

Outline of talk to
Economic Club,
Prof. Fessenden Home, St. Louis
Friday, Dec 4, 1942

FEDERAL FINANCES, THE FEDERAL RESERVE, AND THE BANKING SYSTEM

I. The relationship between the Treasury and the Central Bank.

- A. Research report on the government of the Bank of France made three years ago.

Similar studies on Reichsbank, Bank of England, and the Federal Reserve System.

- B. Conclusion as to proper relationship.

1. The central bank must not remain on its Olympian heights.

a. Impossible: Dualism.

b. Disastrous

- (1) Central bank would be reorganized, or
(2) Central bank would be sheared of its authority (experience in the United States following 1933).

2. A central bank should not be subservient.

a. Safety is ^futility.

3. Proper relationship

"If the central bank understands that it is its function to present the monetary point of view on current problems, and if it has succeeded in obtaining a fair consideration of that point of view then I think that it has achieved all the independence that it should have. I think of the independence of a central bank in terms of the understanding of monetary problems and of courage in presenting its point of view in terms of a tradition demanding respect of the Government and the public and yet with recognition of the fact that it exercises governmental powers and must be a branch of the Government."

II. The perspective of current problems.

- A. The Government: Absolute—to win the war.

- B. The Treasury.

1. Absolute—to finance the war.

2. Choice: Methods of financing.

a. Taxation.

b. Borrowing savings from current income.

- c. Borrowing accumulated savings.
- d. Borrowing from commercial banks.
- e. Borrowing from the Federal Reserve Banks.

C. The Federal Reserve System.

- 1. Absolute: to see that all necessary funds are raised.
- 2. Restricted action.
 - a. Taxation.
 - (1) Advice with the Treasury and Congress.
 - b. Borrowing savings—both from current income and accumulated.
 - (1) Advice with Treasury on attractive issues.
- 3. Comparatively free action.
 - a. All member banks shall be supplied with funds.

XII. Evaluation of the alternatives.

A. Reduction of reserve requirements.

B. Open market purchases.

Direct purchases limited to \$5 billion.

C. Borrowing by member banks.

Even rate versus preferential rate.

Price of a 2½ coupon bond sale to yield

2½	per	cent	to	maturity	of	20	years	=	par
2½	"	"	"	"	"	15	years	=	103.17
2	"	"	"	"	"	10	years	=	104.51
1½	"	"	"	"	"	4	years	=	103.87
3/8	"	"	"	"	"	91	days	=	100.53