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"SOME THOUGHTS ON OUR MONETARY POLICY"[1]

by

J. H. Frost

I think we can all agree that we are living in a period of great uncertainty. Undoubtedly there is room for disagreement with respect to the relative importance of the various problems with which we are confronted, but it is my own opinion that there is no problem before the American people today which holds more possibilities for disaster to our economy than the question of further inflation.

It seems to me also that there is no more appropriate forum for the discussion of that particular problem than a Bankers' Convention. It would seem that bankers, as the custodians of the people's money, should be more interested than any other class of the population in the maintenance of sound money. Curiously enough, however, the history of most, if not all, of the disastrous inflations of the past indicates that bankers have usually been quite complacent—and often have cooperated in producing monetary inflation. This seems to be largely due to the fact that the liabilities of banks are all monetary and can be discharged by payment in the monetary unit no matter how far the depreciation of its purchasing power may have progressed.

Another contributing cause for the bankers' complacency is that it is almost impossible to make losses during a period of rising prices produced by monetary inflation. The people who suffer from depreciated money are not the bankers or custodians, but the depositors or owners of the money. Somehow, it seems to me that the custodian should feel an implied obligation to at least make an effort to influence events so as to be able to return money of the same intrinsic value and purchasing power as was entrusted to him by the depositor. I don't think that this is too much to ask and expect from the men at the head of American banking, and I believe that, if the bankers of America really understood what has happened and is happening to the people's money, they would arouse themselves and demand and finally effect a return by this country to a sound currency redeemable in gold, with the clear right on the part of any American citizen to own and hold gold the same as any other property. It is almost incredible that this liberty-loving people could have apparently approved its government making it a criminal offense, punishable by confiscation and fine, for an American citizen to own or hold gold in his possession, and this in spite of the many examples of shattered economies, poverty and suffering directly attributable to irredeemable paper money.

How Irredeemable Money Came About

Now, I should like to outline to you certain thoughts which I have with regard to the means which have been employed in bringing about the fantastic increase in the supply of irredeemable money in this country. In order to do this, I think it necessary to go back to the year 1900, when the Gold Standard Act was adopted by Congress as a direct result of the many monetary disturbances and discussions which were more or less continuous in this country from the end of the Civil War until that date. On the one hand, there were during that period the advocates of the "easy money" policy based on an increase in the money supply, with the confident belief that such money would always retain its purchasing power because of the fiat of the government. On the other hand, there were the advocates of the theory that money is not wealth but a medium of exchange for facilitating commercial intercourse, and that, if it is to be the yardstick or measure of value, it should consist of or be readily redeemable in some commodity having a stable value in the markets of the world independent of government fiat—the same line-up which we have today. However in 1900, the advocates of sound money redeemable in gold prevailed, whereas today they have been defeated and the advocates of the "easy money" policy and the unlimited issue of dishonored currency, irredeemable in anything, are in power.

Since I am to refer to "sound money" from time to time, I think I had better make clear exactly what I mean. Whenever in this discussion I use the term "sound money", I mean "money made of (or unquestionably redeemable in) a commodity which has a stable value in the markets of the world independent of government fiat. Sound money as applied to coin means money wherein the commercial value of the bullion equals its coinage value. Sound money as applied to paper or token money of any kind means that which is redeemable in money wherein the commercial value of its bullion equals its coinage value." This definition by A. B. Hepburn in 1915 is, of course, contrary to what is considered to be sound money by those in charge of our present monetary policy, and it is not necessary that either they or you accept it into your vocabulary as correct. I am simply giving it for the purpose of having

[1]*Address delivered by J. H. Frost, Chairman of the Board of the Frost National Bank, San Antonio, Texas, before the annual meeting of the Texas Bankers Association in San Antonio, May 25, 1948.*

you understand what I mean when I use the term in this discussion.

Now, to get back to my understanding of how we have arrived at our present monetary position, let me say that the Gold Standard Act of 1900 gave us a sound currency redeemable in gold, but there was a very serious defect in our monetary system of that date, which was brought into glaring evidence by the panic of 1907. This was the lack of any legal provision by which the supply of currency would automatically increase and decrease for the purpose of either meeting an emergency or to provide for fluctuations in the monetary requirements of industry, commerce and agriculture. This defect was remedied by the Federal Reserve Act, which became law in 1913. The Federal Reserve Act did not in any way alter the Gold Standard Act of 1900, but it did authorize the issuance of a new kind of money (Federal Reserve Notes) which could only come into being by reason of a need for additional money by the country either to meet an emergency or to provide for increased requirements of industry, commerce and agriculture.

Woodrow Wilson, who was then President of the United States, was a "sound money" advocate, and neither he nor Carter Glass nor any of those guiding the legislation through Congress would for a moment have favored the measure if they had dreamed of the possibility that the Federal Reserve System would be so amended and debauched as to become the vehicle for the issuance of a fantastic amount of irredeemable currency, which, if continued, can ultimately only lead to incredible disaster and national bankruptcy. Nor could the Federal Reserve System as originally provided for in the Federal Reserve Act have been so used or abused, since, under the original Act, Federal Reserve Notes were required to be secured by the deposit of eligible paper, which consisted of rediscounted notes, drafts and bills of exchange issued or drawn for industrial, commercial or agricultural purposes; and it required a war-time amendment in 1917 to provide that fifteen-day notes of member banks when secured by government obligations or eligible paper might be accepted as collateral for Federal Reserve Note issues. It is important in this connection to note that under that amendment government obligations owned by the Federal Reserve Banks, whether bought in the open market or direct from the Treasury, could not be used as collateral for Federal Reserve Notes. Thus it is quite clear that the original concept of the Federal Reserve Note issues was sound, and no Note could be issued unless the need therefor was evidenced by a member bank being willing to rediscount an obligation based on agricultural, industrial or commercial needs, such rediscount costing the rediscounting bank interest and further involving a contingent liability for the payment of the obligation Even after the amendment of 1917 authorizing the pledging of member bank notes secured by government obligations, there was the same evidence of need, in that the borrowing bank was paying interest and assuming a direct liability for payment in fifteen days—a very short maturity. Nothing in any of this could possibly indicate any suggestion of modification of the redemption provisions of the Gold Standard Act of 1900, nor was there inherent in the Federal Reserve Act any reason for our not being able to comply with the requirement of that Act to redeem our currency in gold.

Distortion of Federal Reserve System

Within about 2½ years after the establishment of the Federal Reserve System, the country became involved in the First World War and the System was put to a severe test. However, at the end of the war, we still had a sound currency redeemable in gold, even though it had expanded greatly to meet war-time emergencies and the enlarged requirements of agriculture, industry and commerce. This was due to the fact, previously referred to, that Federal Reserve Notes could not be issued against government obligations as collateral, and to the further fact that the System refrained from purchasing government securities, either in the open markets or directly from the Treasury, except for extremely temporary purposes and for comparatively inconsequential amounts. The clearest statement which I have been able to find on that point is the statement made by Dr. W. Randolph Burgess in his book "The Reserve Banks and the Money Markets" (published in 1927), on pages 104-105, where he makes the following statement of the advantages of the extension of credit by Federal Reserve Banks to member banks rather than to the Treasury by the purchase of government securities. To quote in part, he says: "The Treasury, to its everlasting credit, did not borrow directly from the Federal Reserve Bank. To the extent that Federal Reserve Credit was required to finance the war, it was created by borrowing on the part of member banks, with the obligation which that involved for the eventual return of the loan, or it took the form of open market purchases by the Federal Reserve Banks of commercial obligations which were salable in the open market . . . . The principle that was followed, of not lending directly to the Treasury but lending to banks, resulted in a semi-automatic liquidation of Reserve Bank credit as prices fell and gold was imported. The banks used all surplus funds to pay off their indebtedness, and the volume of Reserve Bank credit was adapted to changes in credit requirements. Such a result would have been most difficult, *if not impossible, if the debt had been owed by the government.*"

Since that time, there has occurred a very basic change in the philosophy of the leaders in the development of our monetary policy, and especially in their ideas as to what are the purposes of the Federal Reserve System. To illustrate, I should like to quote, first, from Dr. Burgess' Revised Edition of the same book, published in 1946, which shows the change in thinking which has occurred in his own case and which I think is typical with regard to a very large segment (if not a majority) of the American people. The quotation is as follows: "It has indeed been necessary to change some ideas formerly held, especially as to the nature of the collateral for note issues. In assuring elasticity, the specific collateral held has proved less important that the mechanism by which notes are issued. Limitations upon inflation or deflation are to be found in the broad credit policy pursued by the bank of issue and not in restrictions as to collateral or even reserves for currency. In fact, Federal Reserve Notes would be just as safe and just as elastic if they were an obligation of the Reserve Banks without specific security but backed by all Federal Reserve assets just as are the deposits."

Undoubtedly we have had clear evidence of the extreme elasticity of the currency under the new philosophy "as to the nature of collateral for note issues." We have seen an expansion of our currency and deposit structure to a far greater degree that would have been possible under the sound provisions of the Federal Reserve Act before the amendments brought about by the advocates of the "easy money" policy. However, elasticity does not only mean "to expand" but "to contract" as well, and the quality of "semi-automatic liquidation of Reserve Bank credit" mentioned in the first quotation of Dr. Burgess' book has been completely lost. Expansion without contraction does not, in my opinion, satisfy a sound definition of elasticity. To my way of thinking, Dr. Burgess' statement is close to a recommendation of pure fiat money, with no legal requirements as to amount or quality other than reliance on the discretion of the Federal Reserve Board, which conceivably could become dominated by and subservient to an Administration imbued with the spending theory of prosperity.

A Basic Change in Currency Philosophy

In order to illustrate the basic change which has come about in the philosophy of those in charge of the administration of the Federal Reserve System, I should like to refer you to your copy of the Federal Reserve Act, where you will find it to be headed as follows: "An Act to provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

Then, I would like to refer you to the very attractive black book published by the Federal Reserve Board in 1947, and sent with the compliments of the Board to every member bank in the System and, I feel sure, to many thousands of other people. The title of that book is: "The Federal Reserve System, its Purposes and Functions." In the foreword of this book, we find in the first paragraph this sentence: "In the United States, the long run objective of the Federal Reserve System is to do its part in fostering monetary and credit conditions favorable to sustained high employment, stable values, and a rising level of consumption." Then, the heading of the first chapter: "The *principal* purpose of the Federal Reserve is to regulate the supply, availability and cost of money, with a view to contributing to the maintenance of a high level of employment, stable values, and a rising standard of living." Then, the first paragraph, as follows: "On December 23, 1913, President Woodrow Wilson signed the Federal Reserve Act establishing the Federal Reserve System. Its original purposes as conceived by its founders were to give the country an elastic currency, to provide facilities for discounting commercial paper, and to improve the supervision of banking. Over the years the System has developed a broader objective, namely, to help prevent inflations and deflations, and to do its share in creating conditions favorable to sustained high employment, stable values, and a rising level of consumption." You will observe that the Board seems to point with pride to the great improvement in the purposes of the System as presently operated in comparison to the purposes in mind during the "horse and buggy" days of "sound money" redeemable in gold. Does any sane man believe that the avowed purposes of the Board can be achieved by issues of irredeemable paper money and the creation of irredeemable deposits built on a reserve structure which, in turn, is created by a paper credit on the books of the Federal Reserve Banks in payment for government bonds?

Now, to return again to my narrative with regard to how we have reached our present theories and beliefs with respect to monetary policy, I should like for you to especially remember and note the statement which I have made—and which Dr. Burgess stressed in the 1927 edition of his book as important—that the Federal Reserve System did not buy government obligations but furnished such Federal Reserve Credit as was required to finance the war by loaning to member banks. At the beginning of the war, on April 19, 1917, the Federal Reserve System owned a total of government securities in the amount of 93 million dollars, and at the end of the war, in November 1918, they owned a total of government securities in the amount of 122 million dollars, which is an increase of a total amount of only 29 million dollars.

Growth in Federal Reserve Bondholdings

After the war was over and the contraction of Federal Reserve Credit (so warmly approved by Dr. Burgess) had taken place, the Federal Reserve Banks were left with very few earning assets, and they began, each one independently on its own account, to buy government securities in order to earn expenses and dividends. During the period of 1923 to 1929, several operations of what were then regarded as quite large increases—and correspondingly large decreases in government holdings—were carried out.

From 12-31-21 to 5-31-22, a net increase of 369 million took place.

From 5-31-22 to 7-31-23, a decrease of 505 million.

From 7-31-23 to 10-31-24, an increase of 486 million.

From 10-31-24 to 10-31-26, a decrease of 283 million.

From 10-31-26 to 12-31-27, an increase of 316 million.

From 12-31-27 to 7-31-28, a decrease of 402 million.

While the maximum held by the System at any one time was never much over 600 million dollars, a great deal of experience had been gained and the managers of the Federal Reserve System had learned entirely by accident to appreciate what a powerful weapon for inflation and deflation of currency and deopsits had been inadvertently placed under their control. (It was in that period that the term "high powered money" was first applied to Federal Reserve Credit). I say "inadvertently" because there seems to be every reason to believe that the authority for buying and selling government securities as a means of creating reserves for member banks on which a deposit structure of several times the amount could be built was not considered or even thought of as a possibility by the Committees of Congress responsible for framing the Act, and the fact that the members of the Federal Reserve Board and the Governors of the Federal Reserve Banks had never previously used the device seems to justify the presumption that they had not realized its powerful effects. This seems further to be made clear in the statement of Governor Strong, of the Federal Reserve Bank of New York, in the hearing before the House Committee on Banking & Currency in April, 1926. In that statement, Governor Strong traced the origin and development of the Open Market Committee which was first organized in 1923, in order to coordinate the purchases and sales of government securities by the several Federal Reserve Banks so that they might be used as an effective instrument in influencing the money market, the international gold flow and other purposes. Bear in mind, the Federal Reserve System had been in operation at that time for nine years, and the *discovery* of the potency of the Open House operations of the System *had just been made.*

Now, by the time that the great Depression came along in the early 1930's, the powerful effect of "Open Market operations" was well understood, and the Hoover Administration adopted an "easy money" policy, with the thought in mind that, if the money supply were sufficiently increased, depressed prices would be raised, business activity would be induced, and Prosperity (which was "just around the corner") would be achieved.

On September 30, 1929, the System owned a total of $162,000,000 of government securities, and the "easy money" policy adopted by the Hoover Administration resulted in net purchases of government securities by the Federal Reserve System of $1,719,000,000, bringing the total holdings of the System on March 8, 1933, to $1,881,000,000. During the period that these tremendous purchases were taking place, money, of course, was becoming more plentiful and Banks were finding it less necessary to have either rediscounts with the Federal Reserve System or borrowings from the System. This meant that the Federal Reserve System was running short of "eligible paper" for collateral against Federal Reserve Notes and was faced with the necessity of either depositing gold as collateral or reversing its inordinate bond purchasing program. Therefore, in February, 1932, the Glass-Stegall Bill was enacted into law, which provided for the authorization of the System to pledge directly owned government obligations as security for Federal Reserve Notes. This, of course, eased the situation completely, although it was well recognized at that time that this was a very colse approach to, if not a direct issue of, fiat money—and the authorization was made as an emergency and temporary measure, to continue for a period of one year, at the end of which time the Act was to expire unless extended by a new Act of Congreess. The Act was extended by Congress a year or two at a time until June 12, 1945, it was made permanent. The fact that, when the Glass-Stegall Act was made permanent in 1945, it attracted hardly casual attention on the part of bankers or economists throughout the country, seems to me to be conclusive evidence that the monetary philosophy of the country had completely changed from what it was 1932 when the emergency measure was passed.

SOME THOUGHTS ON OUR MONETARY POLICY

Furthering "Easy Money" Policy

The purposes of the Administration in using the Federal Reserve System to further the "easy money" policy were a dismal failure insofar as inducing a business revival and prosperity was concerned, and many had hoped that the process would be reversed under the Roosevelt Administration which came into Power in March, 1933. However, this was not to be, since the new Administration adopted the same "easy money" policy, with the result that by December 31, 1933, the total holdings of government securities by the System amounted to $2,437,000,000, and there were $600,000,000 government bonds pledged to secure Federal Reserve Notes.

Beginning in 1934, the net loss of gold, which was 446,000,000 in 1932 and $173,000,000 in 1933, was reversed and there was a net gain in gold of $1,133,912,000 for 1934, with further similar and larger increases thereafter. This gain in the gold stock, of course, operated to increase reserves of member banks in the same way that the purchases of government bonds by the Federal Reserve System had been operating, and it was believed that these reserves would be used by the member banks not only for the purpose of financing the budgetary deficits of the government but for the purpose of financing an increased business activity to be induced by the "easy money" policy. These hopes were not realized, and increased business activity and the use of bank credit by private enterprise did not take place, so that a period of tremendous excess reserves standing to the credit of member banks with the Federal Reserve System began. The Roosevelt Administration and the Federal Reserve Board came to the conclusion that a further purchase of government securities by the System would only increase excess reserves without bringing about the desired results, and therefore no additional purchases were made, although the holdings of the System were not allowed to run off for fear that the financing of the budgetary deficits might have to be made at higher interest rates than those prevailing under the "easy money" policy. The tremendous excess reserves continued to grow (On December 31, 1940, they stood at $6,600,000,000) without bringing about business recovery and prosperity until the United States undertook the Lend-Lease policy and its own military preparation for entry into the Second World War, which was finally precipitated by the Pearl Harbor attack in December, 1941.

It was foreseen by everyone that the financing of the government during World War II would be a terrific undertaking, and a plan for such financing was worked out by representatives of the Treasury Department, the Federal Reserve System and the American Bankers Association. The plan adopted provided for the financing of the war on a low constant level of interest rates. It was recognized that, in order to accomplish this, it would be necessary to abandon all thought of our "sound money" policy of the past and to discard as impractical the plan used in financing the First World War, which was so warmly praised in the quotation from the 1927 edition of the Burgess book. In other words, the decision to adopt a policy of a fixed low interest rate was made, with a full recognition of the steps which would have to be taken to carry it out. The managers of the Federal Reserve System had already had a sufficient amount of experience in issuing Federal Reserve Notes secured by government bonds bought by the System, and in creating reserves for member banks by the purchase of government obligations in the Open Market, to understand how easy the process would be to increase the money supply to a fantastic degree without people in general appreciating the deterioration in the quality and purchasing power of an unlimited supply of irredeemable currency and deposits. The mechanics are familiar to all of you. The Federal Reserve Banks purchased bonds, thus increasing the reserves of member banks, and member banks in turn bought five or six times as many bonds in order to put those reserves to work. The Government spent the proceeds of these sales of bonds, and the money became additional deposits in the hands of the public. By December 31, 1945, which concludes the period of war financing, the System owned a total of $24,262,000,000 of government securities as compared with $2,484,000,000 on December 31, 1939. Federal Reserve Notes outstanding stood at $24,649,000,000 as compared to $4,958,000,000 on December 31, 1939. Security for these Notes consisted of $10,523,000,000 Gold Certificates, $417,000,000 eligible paper, and $15,420,000,000 of government securities as compared with $5,371,000,000 Gold Certificates, $1,365,000,000 eligible paper, and *no* government securities at all December 31, 1939.

Postwar Currency Developments

Member banks at the end of 1945 owned $78,338,000,000 of government securities as compared with $13,223,000,000 at the end of 1938, and all Banks in the United States (exclusive of the Federal Reserve Banks) held $101,295,000,000 government securities as compared with $17,953,000,000 December 31, 1938. The most casual observer can hardly fail to agree that although possibly justifiably so as an exigency of war our monetary structure by December 31, 1945 had been strained to a dangerous degree. One would think that, in lieu of the *semi-automatic liquidation* of reserve credit inherent in an expansion based on the extension of such credit to banks instead of by means of direct purchases of government securities by the system, the money managers would have substituted a *voluntary liquidation* of reserve credit in order to bring about contraction of the monetary structure.

However by December 31, 1947, two years after the end of war financing, the System had reduced its holdings of government securities by only $1,700,000,000., while in the same period, the net increase of Gold Certificates held by the System had amounted to $3,850,000,000, so that reserves of member banks had increased about $2,000,000,000.

It will be observed from these comparative figures that the Federal Reserve System has not even decreased its bond holdings since December 31, 1945, by a sufficient amount to offset the new reserves created by the net gold imports, which, of course, indicates a continuation of the "easy money" policy without regard to inflationary results and the corresponding deterioration in the purchasing power of the currency.

Also, please bear in mind that this greatly inflated monetary structure could not have been built without the authority for pledging government securities as collateral to Federal Reserve Notes which was provided for in the Glass-Stegall Act of 1932, renewed from vear to year by Congress, and finally made a permanent authority on June 12, 1945.

It seems to me that the figures which I have given should satisfy any reasonable person that we have a sufficiently great inflation of our monetary structure, based not upon gold but upon the issuance of irredeemable paper money, to cause all of us to wonder how much further we may be able to go along that road before a fear of the future purchasing power of our currency may pervade the entire population and cause a flight from money into material things, thus bringing about uncontrollable inflation and economic chaos.

At any rate, we have had evidences of uneasiness with regard to the inflationary spiral of prices and wages, which have come from expressions of the Federal Reserve Board through its Chairman, from the President's Council of Economic Advisers, and from the President of the United States himself, to say nothing of many other important organizations, economists, bankers, etc., throughout the whole country.

I believe that the general consensus of opinion is that something must be done to counteract the inflationary trend, but there is no agreement with regard to the most desirable method by which this should be accomplished. The opinion of the members of the Federal Reserve Board, the President's Council of Economic Advisers, and, in fact, all authorized representatives of the present Administration in Washington, seems to be that interest rates must be kept low at all hazards and that long term government bonds not be allowed to drop in market price below a $2\frac{1}{2}\%$ yield basis. In order to maintain that fixed level of interest rates in the market, they take the position that the Federal Reserve Banks must stand ready to buy all government bonds offered at par, and this—of course, enables Banks to sell bonds to the Federal Reserve System, thus creating reserves upon which a further deposit structure can be built. In order to offset the inflationary effect of the additional increase in the deposit structure, they recommend the granting of extreme control powers to the Government and the Federal Reserve System. Among other things, these powers would authorize the creation of a new kind of required reserves of member banks to be invested in certain classes of government obligations. The Federal Reserve Board would be authorized to exercise various forms of qualitative credit control. The Administration would be authorized to set price ceilings, to ration all commodities considered to be scarce, and, more importantly still, to set ceilings on wages.

Time does not permit any detailed discussion of these proposals, but it is my thought that the granting of any such powers, and the experiment of attempting to enforce them, can only result in complete failure and economic disaster, just as similar governmental efforts have resulted in every case in history (and there are many of them) in which they have been tried.

On the other hand, there is a group of orthodox economists and a good many bankers, industrialists and insurance executives who believe that there is only one sound way in which the effects of monetary inflation can be counteracted, and that is by a correction of the monetary inflation itself. In other words, this group are of the opinion that the effects on the price structure of large issues of irredeemable paper cannot successfully be opposed by price ceilings which have failed in every great inflation of the past. They believe that, if we are to avoid extreme price inflation, with all of its concomitant suffering, the monetary structure (which, of course, includes deposits and all other forms of money) must be contracted to the point where currency will again become redeemable on demand in a commodity having a stable value in the markets of the world, independent of government fiat, and they believe further that our own experience since the establishment of the Federal Reserve Act and the various amendments thereto, as well as the history of all previous monetary inflations throughout the world, make it quite clear that we are not justified in entrusting to any individual, or Board, or governmental administration, the power to issue money except under very definite legal limitations. These limitations should be of such character that the outstanding supply of paper money and of bank deposits shall be supported by such securities and shall bear such a ratio to the gold supply of the country that redemption in gold will at all times be feasible and practical. They also believe that such a condition (currency redemption in gold) is incompatible with the theory that any particular interest rate can be permanently maintained, either by the issuance of currency secured by government bonds or by the creation of deposits based on reserves which, in turn, are created by a paper credit for the purchase of government obligations by the Reserve Bank. They believe that it is inevitable that currency issues and deposits thus created will constantly tend to increase to such an extent that their ratio to the supply of gold will reach the point that redemption becomes impractical and impossible.

Gold Standard Advocated

It is my own opinion that the only manner in which we can successfully combat the ravages of uncontrolled inflation would be to institute a monetary policy including a definite required plan or program *looking to* a resumption of the gold standard in this country, with all forms of money redeemable in gold. It is my further belief that there is no hope of ever achieving that goal without Congress (possibly as the first step), passing legislation to provide for the gradual withdrawal of all government securities held as collateral against Federal Reserve Notes, and, after such collateral has ultimately been withdrawn, the right to deposit such collateral in the future should be discontinued. This need not in any way interfere with the elasticity of the Federal Reserve Note in order to meet either emergencis or the fluctuating need of agriculture, industry and commerce, since currency could still be issued and reserves created in the manner provided for in the Federal Reserve Act before the passage of the Glass-Stegall Act, namely, by rediscounts and loans to member banks.

The suggestion in Dr. Burgess' Revised Edition of "The Reserve Banks and the Money Markets," to the effect that Federal Reserve Notes might well be issued without any form of collateral and without any gold reserve requirement, assumes superhuman wisdom and self-restraint, as well as the loftiest purity of motives.

The American people, in the Constitution adopted in 1789, gave good evidence of wishing to have a Government by law rather than by men, and it is my opinion that the power to issue money should be governed by very strict laws, both as to reserves and collateral requirements.

I realize that what I say, or, in fact, what any of us say, with regard to the monetary policy of the country can have only a very insignificant effect on the future development of such policy. However, it has occurred to me that the dangers of a disastrous inflation in the United States are so great, and so generally recognized, that Congress would be justified in creating a Committee such as was created in 1908 by the Aldrich-Vreeland Act. That Act created "The National Monetary Commission," which was designed to safeguard the general situation until a comprehensive law could be passed, and it consisted of nine Senators and nine Representatives. The Commission put forth a tremendous amount of study and research in connection with the subject of Banking, Currency and Credit, and it was largely as a result of the educational influence of their published findings that the Federal Reserve Act was made possible. Such a Commission could be of inestimable value to the United States now, and could, in fact, be the instrument by which a disastrous monetary inflation might possibly be avoided.