attached. Another questionnaire is being prepared for submission to a selected group of bankers, economists, and business, agricultural, and labor representatives.

The questions in the proposed draft for the Federal Reserve, as you will note, are both broad and specific. Many of them are theoretical and hypothetical, as well as controversial. Some request explanations of past policies. The majority are concerned with relations of the Board and the Treasury in the determination of policies.

It is contemplated that answers to these questions would be requested to be submitted by October 1. It would be exceedingly difficult for the staff to prepare answers to such questions by that time, not to mention the problem of obtaining Board clearance for the answers to be submitted.

The immediate problem before the staff is that of presenting comments and suggestions as to the content of the questionnaire. This has to be done within the next day or so and therefore will be on a strictly informal basis without committing the System authorities in any way. These are Professor Chandler's suggestions to the Committee and members of the Committee must take responsibility for the final questionnaire.

Other questions that will need to be faced relate to the procedure to be adopted in preparing answers to the questionnaire:

How shall the task be distributed among the staff and will additional staff assistance be needed for the purpose?

To what degree should the Board work with the Federal Reserve Banks, whose Presidents will receive similar questions, in preparing answers?

Should the replies be submitted as staff answers or will the Board take full responsibility for them?

This memorandum is for the purpose of bringing the subject to the attention of the Board without any recommendations at this time.

W. T.

Attachment
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By direction of Congress, the Joint Committee on the Economic Report has undertaken a comprehensive study relating to the effectiveness and coordination of monetary, credit, and fiscal policies. This study will not be limited to issues of immediate importance, but will include all the major factors in the fields of monetary, credit, and fiscal policies that significantly affect our ability to achieve the purposes of the Employment Act. A Subcommittee composed of Senators Paul H. Douglas, Chairman, and Ralph E. Flanders, and Representatives Wright Patman, Frank Buchanan, and Jesse P. Wolcott has been appointed to conduct the study.

Enclosed is a copy of the questionnaire which is being sent to the Board of Governors and to the presidents of the twelve Federal Reserve Banks. The Committee will appreciate your cooperation in answering the questionnaire and returning your answers to this office at your earliest convenience, but not later than October first. If convenient, please send thirty copies of your answers for the use of the Committee and its staff. It would also be extremely valuable if you would discuss any other subjects in the fields of monetary, credit, and fiscal policies which you believe the Committee should consider and which is not specifically covered by the questionnaire.

Very truly yours,

Joint Committee on the Economic Report
(Created Pursuant to Sec. 5(a) of
Public Law 304, 79th Congress)

August 1949

QUESTIONNAIRE ADDRESSED TO THE FEDERAL RESERVE SYSTEM

1. Would it be desirable for the Congress to provide more specific legislative guides for Federal Reserve credit policy? If so, what types of legislative guides to the Federal Reserve would best promote the purposes of the Employment Act?

2. (a) Have the credit policies of the Federal Reserve since 1928 made their maximum contribution to the maintenance of satisfactorily high levels of employment and production and to relatively stable price levels? If not, on what occasions and in what respects have those policies been inappropriate or inadequate for these purposes? What were the principal reasons for these shortcomings?
(b) In what respects, if at all, does the Federal Reserve still lack legal power to prevent a repetition of these experiences?
(c) What legislative changes, if any, would you recommend to remedy these deficiencies?

3. What changes in the objectives and policies relating to the management of the Federal debt would contribute to the effectiveness of Federal Reserve policies in maintaining general economic stability?

4. What, if anything, should be done to increase the degree of coordination of Federal Reserve and Treasury objectives and policies in the fields of money, credit, and debt management?

5. In what respects, if at all, is the effectiveness of Federal Reserve policies reduced by the presence of nonmember banks?

6. What changes, if any, should be made in the standards that banks must meet in order to qualify for membership in the Federal Reserve System? What would be the advantages of such changes?

7. What changes, if any, should be made in the reserve requirements of member banks? In the authority of the Federal Reserve to alter member bank reserve requirements? Under what conditions and for what purposes should the Federal Reserve use this power? What power, if any, should the Federal Reserve have relative to the reserve requirements of nonmember banks?

8. Should the Federal Reserve have the permanent power to regulate consumer credit? Should selective controls be applied to any other type of credit? If so, what principles should determine the types of credit to be brought under selective control?

9. What changes, if any, should be made in the division of authority within the Federal Reserve System and in the composition and method of selection of the System's governing bodies? In the size, terms, and method of selection of the Board of Governors? In the Open Market Committee? In the Boards of Directors and officers of the Federal Reserve banks? What would be the advantages and disadvantages of the changes that you suggest?

10. What are the principal differences, if any, between the bank examination policies of the Federal Reserve and those of the FDIC and the Comptroller of the Currency?

11. To what extent and by what means have the policies of the Federal Reserve been coordinated with those of the FDIC and the Comptroller of the Currency where the functions of those agencies are closely related? What changes, if any, would you recommend to increase the extent of coordination? To what extent would you alter the division among the Federal agencies of the authority to supervise and examine banks?

12. What would be the principal advantages and disadvantages of re-establishing a gold-coin standard in this country? Do you believe that such a standard should be re-established?

13. Under what conditions and for what purposes should the price of gold be altered? What consideration should be given to the volume of gold production and the profits of gold mining? What effect would an increase in the price of gold have on the effectiveness of Federal Reserve policy and on the division of power over monetary and credit conditions between the Federal Reserve and the Treasury?

14. What changes, if any, should be made in our monetary policy relative to silver? What would be the advantages of any such changes?

15. What would be the advantages and disadvantages of providing that the Chairman of the Federal Reserve Board should be a member of the Board of Directors of the Federal Deposit Insurance Corporation? Would you recommend that this be done?

16. What changes, if any, in the laws and policies relating to Federal insurance of bank deposits would contribute to the effectiveness of general monetary and credit policies?

17. In what cases, if any, have the policies of other Government agencies that lend and insure loans to private borrowers been inappropriately coordinated with general monetary and credit policies?

18. What changes, if any, should be made in the powers of the Federal Reserve to lend and guarantee loans to nonbank borrowers? Should either or both of these powers be possessed by both the Federal Reserve and the Reconstruction Finance Corporation? If so, why? If not, why not?

19. On what occasions, if any, since 1929 have the Government's fiscal policies decreased the effectiveness of Federal Reserve policy and made more difficult the attainment and maintenance of general economic stability?

20. What would be the advantages and disadvantages of establishing a National Monetary and Credit Council of the type proposed by the Hoover Commission? On balance, do you favor the establishment of such a body? If so, what should be its composition?

21. What other changes in Federal legislation relating to the organization and powers of the Federal Reserve and the rest of the banking system would you recommend to promote the purposes of the Employment Act?

Supplementary Questions

(a) What were the principal reasons for the Federal Reserve's policy of maintaining yields on Treasury bills at 3/8 of 1 per cent and the yield on certificates at 7/8 of 1 per cent until mid-1947?

(b) What were the principal reasons for preventing yields on these obligations from rising more during the period following July 1947?

(c) What were the principal reasons for preventing yields on the longer-term marketable issues from rising above 2 1/2 per cent?

(d) To what extent, if at all, would a policy of higher yields on Governments during the period from January 1946 to late 1948 have lessened the amount of inflation and contributed to general economic stability?

(e) Suppose that in a particular situation it appeared that the maintenance of low interest costs on the Government debt and stable prices of outstanding Government obligations was promoting inflation, or at least limiting the effectiveness of the Federal Reserve as an anti-inflationary force, which objectives should be sacrificed in this situation: low interest costs and stable prices on Government securities, or stable price levels for commodities and services?

(f) Is there any feasible method of achieving both of these objectives simultaneously?

(g) In those cases in which there are differences between the judgments of the Secretary of the Treasury and those of Federal Reserve officials as to the yields that should be borne by new Treasury issues, whose judgment prevails?

(h) Where they differ as to the level of Federal Reserve support prices for outstanding Government bonds, whose judgment prevails?

(i) To what extent and by what means are the debt management and monetary policies of the Federal Reserve coordinated with those of the Treasury? Describe in detail the procedures followed for these purposes.

Joint Committee on the Economic Report
(Created Pursuant to Sec. 5(a) of
Public Law 304, 79th Congress)

August 1949

QUESTIONNAIRE ADDRESSED TO THE FEDERAL RESERVE BOARD

I. Objectives of Federal Reserve policy

1. What do you consider to be the more important purposes and functions of the Federal monetary and credit agencies? Which of these should be performed by the Federal Reserve?

2. What have been the guiding objectives of Federal Reserve credit policies since 1935? Are they in any way inconsistent with the objectives set forth in the Employment Act of 1946?

3. Cite the more important occasions when the powers and policies of the System have been inadequate or inappropriate to accomplish the purposes of the System.

4. Would it be desirable for the Congress to provide more specific legislative guides as to the objectives of Federal Reserve policy? If so, what should the nature of these guides be?

II. Relation of Federal Reserve policies to fiscal policies and debt management

1. To what extent and by what means are the monetary policies of the Federal Reserve and the fiscal, debt management, and monetary powers of the Treasury coordinated?

2. Cite the more important occasions since 1935 when Federal Reserve policies have been adjusted to the policies and needs of the Treasury.

   a. What were the principal areas of agreement and what were those of conflict between the two agencies?

   b. In what way were the differences adjusted?

   c. When there were differences of opinion between the Secretary of the Treasury and the Federal Reserve authorities as to desirable support prices and yields on Government securities, whose judgment generally prevailed?

3. What were the principal reasons for the particular structure of interest rates maintained during the war and the early postwar period?

4. Would a monetary and debt management policy which would have produced higher interest rates during the period from January 1946 to late 1948 have lessened inflationary pressures?

5. In what way might Treasury policies with respect to debt management seriously interfere with Federal Reserve policies directed toward the latter's broad objectives?

6. What, if anything, should be done to increase the degree of coordination of Federal Reserve and Treasury objectives and policies in the field of money, credit, and debt management?

   a. What changes in the objectives and policies relating to the management of the Federal debt would contribute to the effectiveness of Federal Reserve policies in maintaining general economic stability?

   b. What would be the advantages and disadvantages of providing that the Secretary of the Treasury should be a member of the Federal Reserve Board? Would you favor such a provision?

III. International Payments, Gold, Silver

1. What effect do Federal Reserve policies have on the international position of the country? To what extent is the effectiveness of Federal Reserve policy influenced by the international financial position and policies of this country? What role does the Federal Reserve play in determining these policies? In what respects, if any, should this role be changed?

2. Under what conditions and for what purposes should the price of gold be altered? What consideration should be given to the volume of gold production and the profits of gold mining? What effect would an increase in the price of gold have on the effectiveness of Federal Reserve policy and on the division of power over monetary and credit conditions between the Federal Reserve and the Treasury?

3. What would be the principal advantages and disadvantages of restoring circulation of gold coin in this country? Do you believe this should be done?

4. What changes, if any, should be made in our monetary policy relative to silver? What would be the advantages of any such changes?

IV. Instruments of Federal Reserve policy

1. What changes, if any, should be made in the law governing the reserve requirements of member banks? In the authority of the Federal Reserve to alter member bank reserve requirements? Under what conditions and for what purposes should the Federal Reserve use this power? What power, if any, should the Federal Reserve have relative to the reserve requirements of nonmember banks?

2. Should the Federal Reserve have the permanent power to regulate consumer credit? If so, for what purposes and under what conditions should this power be used? What is the relationship between this instrument and the other Federal Reserve instruments of control?

3. What, if any, changes should be made in the power of the Federal Reserve to regulate margin requirements on security loans?

4. Should selective control be applied to any other type or types of credit? If so, what principles should determine the types of credit to be brought under selective control?

5. In what respects does the Federal Reserve lack the legal power needed to accomplish its objectives? What legislative changes would you recommend to correct any such deficiencies?

V. Organization and structure of the Federal Reserve System

1. In what respects, if at all, is the effectiveness of Federal Reserve policies reduced by the presence of nonmember banks?

2. What changes, if any, should be made in the standards that banks must meet in order to qualify for membership in the Federal Reserve System? What would be the advantages of such changes?

3. What changes, if any, should be made in the division of authority within the Federal Reserve System and in the composition and method of selection of the System's governing bodies? In the size, terms, and method of selection of the Board of Governors? In the Open Market Committee? In the Boards of Directors and officers of the Federal Reserve banks? What would be the advantages and disadvantages of the changes that you suggest?

VI. Relation of the Federal Reserve to other banking and credit agencies

1. What are the principal differences, if any, between the bank examination policies of the Federal Reserve and those of the FDIC and the Comptroller of the Currency?

2. To what extent and by what means have the policies of the Federal Reserve been coordinated with those of the FDIC and the Comptroller of the Currency where the functions of these agencies are closely related? What changes, if any, would you recommend to increase the extent of coordination? To what extent would you alter the division among the Federal agencies of the authority to supervise and examine banks?

3. What would be the advantages and disadvantages of providing that a member of the Federal Reserve Board should be a member of the Board of Directors of the Federal Deposit Insurance Corporation? Would you recommend that this be done? Should the Comptroller of the Currency be a member of the Federal Reserve Board?

4. In what cases, if any, have the policies of other Government agencies that lend and insure loans to private borrowers not been appropriately coordinated with general monetary and credit policies?

5. What changes, if any, should be made in the powers of the Federal Reserve to lend and guarantee loans to nonbank borrowers? Should either or both of these powers be possessed by both the Federal Reserve and the Reconstruction Finance Corporation? If so, why? If not, why not?

6. What would be the advantages and disadvantages of establishing a National Monetary and Credit Council of the type proposed by the Hoover Commission? On balance, do you favor the establishment of such a body? If so, what should be its composition?

VII. Deposit insurance

1. What changes, if any, in the laws and policies relating to Federal insurance of bank deposits would contribute to the effectiveness of general monetary and credit policies?

VIII. Earnings of the Federal Reserve banks and their utilization, 1940-

1. Describe briefly the process by which the Federal Reserve banks create money, the kinds of money created, and the amount of outstanding money on June 30 of the various years since 1935 that owed its existence to its creation by the Federal Reserve. Include a description of the process and extent of money creation by the Federal Reserve

   a. By dealing in Government debt;

   b. By dealing in private debt of various kinds.

2. Prepare a statement showing the earnings of the Federal Reserve banks as a group and the utilization of those earnings for each year since 1939. Show separately the earnings on U. S. Government securities and on other credit, dividends to member banks, payments to the Treasury, and additions to surplus.

3. What changes, if any, should be made in the ownership of the Federal Reserve banks? In the dividend rates on Federal Reserve stock?

4. What changes, if any, should be made in the legislative provisions relative to the disposal of Federal Reserve earnings in excess of expenses?