

Miss Boardman
February 19, 1945

16
E. A. Goldenweiser

Copy in
Files Section

The proposed Division memorandum on scope for Federal Reserve financing in the international field

Revision of the Keynes plan memorandum has hung fire for some time while other more urgent work was pushed ahead of it. It has now been completed. In order to get it to the Board before the luncheon with Henry Clay I had to have it mimeographed in your absence. Otherwise I would have asked you to look it over again. Keynes' alterations in his plan have necessitated considerable re-writing although the general story remains the same.

I believe it was your intention that this revised memorandum should be sent to various section chiefs as a suggestion to them of the sort of Division job that is needed to determine how far the Federal Reserve can go in the field of international financing. The nature of the problem is briefly stated in the last two sections of the memorandum. They run from the middle of page 8 to the bottom of page 10. The successive points are made only because they seem to be necessary to the final answer. The implications in terms of Division work can perhaps best be indicated by naming individuals. For instance, the first paragraph of the section beginning on page 8 calls for development by Alvin Hansen, who probably does not agree with the conclusions in the last two paragraphs of the section. The second paragraph of the section calls for analysis by Lee Piser and general discussion by yourself and Woody Thomas. You may be skeptical of the conclusion on page 9.

Passing to the section beginning on page 9, two major problems are raised: 1) what is the general magnitude of the national income likely to be after the war assuming maintenance of relatively full employment and 2) what is the volume of currency and checking deposits appropriate to that income — that is, what is the volume which will contribute to an orderly economy on a full-production basis? Frank Garfield is, of course, the man for the first point and Roland Robinson (or Lee Bach) for the second. Arthur Hersey's work would also play directly into this second point — particularly on considerations such as those raised in the second sentence of the last paragraph on page 10. Sue Burr's whole section and also Martin Krost's might well have something to say about the Government bond problem (page 8) on which I earlier suggested that Lee Piser do the close-work. And Martin would undoubtedly have views on Alvin Hansen's piece, which would undoubtedly put emphasis on fiscal policy and the rôle of the Federal Reserve in preserving liquidity in a period of excess savings and high productive power.

To: E. A. Goldenweiser

-2-

All these things we have thought about and worked over in various ways, but without focussing our combined analysis on the Federal Reserve problem at the end of the war. We have never made the estimates, brought them together, and drawn the conclusions in figures. Or perhaps one should say ranges of figures, for the most we can hope to do is to establish a middle range of what it seems most reasonable to expect and flank it with ranges on either side of outcomes that are possible, but improbable. If we must assume a highly improbable set of circumstances to make international financing by the Federal Reserve System on a given scale consistent with domestic credit control, then commitments to undertake such financing (even indirect commitments made for us by the Treasury's gold policy) must be avoided unless we are assured of obtaining additional powers from Congress or are willing to take a very considerable risk that circumstances will render it impossible for us to discharge our primary function. Such commitments are in the making right now. They are shaping in the Treasury meetings on plans for post-war monetary stabilization, and we are helping to shape them. We should know more clearly what it is that we are doing to the Federal Reserve System and its power to serve the country.

Attachment

WHG:lgf