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QUESTIONS ON
GENERAL CREDIT CONTROL AND
DEBT MANAGEMENT

SUBCOMMITTEE ON GENERAL CREDIT CONTROL
AND DEBT MANAGEMENT

OF THE

JOINT COMMITTEE ON THE ECONOMIC REPORT



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QUESTIONS ON GENERAL CREDIT CONTROL AND DEBT MANAGEMENT

FOREWORD

During the fall of 1949 a subcommittee of the Joint Committee on the Economic Report conducted an extensive inquiry into fiscal and monetary policy. At that time the country was recovering from a mild recession and the scales seemed evenly balanced between inflationary and deflationary pressures. Korea was a little-known spot on the map of Asia.

The 2 years which have passed since that time have been packed with events. The international situation has deteriorated markedly, and the United States Government has embarked on a vast program of military preparedness with its inevitable corollary of increased inflationary pressure.

There has been little disagreement, at least in principle, on the proper measures of fiscal policy called for by the new situation, and the full committee, in a report issued on August 15 of this year, said:

The committee is * * * convinced of the urgent need (1) for renewed efforts to reduce and postpone less essential Government expenditures, and (2) for promptly providing tax revenues sufficient to balance a carefully planned administrative budget this fiscal year.

There has been much disagreement, however, both inside and outside the Government, with respect to the proper steps to be taken in the present emergency in the fields of credit policy and debt management; and, notwithstanding the "accord" announced by the Treasury and the Federal Reserve System in March of this year, much of the course to be followed remains to be charted. The policy disputes of the past year have also brought into sharp focus the question of whether our machinery for the determination of monetary policy—set up, for the most part, many years ago—is appropriate to cope with the problems of the present day and to carry into effect the policy of the Congress with respect to economic stability as set forth in the Employment Act of 1946. As Chairman Martin of the Board of Governors of the Federal Reserve System recently said to the American Bankers Association:

Our present central bank is now nearly 39 years old, and the time has come, it seems to me, when we must reevaluate, reassess, and redetermine its worth and effectiveness.

It was as an initial step in this direction that the committee staff, at the suggestion of Senator Flanders and myself, made a preliminary

study of these problems which was published as a committee print under the title "General Credit Control, Debt Management, and Economic Mobilization" earlier this year. Following this preliminary step, Senator O'Mahoney, chairman of the Joint Committee on the Economic Report, appointed a new Subcommittee on General Credit Control and Debt Management.

The subcommittee is opening its inquiry by addressing questionnaires to the heads of six agencies of the Federal Government, to the presidents of the Federal Reserve banks, to State supervisors of banks, and to four groups of persons in private life. Private respondents who may not desire to answer the full questionnaires are urged to answer any questions in which they have a special interest. If requested, their identity will be held confidential.

The questionnaires have been prepared after extensive consultation with representatives of groups to which they are addressed, and every effort has been made to phrase the questions in such a way as to bring out the relevant facts with a minimum burden on the respondents. Many of the questions have, in fact, been inserted at the request of respondents in order to enable them to bring out points which they and the committee consider relevant to the inquiry. Wherever possible, questions calling for statistical material have been phrased in such a way that they can be answered from available data. Few call for additional tabulations. Some of the questions addressed to Government officials call for descriptive material of a noncontroversial character. These questions have been included so that the completed answers will have greater continuity and hence be more helpful to many readers than would otherwise be the case. No such questions have been included in any of the questionnaires sent private respondents. Only a very small proportion of the ground covered by the questionnaires duplicates that covered by the inquiry 2 years ago—and that small amount because of new developments or because of the possibility that many respondents have altered their views.

The questionnaires were presented for comment to the principal Federal agencies in draft form during the month of August. Extensive consultations have been held with most of the agencies during the intervening period, and they have already had considerable time in which to prepare material while the questionnaires were being whipped into final form. Every effort has been made to hold questionnaires addressed to persons outside the Government to a few questions which in most cases can be answered on the basis of the personal knowledge of the respondent without the necessity of reference to other material.

The questions in general deal with the following material: (a) The directives concerning general economic policy given to Federal agencies by Congress; (b) the relationship of the Federal agencies to each other and to the President; (c) the earnings and expenses of the Federal Reserve banks and of Federal agencies which operate otherwise than with funds appropriated by Congress; (d) recent developments and

appropriate future policy in the fields of money, banking, and credit; (e) appropriate policy in the field of debt management; and (f) the adequacy of the existing banking structure to serve the needs of both depositors and borrowers.

The subcommittee expects to publish the answers received from Federal officials and abstracts of those received from persons outside the Federal Government in a book of materials to be issued late this year. The materials so published will in turn lay the basis for subcommittee hearings expected to be held early next year, following which the subcommittee will prepare and present its report.

WRIGHT PATMAN,
*Chairman, Subcommittee on General Credit
Control and Debt Management.*

OCTOBER 12, 1951.

QUESTIONS FOR THE 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 the general economic objectives which the Treasury Department seeks to further through the use of the powers which have been given to it by Congress. Emphasize particularly the over-all objectives of the Treasury Department in managing the public debt.

3. Do you believe that the congressional declaration of policy contained in the Employment Act of 1946, which reads as follows:

The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practical 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.

is balanced in its emphasis upon high-level employment and price stability respectively, as objectives of Federal Government policy? 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 the Federal lending agencies, such as the Reconstruction Finance Corporation, the Federal Housing Administration, and including also the Federal Deposit Insurance Corporation? 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 Federal Deposit Insurance Corporation 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?

7. Can any policy conflict between the Treasury and the Federal Deposit Insurance Corporation 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 are the present powers of the Treasury Department, if any, with respect to the operations of the Federal Reserve System?

9. 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)?

10. 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. EXPENSES FOR THE PURPOSE OF INFLUENCING PUBLIC OPINION

11. List and discuss any expenses which have been incurred by the Treasury during the period since 1946 for the purpose of influencing public opinion on controversial matters. Expenses for the preparation of material in standard expository format and for the distribution or presentation of such material in written or oral form to persons who might be expected to have a regular business or professional interest in it may be omitted. Any expenses during this period for the preparation of motion pictures, illustrated brochures, or any other special material should be included, however, irrespective of your personal opinion as to whether or not the material they contain is controversial in character, in order that the subcommittee may, if it desires, consider them on a case-by-case basis.

D. CREDIT AND DEBT MANAGEMENT POLICY

12. Leaving aside the matter of debt management completely, what are the various powers of the Treasury with regard to monetary matters? Explain the legal background and describe how the Treasury has used these powers.

13. Describe the Treasury's functions with respect to the handling of incoming gold and silver, and how bank reserves are affected. Explain how the Treasury may permit gold to be "sterilized."

14. Describe fully how the handling of Treasury deposits influences the monetary situation.

15. In making decisions with regard to these Treasury monetary matters (gold, silver, and handling of its deposits), has the Treasury attempted to coordinate its policies with those of the Federal Reserve System?

16. Review the development of legislative authority on public-debt matters over the years.

17. Describe fully the issues involved in policy discussions between the Treasury and the Federal Reserve System from the end of the war 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?

18. Describe the nature of the accord between the Treasury and the Federal Reserve System which was announced by them on March 4, 1951.

19. Have there been fundamental differences of *economic objectives* between the Treasury and the Federal Reserve System since the time you became Secretary of the Treasury and, if so, what have they been?

20. Except as previously described, what differences with respect to procedures and techniques have arisen between the Treasury and the Federal Reserve System since you became Secretary, or earlier?

21. How closely have the Treasury and the Federal Reserve System cooperated in matters of common interest?

22. Describe the mechanism by which a general tightening or easing of credit, and the changes in interest rates which may result, is expected to counteract inflation or deflation. Discuss the impact on borrowers and lenders in both the short-term and long-term credit markets and on spending and savings. Indicate the effect on each of the broad categories of spending entering into gross national product. What are the (actual or potential) capital losses or gains that would be brought about by changes in interest rates? To what extent is the effectiveness of a program of credit restraint affected by or dependent upon expectations with respect to subsequent changes in interest rates? Distinguish in your discussion between small changes in rates and large changes in rates.

23. 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.

24. 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?

25. Do you consider that the current extensive use of Government controls over private construction and over private ability to buy scarce materials has an important bearing upon the effectiveness and appropriateness of general credit controls under present circumstances?

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

27. 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; (d) under conditions of total war?

28. Has the Treasury Department ever taken action on its own initiative or in cooperation with the Federal Reserve System to change the level of interest rates on Government securities, or to prevent a change in interest rates which would have otherwise occurred? Give examples—if possible, of actions operating in each direction.

29. Please explain your position regarding the importance of interest on the public debt as a budgetary cost.

30. Has the growth of the public debt changed the nature of the methods which can be prudently used by the Federal Reserve System with respect to monetary and credit policy?

31. Have there been important economic changes since 1913 which affect the efficiency and appropriateness of traditional Federal Reserve System operations?

32. To what extent does the choice of maturities of new and refunding issues of Treasury securities enable you to influence the money and investment markets?

33. In your opinion is it possible to separate decisions with respect to interest rates from the decisions regarding timing, amounts of offerings to different sectors of the market, designing of securities for various investor classes, and similar considerations?

34. Do you believe that a rise in the average annual yield of series E savings bonds to $3\frac{1}{2}$ percent, or thereabouts, would significantly increase the amounts sold and diminish the amounts of early redemptions?

35. 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 United States securities, either present issues or special types.

36. Discuss the advantages and disadvantages generally of maintaining bank reserves against classes of *assets* rather than against classes of liabilities as at present.

37. Discuss the advantages and disadvantages of marketable and nonmarketable securities (a) under present conditions; (b) in the event of the necessity for substantial net Government borrowing.

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

39. Have you any suggestions other than those implied in the answers to the preceding questions for insulating public debt securities from the impact of restrictive credit policies designed primarily to discourage the growth of private debt?

40. 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.

41. 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.

E. INTERNATIONAL COMPARISONS

42. Discuss and evaluate, as far as your available information permits, the relationship between the Executive, the Treasury, and the Central Bank in foreign countries. Place particular emphasis on the resolution of policy conflicts.

43. Discuss and evaluate, as far as your available information permits, the relative use of selective and general credit controls in foreign countries.

44. Discuss and evaluate, as far as your available information permits, any devices used in foreign countries to insulate the market for Government securities from the private credit market.

QUESTIONS FOR THE CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

A. CONGRESSIONAL POLICY DIRECTIVES

1. State, citing the appropriate statutes, all of the policy directives now given by Congress to the Board of Governors, the Federal Open Market Committee, and the Federal Reserve banks, stating in each case the operations to which the directive applies.

2. State the general purposes which the Federal Reserve System seeks to further by means of its operations within the very broad range of discretion left it by the congressional directives. State the general objectives both of all operations taken as a whole and of particular operations—e. g., open market operations—if the objectives of these operations differ in any way from the over-all objectives.

3. Trace the principal credit policy actions of the Federal Reserve System from the System's inception to the present and indicate the explanation of such actions, including their relation to changes in business activity.

4. Discuss the relation of credit and monetary policy to fiscal and other policies of the Government in combating inflation or deflation.

5. Do you believe that the congressional declaration of policy contained in the Employment Act of 1946, which reads as follows:

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.

is balanced in its emphasis upon high-level employment and price stability respectively, as objectives of Federal Government policy? Suggest any changes by which you think it might be improved.

6. Do you believe that a broad directive with respect to economic policy should be given the Federal Reserve System 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. RELATIONSHIP TO EXECUTIVE BRANCH

7. In the light of the Federal Reserve Act, what is the responsibility of (a) the Chairman (b) the Vice Chairman and (c) the other members of the Board of Governors to the President in the performance of their respective functions? If some functions are performed in accordance with policies determined by the President, and others

independently of the policy of the President, state which functions fall in each category.

8. Are (a) the Board of Governors and (b) the Federal Open Market Committee parts of the executive branch of the United States Government? If not, what is their status? Discuss with respect to the constitutional issues involved, as you understand them.

9. Trace the background of the provisions in the law for (a) a board of directors at each Federal Reserve bank and branch and (b) for the presidents as the chief executive officers of the banks. Discuss the functions of each in the formulation of national credit policies and in the administration of the Federal Reserve banks.

10. Are the Federal Reserve banks parts of the executive branch of the United States Government? Are they parts of the private economy? What are the implications, advantages, and disadvantages of the private ownership of the stock of the Federal Reserve banks?

11. Does the Board of Governors follow the practice of submitting its reports to Congress on pending legislation to the Bureau of the Budget to determine whether or not they are in accordance with the program of the President? If it submits some but not all of such reports, what are the criteria by which those submitted are selected? Does the Bureau of the Budget submit proposed reports of the executive agencies to the Board of Governors for comment?

12. If policies adopted by (a) the Board of Governors, (b) the Federal Open Market Committee, or (c) the Federal Reserve banks differ from the policies of agencies operating under the direction of the President, what means, if any, are adopted to coordinate the policies? How urgent is the problem of coordination? Give examples.

13. State the matters of common interest between the Federal Reserve System and (a) the Council of Economic Advisers, (b) the Treasury Department, (c) the Comptroller of the Currency, (d) the Federal Deposit Insurance Corporation, and (e) Federal lending agencies generally, and describe the steps taken to secure a coordination of policy among them. What suggestions have you for the improvement of coordination between the Federal Reserve System and other agencies having an interest in money and credit?

14. How does the Board of Governors of the Federal Reserve System participate in the determination of the international financial policy of the United States? How is coordination of policy in this field effected? How successful has this coordination been?

C. DISTRIBUTION WITHIN THE FEDERAL RESERVE SYSTEM OF AUTHORITY ON CREDIT POLICIES

15. Trace the historical development of the process by which the discount rates of the Federal Reserve banks are set and evaluate the relative authority of the Board of Governors and of the directors of the Federal Reserve banks in setting discount rates today.

16. Trace the historical development of open-market operations covering both their significance as instruments of monetary and credit policy and the nature and composition of the bodies which have successively had control over them.

17. What is the rationale of the present assignment of authority over open-market operations to a body other than the Board of Governors?

Why should the allocation of responsibility for open-market policy differ from the allocations with respect to discount rates and reserve requirements? Do you consider these differences desirable? Why, or why not?

18. Can open-market policy, discount policy, and reserve requirement policy pursue different general objectives, or should these various instruments always be directed toward a common policy? When differences of viewpoint among the different policy-determining groups must be compromised in order to adopt a common policy, what are the factors of strength and weakness in the position of each of the parties to the compromise—i. e., the Board of Governors, the Federal Reserve Bank President Members of the Federal Open Market Committee, and the boards of directors of the Federal Reserve banks?

D. ORGANIZATION OF THE BOARD OF GOVERNORS

19. What qualifications are required by statute for appointment to the Board of Governors? Would you suggest any changes in these statutory qualifications?

20. Would there be any advantage in removing the present requirement of law that not more than one member of the Board of Governors may be appointed from a single Federal Reserve district? Would it be desirable to replace it by any other type of geographical limitation?

21. What are the advantages and disadvantages of the present 14-year term of appointment for members of the Board of Governors, and the 4-year term of designation of the Chairman and Vice Chairman? Would you suggest that any changes be made in the tenure or manner of appointment of members or in the tenure or manner of designation of the Chairman and Vice Chairman?

22. What would be the advantages and disadvantages of reducing the number of members of the Board of Governors or of replacing the Board by a single head?

E. EARNINGS AND EXPENSES OF THE FEDERAL RESERVE SYSTEM

23. What have been the annual expenses of—

(a) The Board of Governors, and

(b) The 12 Federal Reserve banks combined (which include assessments for expenses of the Board of Governors),
for each year since the inauguration of the System? To the extent practicable, state expenses both inclusive and exclusive of reimbursable fiscal agency expenses. Relate these expenses in each year since 1919 to (i. e., express them as percentages of available figures for):

(a) Total expenses of all member banks, and

(b) Gross national product of the United States.

(The purpose of these comparisons is to "deflate" the expenses of the System by factors which measure its workload in a rough manner and automatically reflect changes in the price level.)

24. Are the expenses and other accounts of the Board of Governors or of the Federal Reserve banks subject to any budgetary or audit control of any other agency of either Congress or the executive branch of the United States Government? If not, do you believe that they should be? Why, or why not? Describe budgetary and auditing procedures now in effect.

25. What have been the total gross earnings of the 12 Federal Reserve banks combined in each year since the formation of the System? Give a breakdown of earnings by sources, and show profits and losses on the sale of United States Government securities for each year.

26. Present classified statements of expenses of the 12 Federal Reserve banks combined for each of the past 5 years, classifying in such detail as you consider appropriate for an analysis of the principal operations of the System.

27. List and discuss any expenses which have been incurred during the period since 1946 by the Board of Governors, or, to the Board's knowledge, have been incurred by the Federal Reserve banks for the purpose of influencing public opinion on controversial matters. Expenses for the preparation of material in standard expository format and for the distribution or presentation of such material in written or oral form to persons who might be expected to have a regular business or professional interest in it may be omitted. Any expenses during this period for the preparation of motion pictures, illustrated brochures, or any other special material should be included, however, irrespective of your personal opinion as to whether or not the material they contain is controversial in character, in order that the subcommittee may, if it desires, consider them on a case-by-case basis. (This question is to be answered in collaboration with the Presidents of the Federal Reserve banks.)

F. GENERAL CREDIT AND MONETARY POLICIES

28. Discuss the factors that determine the quantity of money and its adequacy for the functioning of the economy. Cover the influence of Federal Reserve credit policies over changes in the quantity of money.

29. Discuss the fundamental issues between the Treasury and the Federal Reserve System between the end of the war and the "accord" announced by these agencies on March 4, 1951. Describe fully the "accord" between the Treasury and the Federal Reserve System which was announced then.

30. Analyze the effects of the rising yield upon short-term Governments between August 1950 and March 1951, from the standpoint of (a) effect upon the volume of bank loans, (b) effect upon the level of private interest rates and the differential between those rates and the yield on Governments, (c) effect upon the market prices and the volume of sales of long-term Governments, (d) effect upon the policy of the Federal Reserve to support the long-term Governments.

31. Describe the mechanism by which a general tightening or easing of credit, and the changes in interest rates which may result, is expected to counteract inflation or deflation. Discuss the impact on borrowers and lenders in both the short-term and long-term credit markets and on spending and savings. Indicate the effect on each of the broad categories of spending entering into gross national product. What are the (actual or potential) capital losses or gains that would be brought about by changes in interest rates? To what extent is the effectiveness of a program of credit restraint affected by or dependent upon expectations with respect to subsequent changes in

interest rates? Distinguish in your discussion between small changes in rates and large changes in rates.

32. How rapidly and to what extent would you expect the volume of bank loans to respond to measures of general credit control under present conditions?

33. Compare the applicability of general credit and monetary measures and the resultant increases in interest rates as a means of restraining inflation (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, (d) under conditions of total war.

34. To what extent is the demand for United States Government and other high-grade, fixed-interest-bearing securities by nonbank investors influenced by (a) the current level of interest rates, (b) expectations with respect to changes in interest rates, (c) other factors?

35. What is the reason for the relatively slight use by commercial banks of the Federal Reserve discount and borrowing privilege? Do you believe that greater reliance should be placed on this privilege as a means of obtaining Federal Reserve credit? Under what conditions, if any, would you expect to see a greater use made of the discount privilege?

36. Do you believe that there is any conflict between measures to restrain excess demand by credit control and the need for expanding the economy to meet the requirements of a continuing readiness to resist aggression and a continuing high standard of living? If so, how can the effects of this conflict be mitigated?

37. What do you believe to be the role of bank examination and supervision in furthering the objectives of the Employment Act?

38. What do you consider to be the role of selective regulation of consumer credit in restraining inflation under the conditions of each of the assumptions with respect to the magnitude of Government borrowing stated in question 33? What attention should be given by the controlling authority to inventories and price and employment changes in the particular industries affected by the regulation? Discuss the operation of regulation W since its revival in the fall of 1950.

39. What do you consider to be the role of selective regulation of real estate credit in restraining inflation under the conditions of each of the assumptions with respect to the magnitude of Government borrowing stated in question 33? Discuss the operation of selective regulation of real estate credit during the past year.

40. What do you consider to be the role of selective regulation of stock market credit in restraining inflation under the conditions of each of the assumptions with respect to the magnitude of Government borrowing stated in question 33?

41. What selective regulations other than those over consumer credit, real estate credit, and stock market credit do you consider to be feasible? What would be their applicability under the conditions of each of the assumptions with respect to the magnitude of Government borrowing stated in question 33?

42. Explain and evaluate the Voluntary Credit Restraint Program which has been developed during the past year. What are the pre-

cautions taken to insure fair treatment to competing firms? What do you consider to be the role of voluntary credit restraint under each of the assumptions with respect to the magnitude of Government borrowing stated in question 33?

43. Discuss the use of moral suasion as a tool of credit control. How has this been used in the cases of member banks and of savings institutions, including life insurance companies?

44. What is the function of bank reserves? What are present reserve requirements with respect to banks?

45. Should nonmember banks be required to maintain the same reserves as member banks? Why, or why not?

46. Discuss the advantages and disadvantages of basing reserve requirements on types of deposits irrespective of the geographical location of banks.

47. Discuss the advantages and disadvantages of requiring additional reserves which might be held in whole or in part in the form of Government securities. Illustrate with a specific plan or plans.

48. Discuss the advantages and disadvantages of requiring during the national defense emergency a supplementary reserve to be maintained against *increases* in either loans and investments or deposits. Illustrate with a specific plan or plans.

49. Discuss the advantages and disadvantages generally of maintaining bank reserves against classes of *assets* rather than against classes of liabilities as at present.

50. State the statutory authority for the power, if any, of the Board of Governors, the Federal Reserve banks, or of any agency of the United States Government to control directly or to "ration" the extension of credit by individual banks. Specify the (legal) circumstances under which such rationing could occur and the control of the President over its operation. Under what (economic) circumstances, if any, would you recommend the use of credit rationing? Describe the manner in which you believe that such a system would operate.

G. INTERNATIONAL COMPARISONS

51. Discuss and evaluate, as far as your available information permits, the relationship between the Executive, the Treasury, and the Central Bank in foreign countries. Place particular emphasis on the resolution of policy conflicts.

52. Discuss and evaluate, as far as your available information permits, the relative use of selective and general credit controls in foreign countries.

53. Discuss and evaluate, as far as your available information permits, any devices used in foreign countries to insulate the market for Government securities from the private credit market.

H. THE BANKING STRUCTURE

54. Trace the principal changes in the functions and activities of banks since the establishment of the Federal Reserve System, with special emphasis on the period since the middle thirties. Cover changes in the various types of assets and liabilities.

55. Trace the changes in the number and character of banking facilities since the establishment of the Federal Reserve System, with

special emphasis on the period since the middle thirties. Cover changes in the number of banks, in the supervisory jurisdiction of banks, and in multiple-office banking.

56. Trace the course of the earnings and expenses of all member banks from the first year (1919) for which such data are available to the present time. Cover especially the following points: (a) the gross amount of earnings and expenses and of current net earnings and net profits; (b) the ratios of current net earnings and of net profits to total capital accounts; (c) changes in the relative importance of different sources of earnings, especially (i) loans (ii) investments other than United States securities (iii) United States securities and (iv) service charges (distinguish as far as possible between current earnings, on one hand, and profits and losses on sales or disposition of securities on the other); (d) changes in the relative importance of different categories of expenses, especially (i) wages and salaries (ii) interest on time deposits and borrowed money (iii) taxes and (iv) deposit insurance assessments (these may be estimated if not shown separately in bank earnings reports).

57. (a) Present an analysis supported by statistical tables, by 10-year intervals over the period 1920-50, on the number of banking facilities in relation to population, by States. (b) Present a similar analysis on a county basis for the year 1950. (c) If there is any evidence of inadequacy of banking facilities in some cities, counties, or larger areas, what are your suggestions for measures to remedy such inadequacy?

I. AVAILABILITY OF CAPITAL FOR SMALL BUSINESS

58. Discuss the changes which have occurred during the last 25 years in the ease or difficulty with which small-business men have been able to raise capital or to borrow. What in your opinion are the reasons for such changes as you find to have occurred? Do you believe that a more liberal supply of capital and credit to small business would contribute to the diffusion of economic power and to the dynamic character of the economy? What steps could be taken to bring about a more liberal supply of capital and credit to small business? Do you believe that any of these steps would be desirable? Distinguish between the longer-term aspects of the problem and those of particular importance today during the current national defense emergency.

59. Discuss the effects of bank examinations on the lending policies of banks, particularly as they apply to loans to small-business men. Distinguish if necessary between examinations by different examining authorities.

QUESTIONS FOR THE CHAIRMAN OF THE FEDERAL OPEN MARKET COMMITTEE

(To be Answered in Collaboration with the Vice Chairman)

1. Explain the reasons why the Federal Open Market Committee confines its dealings in United States securities to a small number of "recognized" Government security dealers. Trace the history and explain the mode of operation of this restriction of dealings to recognized dealers.

2. To what extent are open market operations impersonal in character and to what extent are they combined with the instrument of moral suasion?

QUESTIONS FOR THE PRESIDENTS OF THE FEDERAL RESERVE BANKS

(The questions on this list, insofar as they refer to country-wide practices and conditions, may be answered jointly by the presidents if they so prefer—each president, of course, adding such supplement or dissent as he desires.)

A. OWNERSHIP OF THE FEDERAL RESERVE BANKS AND THEIR RELATIONSHIP TO THE GOVERNMENT

1. Describe the present arrangements with respect to the ownership of the stock of the Federal Reserve banks. What are the implications, advantages, and disadvantages of this ownership as compared with ownership by the Federal Government?

2. Who, in your opinion, owns the surplus of the Federal Reserve banks?

3. Do you consider the Federal Reserve banks to be part of the United States Government? Part of the private economy? If neither, or partly one and partly the other, discuss their status.

4. State the congressional policy directives applying to the Federal Reserve banks, citing appropriate statutes. In what respects, if any, do you believe that these directives should be altered?

B. ORGANIZATION OF THE FEDERAL RESERVE BANKS

5. Describe the roles of the presidents and the boards of directors of the Federal Reserve banks and of the Board of Governors in the management of the Reserve banks.

6. State the qualifications required for election as class A and class B directors of the Federal Reserve banks, and the method of electing such directors. Include in your description both qualifications and procedures prescribed by statute and those established by customary usage, distinguishing between them when necessary.

7. Do you believe that all of the directors of the Federal Reserve banks should be chosen as public representatives rather than as representatives of specified groups? If so, how should they be chosen? If representation of specified groups is to be continued, do you believe that labor should be added to the groups represented? If so, how should the labor representatives be chosen?

C. DISTRIBUTION WITHIN THE FEDERAL RESERVE SYSTEM OF AUTHORITY ON CREDIT POLICIES

8. Discuss the extent to which it is possible to maintain regional credit policies differing from national credit policies. Who is responsible for the formulation of such policies and what are the instrumentalities by which they can be maintained?

9. Describe the role played by the boards of directors and the presidents of the Federal Reserve banks in the formulation of national credit policy.

10. Trace the historical development of open-market operations covering both their significance as instruments of monetary and credit policy, and the nature and composition of the bodies which have successively had control over them.

11. What is the rationale of the present assignment of authority over open-market operations to a body other than the Board of Governors? Why should the allocation of responsibility for open-market policy differ from the allocations with respect to discount rates and reserve requirements? Do you consider these differences desirable? Why, or why not?

12. Can open-market policy, discount policy, and reserve requirement policy pursue different general objectives or should these various instruments always be directed toward a common policy? When differences of viewpoint among the different policy-determining groups must be compromised in order to adopt a common policy, what are the factors of strength and weakness in the position of each of the parties to the compromise—i. e., the Board of Governors, the Federal Reserve Bank President Members of the Federal Open Market Committee, and the boards of directors of the Federal Reserve banks?

D. GENERAL CREDIT AND MONETARY POLICIES

13. Analyze the effects of the rising yield upon short-term Governments between August 1950 and March 1951 from the standpoint of (a) effect upon the volume of bank loans, (b) effect upon the level of private interest rates and the differential between those rates and the yield on Governments, (c) effect upon the market prices and the volume of sales of long-term Governments, (d) effect upon the policy of the Federal Reserve System to support the long-term Governments.

14. Describe the mechanism by which a general tightening or easing of credit, and the changes in interest rates which may result, is expected to counteract inflation or deflation. Discuss the impact on borrowers and lenders in both the short-term and long-term credit markets and on spending and savings. Indicate the effect on each of the broad categories of spending entering into gross national product. What are the (actual or potential) capital losses or gains that would be brought about by changes in interest rates? To what extent is the effectiveness of a program of credit restraint affected by or dependent upon expectations with respect to subsequent changes in interest rates? Distinguish in your discussion between small changes in rates and large changes in rates.

15. How rapidly and to what extent would you expect the volume of bank loans to respond to measures of general credit control under present conditions?

16. Compare the applicability of general credit and monetary measures and the resultant increases in interest rates as a means of restraining inflation (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, (d) under conditions of total war.

17. To what extent is the demand for United States Government and other high-grade, fixed-interest-bearing securities by nonbank

investors influenced by (a) the current level of interest rates, (b) expectations with respect to changes in interest rates, (c) other factors?

18. What is the reason for the relatively slight use by commercial banks of the Federal Reserve discount and borrowing privilege? Do you believe that greater reliance should be placed on this privilege as a means of obtaining Federal Reserve credit? Under what conditions, if any, would you expect to see a greater use made of the discount privilege?

19. Do you believe that there is any conflict between measures to restrain excess demand by credit control and the need for expanding the economy to meet the requirements of a continuing readiness to resist aggression and a continuing high standard of living? If so, how can the effects of this conflict be mitigated?

20. What do you believe to be the role of bank examination and supervision in furthering the objectives of the Employment Act?

21. What do you consider to be the role of selective regulation of consumer credit in restraining inflation under the conditions of each of the assumptions with respect to the magnitude of Government borrowing stated in question 16? What attention should be given by the controlling authority to inventories and price and employment changes in the particular industries affected by the regulation? Discuss the operation of regulation W since its revival in the fall of 1950.

22. What do you consider to be the role of selective regulation of real-estate credit in restraining inflation under the conditions of each of the assumptions with respect to the magnitude of Government borrowing stated in question 16? Discuss the operation of selective regulation of real-estate credit during the past year.

23. What do you consider to be the role of selective regulation of stock-market credit in restraining inflation under the conditions of each of the assumptions with respect to the magnitude of Government borrowing stated in question 16?

24. What selective regulations, other than those over consumer credit, real-estate credit, and stock-market credit do you consider to be feasible? What would be their applicability under the conditions of each of the assumptions with respect to the magnitude of Government borrowing stated in question 16?

25. Explain and evaluate the Voluntary Credit Restraint Program which has been developed during the past year. What are the precautions taken to insure fair treatment of competing firms? What do you consider to be the role of voluntary credit restraint under each of the assumptions with respect to the magnitude of Government borrowing stated in question 16?

26. Discuss the use of moral suasion as a tool of credit control. How has this been used in the cases of member banks and of savings institutions, including life insurance companies?

27. What is the function of bank reserves? What are present reserve requirements with respect to banks?

28. Should nonmember banks be required to maintain the same reserves as member banks? Why, or why not?

29. Discuss the advantages and disadvantages of basing reserve requirements on types of deposits irrespective of the geographical location of banks.

30. Discuss the advantages and disadvantages of requiring additional reserves which might be held in whole or in part in the form of Government securities. Illustrate with a specific plan or plans.

31. Discuss the advantages and disadvantages of requiring during the national defense emergency a supplementary reserve to be maintained against *increases* in either loans and investments or deposits. Illustrate with a specific plan or plans.

32. Discuss the advantages and disadvantages generally of maintaining bank reserves against classes of *assets* rather than against classes of liabilities as at present.

33. State the statutory authority for the power, if any, of the Board of Governors, the Federal Reserve banks, or of any agency of the United States Government to control directly or to "ration" the extension of credit by individual banks. Specify the (legal) circumstances under which such rationing could occur and the control of the President over its operation. Under what (economic) circumstances, if any, would you recommend the use of credit rationing? Describe the manner in which you believe that such a system would operate.

E. THE BANKING STRUCTURE

34. Will you please submit a memorandum discussing the adequacy of banking facilities in your district? For this purpose, take as your standard of adequacy the ideal of bringing banking facilities within convenient reach of all persons having need of them, and, so far as practicable, giving all persons the opportunity of choosing between two or more competing banks. Distinguish between deposit facilities and loan facilities.

F. AVAILABILITY OF CAPITAL FOR SMALL BUSINESS

35. On the basis of information available about your district, discuss the changes which have occurred during the last 25 years in the ease or difficulty with which small-business men have been able to raise capital or to borrow. What in your opinion are the reasons for such changes as you find to have occurred? Do you believe that a more liberal supply of capital and credit to small business would contribute to the diffusion of economic power and to the dynamic character of the economy? What steps could be taken to bring about a more liberal supply of capital and credit to small business? Do you believe that any of these steps would be desirable? Distinguish between the longer-term aspects of the problem and those of particular importance today during the current national defense emergency.

36. Discuss the effects of bank examinations on the lending policies of banks in your district, particularly as they apply to loans to small-business men. Distinguish if necessary between examinations by different examining authorities.

QUESTIONS FOR THE COUNCIL OF ECONOMIC ADVISERS

A. CONGRESSIONAL POLICY DIRECTIVES

1. Do you believe that the congressional declaration of policy contained in the Employment Act of 1946 is balanced in its emphasis upon high-level employment and upon price stability respectively, as objectives of Federal Government policy? If not, what changes have you to suggest?

B. FORMULATION OF FISCAL AND MONETARY POLICY

2. Do you believe that, subject to the statutes and general directives laid down by Congress, the fiscal and monetary policy of the United States Government should be formulated under the direction of the President? If not, what suggestions have you for the coordination of the policies of agencies not under the direction of the President with those of agencies which are under his direction? How urgent do you consider this problem to be?

3. Discuss the rationale, advantages, and disadvantages of the present division of authority in the Federal Reserve System over the control of discount rates, open-market operations, and changes in reserve requirements.

C. CREDIT AND DEBT MANAGEMENT POLICY

4. Describe the mechanism by which a general tightening or easing of credit, and the changes in interest rates which may result, is expected to counteract inflation or deflation. Discuss the impact on borrowers and lenders in both the short-term and long-term credit markets and on spending and savings. Indicate the effect on each of the broad categories of spending entering into gross national product. What are the (actual or potential) capital losses or gains that would be brought about by changes in interest rates? To what extent is the effectiveness of a program of credit restraint affected by or dependent upon expectations with respect to subsequent changes in interest rates? Distinguish in your discussion between small changes in rates and large changes in rates.

5. How rapidly and to what extent would you expect the volume of bank loans to respond to measures of general credit control under present conditions? Discuss recent changes in the volume of bank loans.

6. What is the reason for the relatively slight use by commercial banks of the Federal Reserve discount and borrowing privilege? Do you believe that greater reliance should be placed on this privilege as a means of obtaining Federal Reserve credit? Under what conditions, if any, would you expect to see a greater use made of the discount privilege?

7. Discuss the economic effects of the increase in short-term interest rates between August 1950 and March 1951 and the subsequent increase in long-term interest rates. Do you approve or disapprove of the policies which brought about these changes?

8. Discuss the appropriate roles of direct controls, selective credit controls, and a generally restrictive credit policy as means of restraining inflation (*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, (d) under conditions of total war.

9. Discuss and evaluate the Voluntary Credit Restraint Program which was initiated in the spring of 1951.

10. Do you believe that under existing law any agency of the Federal Government has the power to control directly or to "ration" the extension of credit by individual banks? Under what economic circumstances, if any, would you recommend the use of this authority?

11. Do you believe that there is any conflict between measures to restrain excess demand by monetary means and the need for expanding the economy to meet the requirements of a continuing readiness to resist aggression and a continuing high standard of living? If so, how can the effects of this conflict be mitigated?

12. What do you believe to be the role of bank examination and supervision in furthering the objectives of the Employment Act?

13. Discuss the economic functions of bank reserve requirements. What suggestions, if any, do you have for changes in either the nature, applicability, or amount of existing requirements? If you consider that each of several proposals for change has important elements of attraction, discuss each.

14. Have you any suggestions other than those implied in the answer to the preceding question for insulating public debt securities from the impact of restrictive credit policies designed primarily to discourage the growth of private debt?

15. To what extent is the demand for Government securities by nonbank investors influenced by (a) the current 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 under each of the assumptions with respect to the volume of Government borrowing stated in question 8?

17. 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.

18. 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.

19. Discuss the advantages and disadvantages of marketable and nonmarketable securities (a) under present circumstances, (b) in the event of the necessity for substantial net Government borrowing.

20. 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?

D. DEPOSIT INSURANCE

21. Discuss the advantages and disadvantages of extending Federal deposit insurance to all deposits in insured banks.

QUESTIONS FOR THE COMPTROLLER OF THE CURRENCY

A. GENERAL PURPOSES OF OFFICE

1. Describe briefly the functions and mode of operation of your office.

2. Describe the nature of the supervision exercised through examinations of banks by your office. Specify the basic purpose or purposes of examination, and the principles which guide your examiners. Distinguish between bank examination and bank audit, as evidenced by the methods followed by your examiners in their work.

3. What directives, if any, have been given to your office by Congress with respect to the economic objectives which it should seek to further in its operations? Cite appropriate statutes.

4. What weight do you give in the conduct of your office to 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. [Italics supplied.]

Do you believe it would be desirable that Congress give your office a more specific directive that it should govern its activities, wherever practicable, in the light of the general objectives of economic stability and high-level employment? If not, are there any other economic directives which you would consider desirable?

5. What do you believe to be the role of bank examination in furthering the objectives of the Employment Act?

6. In what ways, if any, other than through bank examination, does your office endeavor to further the objective of economic stabilization?

7. What use do you make of the results of economic analysis in the conduct of your office?

B. RELATIONSHIP TO THE GOVERNMENT

8. To what extent does your office operate under the direction of the Secretary of the Treasury? Discuss in the light of both the statute and customary usage.

9. Does your office operate under the direction of the President except as this direction is exercised through the Secretary of the Treasury?

10. Describe the relationships, from your point of view, among the three Federal bank supervisory agencies. To what extent is there

coordination of policies and procedures, and how is such coordination brought about? To the extent that policy conflicts arise, how are such conflicts resolved at the present time?

11. Does your office follow the practice of submitting its proposed reports to Congress on pending legislation to the Bureau of the Budget to determine whether or not they are in accordance with the program of the President? If it submits some, but not all of such reports, what are the criteria by which those submitted are selected? Does the Bureau of the Budget submit proposed reports of other agencies of the Government to the Comptroller's office for comment?

12. Do you have any suggestions for legislation relative to your office?

C. INCOME AND EXPENSES OF THE COMPTROLLER'S OFFICE

13. What has been the income of your office in each year since 1933? Classify this income in any way which you believe will be helpful to the committee.

14. What have been the expenses of your office in each year since 1933? Classify the expenses in any way which you believe will be helpful to the committee. Relate the administrative expenses of the office to (i. e., express them as percentages of):

- (a) The gross national product of the United States, and
- (b) The expenses of all national banks.

(The purpose of these comparisons is to "deflate" the expenses of the office by factors which measure its workload in a rough manner and automatically reflect changes in the price level.)

15. Describe the budgetary procedure of your office. Is its budget reviewed by the Bureau of the Budget? Are changes in its budget made by the Bureau binding upon your office? How are its expenditures subject to congressional control? What suggestions, if any, do you have for changes in any of the procedures described in this question?

16. Are the accounts of your office audited by any other department or instrumentality of the United States Government? If so, by whom? Are the powers of the auditing authority limited to reporting or does it have authority to disallow expenses? To whom are the reports of the auditing authority sent?

17. List and discuss any expenses which have been incurred by your office during the period since 1946 for the purpose of influencing public opinion on controversial matters. Expenses for the preparation of material in standard expository format and for the distribution or presentation of such material in written or oral form to persons who might be expected to have a regular business or professional interest in it may be omitted. Any expenses during this period for the preparation of motion pictures, illustrated brochures or any other special material should be included, however, irrespective of your personal opinion as to whether or not the material they contain is controversial in character, in order that the subcommittee may, if it desires, consider them on a case-by-case basis.

D. THE BANKING STRUCTURE

18. Will you please submit a memorandum discussing the adequacy of banking facilities in the United States? For this purpose,

take as your standard of adequacy the ideal of bringing banking facilities within convenient reach of all persons having need of them, and, so far as practicable, giving all persons the opportunity of choosing between two or more competing banks. Distinguish between deposit facilities and loan facilities.

19. Discuss in general your policy in acting on applications for new national bank charters. Stress your concept of what constitutes ample banking facilities—especially the degree of competition which you believe to be necessary or desirable.

20. Submit a statistical analysis showing year by year for the past 10 years the number of applications filed for national-bank charters, branch permits, authority to convert into a national bank, and authority to consolidate. State the number of such applications approved, the number rejected and the causes for rejection, classified by such principal reasons as (a) existence of ample banking facilities, (b) no prospect of successful financial operation, (c) inadequate capital for the establishment of the bank or branch, (d) no satisfactory evidence that competent management would be available, etc. Submit also statistics with respect to voluntary liquidations of national banks. Comment on this analysis in any manner which you consider appropriate.

E. AVAILABILITY OF CAPITAL FOR SMALL BUSINESS

21. Discuss the changes which have occurred during the last 25 years in the ease or difficulty with which small-business men have been able to raise capital or to borrow. What in your opinion are the reasons for such changes as you find to have occurred? Do you believe that a more liberal supply of capital and credit to small business would contribute to the diffusion of economic power and to the dynamic character of the economy? What steps could be taken to bring about a more liberal supply of capital and credit to small business? Do you believe that any of these steps would be desirable? Distinguish between the longer-term aspects of the problem and those of particular importance today during the current national defense emergency.

22. Discuss the effects of bank examinations on the lending policies of banks, particularly as they apply to loans to small-business men. Distinguish if necessary between examinations by different examining authorities.

QUESTIONS FOR THE CHAIRMAN OF THE FEDERAL DEPOSIT INSURANCE CORPORATION

A. GENERAL PURPOSES OF THE CORPORATION

1. Describe briefly the functions and mode of operation of your Corporation.

2. What directives, if any, have been given to your Corporation by Congress with respect to the economic objectives which it should seek to further in its operations? Cite appropriate statutes.

3. What weight do you give in the conduct of your Corporation to 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. [Italics supplied.]

Do you believe it would be desirable that Congress give your Corporation a more specific directive that it should govern its activities, wherever practicable, in the light of the general objectives of economic stability and high-level employment? If not, are there any other economic directives which you would consider desirable?

B. ORGANIZATION OF THE CORPORATION AND ITS RELATIONSHIP TO GOVERNMENT

4. What is the responsibility of your Corporation to the President?

5. Can any policy conflicts between your Corporation, other Government agencies and the Federal Reserve System always be resolved in the last resort by the President (a) insofar as action by your Corporation is required, (b) insofar as action by other Government agencies is required, and (c) insofar as action by the Federal Reserve System is required? Do you believe that the President should be empowered to resolve all such conflicts, if this is not at present the case? If you do not believe that the President has or should have such power, what means of resolving policy conflicts would you suggest?

6. Does the Federal Deposit Insurance Corporation follow the practice of submitting its proposed reports to Congress on pending legislation to the Bureau of the Budget to determine whether or not they are in accordance with the program of the President? If it submits some, but not all of such reports, what are the criteria by which those submitted are selected? Does the Bureau of the Budget submit proposed reports of other agencies of the Government to the Federal Deposit Insurance Corporation for comment?

7. Do you have any suggestions for legislation relative to your office?

C. EARNINGS AND EXPENSES OF THE CORPORATION

8. What have been the earnings of your Corporation in each year since its organization? Classify earnings by (a) net proceeds of deposit

insurance assessments, (b) interest on funds arising from accumulated deposit insurance assessments, and (c) other. Eliminate earnings arising from interest on Government capital.

9. What have been the expenses of your Corporation in each year since its organization? Classify expenses as (a) administrative expenses, (b) liquidation expenses, and (c) deposit insurance losses. Relate administrative expenses to (i. e., express them as percentages of):

- (a) The gross national product of the United States, and
- (b) The expenses of all insured banks.

(The purpose of these comparisons is to "deflate" the expenses of the Corporation by factors which measure its workload in a rough manner and automatically reflect changes in the price level.)

10. Present a statement of the expenses of your Corporation for each of the last 5 years, classified in such manner as will facilitate an analysis of your operations.

11. Describe the budgetary procedure of the Federal Deposit Insurance Corporation. Is its budget reviewed by the Bureau of the Budget? Are changes in its budget made by the Bureau binding upon the Corporation? How are its expenditures subject to congressional control? What suggestions, if any, do you have for changes in any of the procedures described in this question?

12. Are the accounts of your Corporation audited by any other department or instrumentality of the United States Government? If so, by whom? Are the powers of the auditing authority limited to reporting or does it have authority to disallow expenses? To whom are the reports of the auditing authority sent?

13. List and discuss any expenses which have been incurred by your Corporation during the period since 1946 for the purpose of influencing public opinion on controversial matters. Expenses for the preparation of material in standard depository format and for the distribution or presentation of such material in written or oral form to persons who might be expected to have a regular business or professional interest in it may be omitted. Any expenses during this period for the preparation of motion pictures, illustrated brochures, or any other special material should be included, however, irrespective of your personal opinion as to whether or not the material they contain is controversial in character, in order that the subcommittee may, if it desires, consider them on a case-by-case basis.

D. DEPOSIT INSURANCE

14. Present the latest available data with respect to the number of banks which are members and the number which are not members of the Federal Deposit Insurance Corporation, the amount of deposits in each such class of banks, and the number and proportion of accounts and of deposits respectively in insured banks which are fully covered by deposit insurance. Please present the data for mutual savings banks and for other banks separately.

15. Present the data, as far as they are available, year by year since the establishment of the Corporation, showing the total amount of deposits in all insured banks, the amount of insured deposits, the amount of the insurance fund, and the ratio which the insurance fund bears to total deposits and to insured deposits, respectively.

16. Describe the alternative techniques available under present law for the protection of depositors in failed or insolvent banks. Discuss the criteria by which the Corporation selects the manner in which it will handle each case. Do you consider it an element of potential inequity that some techniques result in the protection of all deposits while other techniques provide only for the protection of deposits up to \$10,000?

17. State for each year since the establishment of the Corporation the number and amount of liabilities of failed and insolvent banks which have been handled in accordance with each of the techniques discussed in the preceding question.

18. Discuss the advantages and disadvantages of extending the coverage of deposit insurance to all deposits in insured banks. In your discussion, stress the role of deposit insurance in contributing to economic stability.

E. BANK EXAMINATION

19. What do you believe to be the role of bank examination and supervision in furthering the objectives of the Employment Act?

F. RESERVE REQUIREMENTS

20. Discuss the function of bank reserve requirements, stressing their role in credit control. What are the arguments for and against subjecting all insured banks to the same reserve requirements as member banks of the Federal Reserve System?

G. THE BANKING STRUCTURE

21. Will you please submit a memorandum discussing the adequacy of banking facilities in the United States? For this purpose, take as your standard of adequacy the ideal of bringing banking facilities within convenient reach of all persons having need of them, and, so far as practicable, giving all persons the opportunity of choosing between two or more competing banks. Distinguish between deposit facilities and loan facilities.

H. AVAILABILITY OF CAPITAL FOR SMALL BUSINESS

22. Discuss the changes which have occurred during the last 25 years in the ease or difficulty with which small-business men have been able to raise capital or to borrow. What in your opinion are the reasons for such changes as you find to have occurred? Do you believe that a more liberal supply of capital and credit to small business would contribute to the diffusion of economic power and to the dynamic character of the economy? What steps could be taken to bring about a more liberal supply of capital and credit to small business? Do you believe that any of these steps would be desirable? Distinguish between the longer-term aspects of the problem and those of particular importance today during the current national defense emergency.

23. Discuss the effects of bank examinations on the lending policies of banks, particularly as they apply to loans to small-business men. Distinguish if necessary between examinations by different examining authorities.

QUESTIONS FOR THE ADMINISTRATOR OF THE RECONSTRUCTION FINANCE CORPORATION

Discuss the changes which have occurred during the life of the Reconstruction Finance Corporation in the ease or difficulty with which small-business men have been able to raise capital or to borrow. What in your opinion are the reasons for such changes as you find to have occurred? Do you believe that a more liberal supply of capital and credit to small business would contribute to the diffusion of economic power and to the dynamic character of the economy? What steps could be taken to bring about a more liberal supply of capital and credit to small business? Do you believe that any of these steps would be desirable? Distinguish between the longer-term aspects of the problem and those of particular importance today during the current national defense emergency.

QUESTIONS FOR STATE BANK SUPERVISORS

1. What do you believe to be the role of bank examination and supervision in maintaining economic stability?

2. Discuss the advantages and disadvantages of extending the coverage of deposit insurance to include all accounts in insured banks. Do you believe that this should be done?

3. What do you believe to be the principal functions of bank reserve requirements? Do you believe that all insured banks should be subject to the same reserve requirements as member banks of the Federal Reserve System? Why, or why not?

4. Discuss the adequacy of banking facilities in your State. For this purpose, take as your standard of adequacy the ideal of bringing banking facilities within convenient reach of all persons having need of them, and, so far as practicable, giving all persons the opportunity of choosing between two or more competing banks. Distinguish between deposit facilities and loan facilities.

5. Discuss in general your policy in acting on applications for new State-bank charters. Stress your concept of what constitutes ample banking facilities—especially the degree of competition which you believe to be necessary or desirable.

6. Would you please submit a statistical analysis showing year by year for the past 10 years the number of applications filed for State-bank charters in your State, the number approved, the number rejected, and the causes for rejection, classified by such principal reasons as (a) existence of ample banking facilities, (b) no prospect of successful financial operation, (c) inadequate capital for the establishment of the bank or branch, (d) no satisfactory evidence that competent management would be available, etc.? Comment on this analysis in any manner which you consider appropriate.

7. Discuss the changes during the past 25 years in the ease or difficulty with which small-business men can borrow from their local banks in your State. Explain the reasons for such changes as you find to have occurred. Do you believe that a more liberal lending policy by commercial banks to small-business borrowers would contribute to the diffusion of economic power and to the dynamic character of the economy? What steps could be taken to foster such a policy? Distinguish between the longer-term aspects of the problem and those of particular importance today during the current national defense emergency.

8. Discuss the effects of bank examinations on the lending policies of banks in your State, particularly as they apply to loans to small-business men. Distinguish if necessary between examinations by different examining authorities.

QUESTIONS FOR ECONOMISTS

1. What are your views of the effects of credit policies resulting in relatively small and relatively large changes in interest rates, respectively, upon (a) the lending policies of commercial banks, (b) the lending policies of nonbank investors, (c) consumer saving, (d) business plant expenditure programs, (e) business inventory policy?

2. How important do you consider the expansion of credit to be in the totality of factors underlying the post-Korean inflationary boom? The postwar boom in 1945-48? How would you appraise the effectiveness of (a) general and (b) selective credit policy in coping with (i) a high level of private capital investment, (ii) a high level of consumer spending, (iii) large present or prospective Government expenditures, (iv) the wage-price-farm support spiral?

3. What do you believe to be the appropriate roles of direct (e. g., price and wage) controls, selective credit controls, and a general tightening of credit as means of restraining inflation (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, (d) under conditions of total war?

4. Do you believe that it would be (a) desirable and (b) possible to insulate public debt securities in whole or in part from the impact of restrictive credit policies designed primarily to discourage the growth of private debt? Do you have any concrete suggestions for action in this regard?

5. To what extent do you believe that the demand for Government and other high-grade, fixed-interest-bearing securities by nonbank investors is influenced by (a) the current level of interest rates, (b) expectations with respect to changes in interest rates, (c) other factors?

6. 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.

7. What types of securities do you believe should be the principal vehicles of Government borrowing (a) under present conditions, (b) in the event of the necessity for substantial net Government borrowing?

8. 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?

QUESTIONS FOR BANKERS

1. Have the lending policies of your bank changed since July 1950? If so, what has been the general character of the change? Specifically, what change has occurred in your lending policies with respect to: (a) Regular commercial customers, (b) occasional commercial borrowers, (c) real-estate loans, (d) consumer loans?

2. Have the investment policies of your bank changed since July 1950? Discuss the change in terms of: (a) Purchase of municipal securities, (b) purchase of corporate securities, (c) management of your Government security portfolio.

3. Discuss the factors which contributed to the changes in your policies described in the two preceding questions, and your evaluation of the relative importance of each factor. Please give consideration to the following: (a) Increases in short-term interest rates, (b) declines in prices of long-term Government bonds, (c) increases in reserve requirements around the turn of the year, (d) moral suasion (including the Voluntary Credit Restraint Program), (e) changes in prices and in the business outlook.

4. Do you believe that it was wise to abandon the par support of long-term Government bonds in March 1951? If not, would you have considered it wise at another time or under other conditions? When, or under what conditions? If you favored the abandonment, would you have preferred that it be done earlier? When?

5. What do you consider to be the principal functions of bank reserve requirements? Do you believe that nonmember banks should be required to hold the same reserves as member banks of the Federal Reserve System?

6. Comment on the proposal (advanced in the Wilson report and in several annual reports of the Board of Governors of the Federal Reserve System) that banks be required to hold reserves additional to those now required, such reserves to be held at the option of the bank in specified classes of United States securities.

7. Do you believe that the coverage of Federal deposit insurance should be extended to include all deposits in insured banks? Why, or why not?

8. To what extent do you believe that bank examination and supervision should be used as instruments for furthering the objective of economic stability?

9. In your experience, have regulation X (real-estate loans) and regulation W (consumer loans) of the Board of Governors of the Federal Reserve System been successful in accomplishing their respective objectives? Have they been fair and equitable in administration?

10. What do you consider to be the advantages and disadvantages of the ownership of the stock of the Federal Reserve banks by member banks? Do you believe that ownership by the United States Government would be more desirable?

QUESTIONS FOR LIFE INSURANCE COMPANY EXECUTIVES

1. Describe the policy of your company with respect to changes in its portfolio of (a) United States Government securities, (b) State and municipal securities, (c) corporate securities, and (d) mortgages during the period from the end of the war to June 1950, and state in a general way the reasons for this policy.

2. Describe the changes, if any, in your policy with respect to holdings of United States securities, corporate securities, and mortgages since June 1950. If your policy during this period has changed, evaluate roughly the relative importance of (a) changes in the relative attractiveness as investments of the different classes of securities, (b) changed Federal regulations with respect to mortgages, (c) moral suasion, directly or indirectly, by the Federal Reserve System (including the Voluntary Credit Restraint Program), (d) the emergence of potential capital losses on United States securities in your portfolio, and (e) other factors, in bringing about the change in policy.

3. If the Treasury should have to engage in substantial net borrowing during the foreseeable future, what class or classes of securities do you believe it should offer to life insurance companies?

QUESTIONS FOR UNITED STATES GOVERNMENT SECURITY DEALERS

1. What, in general terms, has been the response of your customers (in terms of buying, selling, and holding United States securities) to the various credit policy and debt management moves made by the Treasury and the Federal Reserve System since the outbreak of the war in Korea? Distinguish, if you desire, between successive phases.

2. What has been the effect of the changes in credit policies since the outbreak of the war in Korea upon the preferences of your customers as between short-term, intermediate, and long-term United States securities? Distinguish between classes of customers.

3. Do you believe that it was wise to abandon the par support of long-term Government bonds in March 1951? If not, would you have considered it wise at another time or under other conditions? When, or under what conditions? If you favored the abandonment, would you have preferred that it be done earlier? When?

4. To what extent is the demand for long-term United States Government and other high-grade, fixed-interest-bearing securities by nonbank investors influenced by (a) the current level of interest rates, (b) expectations with respect to changes in interest rates, (c) other factors?

5. What types of securities do you believe should be the principal vehicles of United States Government borrowing (a) under present conditions, (b) in the event of the necessity for substantial net Government borrowing? Discuss both marketable and nonmarketable securities.

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