

MAR. 12, 1943

MONETARY STATESMANSHIP

The monetary perspective

A. National objectives

1. Absolute: to win the war
2. Relative: with minimum of inflation, with maintenance of freedom

B. Relative responsibilities of agencies

1. The armed forces

a. Physical requirements

2. Of the Congress

a. Appropriations

(1) Physical requirements

(2) Prices

3. The Treasury

a. Absolute: to finance the war

b. Relative: methods of financing

(1) Taxation

(2) Borrowing from current income

(3) Borrowing accumulated savings

(4) Borrowing from commercial banks

(5) Borrowing from Federal Reserve Banks

4. The Federal Reserve System

a. Absolute: to see that all needed funds are raised

b. Relative:

(1) Restricted choice

(a) Taxation: advise

(b) Borrowing: advise on issues

(2) Greater freedom

(a) Methods of selling securities:

War Financing Committee

Victory Fund Committee

War Savings Staff

(b) Method of providing reserves

5. Summary

"I think of the independence of a central bank in terms of the understanding of monetary problems and of courage in pressing its point of view, in terms of a tradition commanding the 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 . . . 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 fair consideration of that point of view, then I think it has achieved all the independence that it should have."

Appropriate monetary policies

A. Relationship to fiscal policy

1. Magnitude of the budget

GENERAL BUDGET SUMMARY
(In billions of dollars)

Classification	Fiscal year 1944	January through June 1943	July through December 1942	Fiscal year 1942
Receipts:				
Direct taxes on individuals.....	13.8	6.7	1.6	3.7
Direct taxes on corporations.....	14.9	6.2	3.9	5.0
Other.....	<u>4.4</u>	<u>2.2</u>	<u>2.4</u>	<u>4.1</u>
Net receipts.....	<u>33.1</u>	<u>15.2</u>	<u>7.8</u>	<u>12.8</u>
Expenditures:				
War activities*.....	97.0	41.9	32.1	26.0
Interest on the public debt.....	3.0	1.1	.7	1.3
Other activities.....	<u>4.1</u>	<u>2.3</u>	<u>2.3</u>	<u>5.1</u>
Total expenditures.....	<u>104.1</u>	<u>45.3</u>	<u>35.1</u>	<u>32.4</u>
Excess of expenditures.....	71.0	30.2	27.3	19.6
Expenditures by Government corporations and agencies*				
Change in Treasury balance.....	<u>-.1</u>	<u>-7.7</u>	<u>+7.6</u>	<u>+.4</u>
Increase in debt.....	<u>75.7</u>	<u>26.7</u>	<u>35.7</u>	<u>23.5</u>
Public debt at end of period.....	210.5	134.8	108.2	72.4

In addition to war expenditures under Budget accounts the figures for Government corporations and agencies include 2.3 billion dollars in fiscal year 1942, 3.3 billion in 1943, and 2.7 billion in 1944.

2. Sources of funds

3. Ownership of Government securities

OWNERSHIP OF U. S. GOVERNMENT SECURITIES
(Amounts in billions of dollars)

	Estimated holdings Dec. 31, 1942*	C h a n g e		
		June 30, 1942 to Dec. 31, 1942	Dec. 31, 1941 to June 30, 1942	June 30, 1941 to Dec. 31, 1941
Commercial banks.....	41.3	+ 14.9	+ 4.6	+ 1.7
Federal Reserve Banks.	6.2	+ 3.5	+ .4	+ .1
Mutual savings banks..	4.6	+ .7	+ .2	+ .3
Insurance companies...	11.0	+ 2.1	+ .9	+ 1.0
Other investor group:				
Marketable issues...	15.1	+ 4.1	+ 1.1	+ .6
Nonmarketable issues	21.2	+ 8.1	+ 4.5	+ 4.3
Federal agencies and trust funds:				
Special issues.....	9.0	+ 1.1	+ .9	+ .9
Public issues.....	3.2	+ .4	+ .2	+ .2
Total interest- bearing direct and guaranteed securities out- standing.....	111.6	+ 35.1	+ 12.7	+ 9.0

Estimates for commercial banks, mutual savings banks, insurance companies, and other investor groups are preliminary.

4. Taxation, forced saving, voluntary saving, and inflation

- a. Graduated income taxes on amount of income
- b. Forced saving based on increases in income over income in a base period
- c. Voluntary saving through organized drives
- d. Bank purchases

B. Alternative methods of providing reserves

1. Sources of demand for reserves

- a. Increased deposits
- b. Drain of cash into circulation

2. Treasury operations and the flow of funds

- a. Central reserve cities
- b. Reserve cities
- c. Country banks

3. Methods of providing funds

- a. Reduction in reserve requirements
- b. Open Market operations
- c. Loans to member banks

(1) Variations