

Office Correspondence

FEDERAL RESERVE
BOARD

Date _____

To Governor EcclesSubject: Pronouncement on nationalFrom J. M. Daiger monetary policy

16-852

More by way of inquiry than of recommendation, I would suggest that the Federal Reserve Board consider the advisability of recommending to the President and the Secretary of the Treasury a pronouncement at this time on national monetary policy.

I put the suggestion in this tentative way, not because I do not regard it as possibly of considerable immediate importance, but because I am myself not qualified to express an opinion on problems of international exchange. What I would specifically recommend is that the Board obtain from Dr. Goldenweiser, or from Mr. Gardner in Dr. Goldenweiser's division, a report on the significance and potentialities of the turn that monetary matters are taking in the gold-bloc countries, and that on the basis of this report and such other data as may be pertinent the Board then consider the suggestion I have made.

It seems to me that the developments and the uncertainties with regard to the gold-bloc currencies may afford both a timely opportunity and an appropriate occasion to deal effectively with current criticisms of Administration policy. On the one hand, there is the criticism that the Administration now has no monetary policy at all, or else that the policy is so confused and indefinite as to afford no basis for long-term commitments in business and financial transactions. On the other hand, there are the various demands of the inflationist groups.

The state of monetary affairs on the Continent would seem to afford ample ground for a declaration that definite action toward stabilization is still impossible, but that the discretionary authority vested by Congress in the President will be used in the interest of stability rather than instability.

The President has the power to devalue to the dollar further to the extent of nearly 20 per cent--a very wide margin. He might well say, therefore, that he does not require any further power to make the influence of the United States felt in the present world wide readjustment of currencies. He might add that, if other currencies are devalued unduly in relation to the dollar, the United States is prepared to follow. He might express a desire for continuance of the present relationship between the pound and the dollar, with a view toward ultimate stabilization around the pre-war parity, which is now indicated as the "natural" level.

To Governor Eccles

-2-

I think that the business and financial reaction to such a statement of position and policy might be very favorable, especially if it were represented as the unanimous conclusion of the President, the Treasury, and the Federal Reserve Board. As implied before, however, I am not competent to express the opinion that such a pronouncement can be or ought to be made.