

General Comments

1. This turn in the outlook, emphasized today, has come about very quickly. Just as we have had to revise our opinions, the commercial banks are now having to consider what adjustments they are going to make to meet a situation which they had thought to be temporary but which now shows signs of being of longer duration. This should mean that our policy of mild restraint, particularly if it is now stepped-up a little, will press harder on the banks than it has been doing.
2. So far as the capital market is concerned this change is already taking place; a substantial readjustment in rates is going on right now, and there has been some backing up of issues particularly in the revenue bond field. In such circumstances, as we know, there is always the possibility of expectations of difficulty outrunning the facts, and making acute what is already a difficult situation. We do not want to precipitate such a development if we can avoid it.
3. An even more difficult problem has been referred to - the possibility of our running into a cost-price spiral - growing out of increased wages and other costs which producers attempt to pass on to consumers. This might encounter consumer resistance which would have a dampening effect on production and employment, or what seems more likely in the present state of the economy it might generate an inflationary spiral. In the first case, question could be raised as to whether it is the responsibility of the central banking system to make credit easier and cheaper to obtain in order to try to head off a decline in production

and employment. The second and more difficult case would raise questions as to whether the central banking system should make credit so dear and difficult to obtain as to cause a decline in production and employment as the lesser of two evils. We haven't yet had to run head-on into the philosophy of the Employment Act of 1946 to that extent and it wouldn't be easy, so maybe we had better hope that some degree of economic responsibility on the part of management and labor, will avoid presenting us the problem in serious form.