Treasury   RE: Hearings about Jan. 1-1952

Aug. 14, 1951

File
F. R. B.

TENTATIVE QUESTIONNAIRE FOR SECRETARY OF THE TREASURY

A. Congressional Policy Directives

1. State, citing the appropriate statutes, all of the policy directives bearing upon economic objectives which have been given by Congress to the Treasury Department as a guide to the use of the powers entrusted to it.

2. State in your own words the general economic objectives which the Treasury Department seeks to further through the use of the powers which have been given to it by Congressand in its recommendations to Congress for further legislation. Emphasize particularly the over-all objectives of the Treasury Department in managing the public debt.

3. Do you agree with the Congressional declaration of policy contained in the Employment Act of 1946, where it is stated:

> "The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power."

Suggest any changes by which you think it might be improved.

4. Do you believe that a broad directive with respect to economic policy should be given to the Treasury Department by Congress? If so, state the general character of the directive which you would recommend. If you believe there should be no such directive, state your reasons for this belief.

B. Policy Formulation in the Executive Branch

5. What are the present powers of the Treasury Department, if any, with respect to the operations of (a) the Federal Reserve System, (b) the FDIC, (c) the Federal lending agencies? Enumerate these powers, stating in each case their basis in statute, Executive Order, or otherwise.

6. What additional authority of the Treasury Department with respect to the FDIC and the Federal lending agencies would you consider desirable? If you do not believe that additional authority of the Treasury Department with respect to these agencies is desirable, what, if any, additional means of coordinating their activities would you recommend? State your reasons fully.

7. Can any policy conflict between the Treasury and the FDIC or the lending agencies be resolved in the last resort by the President? If not, what are the exceptions? Do you believe that the President should have (or under the Constitution does have) authority to resolve all such conflicts?

8. What provision, if any, is there for resolving policy conflicts between the Treasury (or other agencies of the Executive Branch) and the Federal Reserve System? Do you believe that this power should lie with the President (or already does under the Constitution)?

9. If you do not believe that the President should (or does) have such power, how in your opinion should policy conflicts be resolved? Is it necessary that they be resolved or could the agencies directly responsible to the President, on the one hand, and the Federal Reserve System, on the other, pursue conflicting policies indefinitely?

C. Credit and Debt Management Policy

10. Describe fully the issues involved in policy discussions between the Treasury and the Federal Reserve System from the time you became Secretary of the Treasury until the "accord" announced by these agencies on March 4, 1951. What were the areas of agreement and the areas of disagreement and how did they change over time during this period?

11. Describe the accord between the Treasury and the Federal Reserve System which was announced by them on March 4, 1951. Illustrate your description of the accord by a discussion of Treasury and Federal Reserve policies since that date, with particular emphasis on changes brought about by the accord.

12. Describe the mechanism by which a general tightening of credit and the increase in interest rates which it brings about is expected to restrain inflation. What is its effect on each of the broad categories of spending entering into the gross national product? Why? Distinguish between small increases in rates and large increases in rates (stating approximate magnitudes), between increases in short-term rates and increases in long-term rates, and between effects on borrowers and effects on lenders. What is the role of the (actual or potential) capital losses brought about by higher interest rates in enhancing their effectiveness? To what extent is the effectiveness of an increase in interest rates affected by or dependent upon

expectations with respect to subsequent changes in interest rates?

13. Evaluate the effectiveness of a general tightening of credit (and the consequent increase in interest rates) in restraining inflation as compared with other factors (a) when the principal threat of inflation comes from an increase in private business activity; (b) when the principal threat of inflation comes from increased expenditures by the Federal Government.

14. Discuss the appropriate role of general credit controls and of selective credit controls under each of the hypotheses mentioned in the preceding question. What selective controls do you consider appropriate under present circumstances?

15. To what extent is the demand for Government securities by non-bank investors determined by (a) the level of interest rates (b) expectations with respect to changes in interest rates (c) other factors?

16. What advantages do you see in a stable long-term Government bond market? What weight should be given to the desirability of stability in the Government bond market in determining credit policy (a) when the Treasury is not expected to be a large borrower in the foreseeable future; (b) when a large volume of Treasury refunding operations will have to be effected in the foreseeable future; (c) when it is expected that the Treasury will be a large net borrower during the foreseeable future?

17. In your judgment would an announced policy of stability in long-term interest rates for the duration of the present defense economy make it possible to sell a larger proportion of Federal securities to non-bank investors than would be possible under an announced or explicit policy of flexibility in long-term interest rates? In your opinion, which

policy would, in the long run, be the less inflationary? State your reasons fully.

18. Discuss the advantages and disadvantages of requiring (a) all member banks or (b) all insured banks to maintain secondary reserves (in addition to present reserves) in the form of special types of U. S. securities.

19. Under what conditions, if any, do you believe it would be desirable to resort to compulsory methods in the sale of Government securities to (a) banks, (b) other financial institutions, (c) other corporations, (d) individuals? Discuss the philosophy which underlies your views on this matter.

20. Discuss the merits and demerits of the proposal for the issuance of a bond, the value of which would be guaranteed in terms of purchasing power.

21. Discuss the advantages and disadvantages of marketable and non-marketable securities (a) under present circumstances; (b) in the event of the necessity for substantial net Government borrowing.

22. What new types of securities, if any, do you believe should be given serious consideration for use (a) under present conditions; (b) in the event of the necessity for substantial net Government borrowing?