February 26, 1940

Following are hastily prepared answers to the questions raised in the agenda for the Round Table discussion. The questions have not been copied, but are merely referred to by number and letter.

I. A. 1. (a) No.

(b) No.

(c) No.

(d) Only to a moderate extent.

(e) Not enough to change the situation.

(f) Probably none.

(g) No large financing in sight.

(h) Improbable.

1[1].

(a) Yes.

(b) Yes.

(c) No.

(d) No.

(e) No.

2. Requirements are not likely to be increased. The Board's power to increase at the present time is limited to one-seventh of existing requirements or about $900,000,000

3. It is not possible to predict the System's actions, but there is nothing on the horizon at present that would indicate any desire ~~for~~ of the Federal Reserve authorities to increase interest rates. It is probable that if Government securities are sold at all, it will be for the purpose of absorbing still further additions to

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reserves, rather than for the purpose of diminishing the existing supply.

4. It is likely that banks are not buying more securities because short-term securities offer almost no return, and the banks are hesitant about making long-time commitments. Outside of New York City foreign deposits cut no ice, and in New York, excess reserves are so large that it is not likely that banks are influenced in their investment policy by the presence of foreign deposits.

5. The level of Government security prices in relation to underlying conditions is not particularly low and no decline in prices of Government securities is likely to occur, except in a temporary disturbance, such as happened last September.

6. It is probable that with the present attitude of banks, interest rates would begin to advance long before excess reserves will have disappeared. A decline of excess reserves to between one and two billion dollars would probably be accompanied by a sharp rise in short-time money rates. Long-time rates would be much slower to advance.

B.

1. The Treasuryhas full discretion as to what purchases of gold or silver it chooses to make. In the case of silver, it is supposed to keep on buying until certain objectives are achieved. But there is no time limit, so that the Treasury has practical discretion in the matter. There is no way of telling what the Treasury's intentions are, but with regard to silver there is considerable agitation in Congress to discontinue foreign silver purchases.

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2. I do not know of any answer to this question.

3. In the present circumstances, it is likely that sales of American goods to belligerents will continue regardless of the prices of our commodities. Other sales, however, would decline if there were a substantial rise in our price level. A price advance sufficient to reverse the gold movement is not likely in the next twelve months.

4. It seems improbable that the Treasury will ever formally sterilize gold imports. It would seem undesirable for the Treasury to do so, because such action amounts to a direct influence by the Treasury on reserves, which should be controlled by the Reserve authorities and not by the fiscal authorities.

5. Paying out gold into circulation would diminish reserves only to the extent that gold was hoarded. Otherwise it would simply take the place of other currency without affecting reserves. The amount of hoarding that would take place is not likely to be large enough to make a real difference in the reserve situation. A full-fledged automatic gold standard is not likely to be restored for a long time to come, if ever. The gold held by the United States could be redistributed only in case this country took a great deal more of foreign goods than it is willing at the present time to take, or to refrain from exports, which it is not likely to do. Aside from that, redistribution is possible only on the basis of large-scale international loans.

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6. This is a highly controversial subject. My personal opinion is that for the present the best policy is to make no change in the price of gold or in the policy of taking all gold offered. A reduction in the price of gold or an import duty at this time would probably not reduce gold imports, because of the great need of the belligerents for American goods. Aside from political considerations, a reduction in gold purchases or in the price of gold at the present time would probably not have much effect on commodity prices in this country.

7. Technically gold purchases could be discontinued any day. It is mot a question of the theoretical means, but of the policy and consequences involved. Further devaluation of the dollar is hard to conceive.

C.

1. The Treasury cannot absorb reserves without increasing the public debt. The Federal Reserve can absorb reserves to the extent that it sells securities from its portfolio, or raises reserve requirements. This has been discussed before. The various authorities are in constant communication and consultation with each other.

2. Government deficits in so far as they are financed by banks purchasing securities increase the volume of deposits and reduce excess reserves. In so far as they are financed by the purchase of Government securities by others than banks, deficit financing does not directly affect the money market

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3. It looks as though the Treasury would not have to sell any bonds in the money market during the next fiscal year.

4. I do not know.

5. I do not know.

6. Baby bonds are being sold at the rate of about \$100,000,000 a month. This rate could increase considerably if the present policy of paying an average interest rate of 2.9 per cent is continued. This policy amounts to a substantial subsidy to the holders of baby bonds, four-fifths of which are probably not held by small investors.

7. It is doubtful whether there is any danger of this sort in the picture.

8. I do not know.

9. The Treasury refunding policy has had the effect of diminishing the supply of short-time paper and contributing to the decline in short-time rates.

10. In general, it would seem better public policy to have the Treasury not borrow on very long term. If the rate is too high, it is an unnecessary expenditure for the Treasury and if the rate is too low, it is an unnecessary ~~advantage~~ cost and risk to the purchaser.

D.

1. Even if commercial loans should increase by \$1,500,000,000 or so, this would absorb only between two and three hundred millions of reserves and would not be a big factor in the reserve situation.

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2. Both are likely.

3. I do not know.

4. Commodity prices are likely to show a slight advance during the year, but not one equal to that in 1936-37.

5. One never can tell about the stock market, but we have had in recent years substantial speculative advances in the market without much borrowing.

E.

1. It all depends on the character of the war, on the character of the financing, and on the character of Government controls that will be instituted.

2. I do not know.

3. I do not know, but what else can they do, in view of the prevailing rates on high-grade corporate bonds, which are not tax-exempt?

4. No answer.

5. No answer.

6. No answer.

II. A.

1. It would seem desirable to reduce "right" privileges, if not to eliminate them altogether.

2. Yes.

3. No

4. So long as trust funds are as large as at present, this seems a good device.

5. No answer.

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6. No answer.

7. These Government agencies have assets of their own and there is no reason why they should not have obligations of their own. In our bookkeeping practice of counting the capital of these Governmental agencies as expenditures of the Treasury and not making any allowance for the value of the assets does not result in a true picture of the Government's financial ~~xxxxxxxxx~~.position. In the circumstances, it is better to have these corporations issue their own obligations and carry them as their own liabilities.

B.

1. The Government debt should be viewed in relation to the national income. There is no absolute limit. Domestic debt is merely a matter of the distribution of income and the part of the income that has to be paid out in fixed charges. The essential matter is to have an adequate national income and the question of public debt will solve itself.

2. No answer.

3. I think they are likely to and I think it is sound.

4. This is a question that needs to be decided in the light of prevailing economic conditions. In existing conditions and those that are in immediate prospect, the answer is "yes".

5. I should say "no".

6. I should say "no".

7. The Federal Reserve banks have little power to control member bank reserves, but they can nevertheless exert a substantial influence on money market conditions.

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8. This question is so highly hypothetical that it calls for no answer at this time.

9. In theory there are no limits.

10. I believe that any investor who wishes to sell Government securities for the purpose of using his funds for other purposes would have no difficulty what-so-ever. No assets held in large volume could be thrown on the market all at once without creating a disturbance. The fear implied in question 10 seems to me to be groundless.

11. No answer.

12. The corporation guarantees deposits only up to $5,000, and this guarantee would unquestionably prevent runs on the great majority of banks.

III. A.

1. No answer.

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