

March 15, 1937.

My dear Mr. President:

Enclosed is a copy of a statement which I decided I should issue promptly to correct some widespread misconceptions that were being circulated generally as to my views on monetary and credit policies. I thought you might wish to see it as it bears on the subject discussed at luncheon with you. If you have a moment to glance at it you will note that I took the liberty of quoting from your recent addresses in this connection. I trust that the general tenor of it will meet with your approval.

May I add my earnest hope that despite all these multifarious concerns, you are finding some of the rest and relaxation which you so much need and deserve.

Respectfully yours,

The Honorable
The President of the United States,
Warm Springs, Georgia.

X-9840

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers
of Tuesday, March 16, 1937.

March 15, 1937

Statement of Chairman Eccles with reference
to his position on credit and monetary policies.

I wish to correct erroneous interpretations which have been circulated with reference to my position on credit and monetary policies.

I have been and still am an advocate of an easy money policy and expect to continue to be an advocate of such a policy so long as there are large numbers of people who are unable to find employment in private industry, which means that the full productive capacity of the nation is not being utilized. Under such conditions, to restrict the available supply of capital and thus to make it difficult, if not impossible, to employ these people would not only be anti-social but uneconomic.

I do not believe that sharp price rises in certain basic commodities should be controlled at this stage of the recovery by a restrictive money policy which would tend to freeze and might bring about an actual reduction in the total volume of employment and production. The price rises to which I refer are the result primarily of non-monetary factors including foreign armament demands, strikes and monopolistic practices by certain groups both in industry and organized labor. These conditions have in turn led to speculative security and commodity buying which serves to accelerate the price advances.

Money must be used as the servant to increase production and employment at home and not to restrict employment and production at a time when the national income is still many billions below what it has been in the past and many more billions short of what it could and should be in the future. Therefore, other means than a restrictive money policy must be used under present conditions to control unwarranted price advances which result in the rise of the cost of living.

-2-

The way to control unjustifiable price advances is by increasing production. This can be done so long as there is idle labor willing to work, so long as there are unused natural resources and an abundance of money at reasonable rates. All three of these conditions are present at this time.

With reference to the volume of money, after the full increase in reserve requirements goes into effect on May 1, there will be more bank deposits and currency in circulation by fully two billion dollars than at the peak of 1928 and 1929. There will also be excess reserves upon which billions of further credit can be extended by the banks without the need for borrowing from the Federal reserve banks. In other words, the supply of money to finance increased production at low rates is ample. Furthermore, with the ample reserves of the Federal reserve banks additional supplies of money can be made available when needed to finance expanded production at reasonable rates by the purchase of government securities in the open market. At the same time, the Reserve System has instruments for controlling directly the diversion of bank credit into security speculation.

With reference to labor, numerically there are still millions of unemployed people able and willing to work and several millions more engaged on public works who could be diverted from public to private payrolls. But there is approaching a special problem of skilled labor shortages developing in certain fields. This situation should be anticipated and met as rapidly as it develops by releasing skilled workers from public to private employment and by vocational and increased apprenticeship training.

-3-

Finally, there was not at the peak of 1929 and there is not now any lack of raw materials and natural resources to furnish the means of production.

Under such conditions, the country needs the full and co-ordinated utilization of the three essential factors of man power, natural resources and capital until we have attained a maximum production and distribution of real wealth in the form of housing, clothing and all other goods necessary to maintain and improve the standard of living of all of our people. It is not sound public policy and it is not in the ultimate interest of either capital, labor, or agriculture for any one of the three groups, broadly speaking, to try to gain an advantage at the expense of the others, which only makes for instability of the national economy and hence is bound to be temporary.

Increased wages and shorter hours when they limit or actually reduce production are not at this time in the interest of the public in general or in the real interest of the workers themselves. When wage increases are passed along to the public, and particularly when industries take advantage of any existing situation to increase prices far beyond increased labor costs, such action is short-sighted and indefensible policy from every standpoint.

Wage increases and shorter hours are justified and wholly desirable when they result from increasing production per capita and represent a better distribution of the profits of industry. When they retard and restrict production and cause price inflation, they result in throwing the buying power of the various groups in the entire economy out of balance, working a

-4-

particular hardship upon agriculture, the unorganized workers, the recipients of fixed incomes and all consumers. The upward spiral of wages and prices into inflationary price levels can be as disastrous as the downward spiral of deflation. If such conditions develop, the Government should intervene in the public interest by taking such action as is necessary to correct the abuses.

The remedy for a price inflation when the country has unused man power, natural resources and capital, is through more, not less production, through an orderly, balanced use of these three fundamental factors and not by creating a needless, artificial shortage of any one of them.

What, then, is the function of the monetary authorities of the Government? It is to help bring about and maintain the essential element of an adequate supply of funds at reasonable rates to call forth and facilitate production and distribution. A policy of easy money in order to make available an adequate supply of capital at reasonable rates cannot, however, of itself succeed in maintaining a stable economy. The Federal Reserve System, which is an arm of the Government, is powerless to maintain a stable economy unless other essential non-monetary factors necessary to stability are brought into line either by private interests or by the Government. The Federal Reserve System has exerted the greatest possible influence to bring about and maintain easy money conditions as a necessary integral part of the recovery movement. An ample supply of funds at reasonable rates exists and will exist after the increased reserve requirements take full effect on May 1. So far as I am concerned, I am convinced that such a supply of funds should continue to be made available at rates that will encourage full re-

-5-

covery and help to maintain it.

Under present conditions of an accelerating recovery, a continued easy money policy to be successful in achieving and maintaining a balanced recovery must be accompanied by a prompt balancing of the Federal budget and the subsequent retirement of public debt by the Government in relationship to the expansion of private credit. I have not been and I am not now in favor of balancing the budget at the expense of the destitute and the unemployed who are unable to find private employment, but I am in favor of increasing taxes on incomes and profits if necessary to sustain the volume of relief and at the same time bring the budget into balance and permit the paying down of public debt as private debt expands. Only by this process can monetary inflation be prevented.

If, in the meantime, however, stable recovery is endangered by unwarranted price and cost increases arising from non-monetary causes, they must be combatted by other than monetary means. To resort to monetary restraints under such conditions would involve the risk of halting recovery and precipitating another deflation before we have recovered from the last one and before the Government is in position to bear the costs of it without causing a monetary inflation.

I cannot favor at this juncture the remedy of "tight money" and high interest rates, to reach special conditions. Such a remedy if invoked now in the attempt to control unjustifiable and monopoly-created prices would result in a reduction of the nation's buying power. Otherwise this remedy would not be effective in bringing prices down. A decline in buying power would, in turn, result in increasing the already large volume of

-6-

unemployment which would have to be supported out of public funds and in a decrease in the national income, with the consequence that the budget would be thrown hopelessly out of balance.

The remedy lies not in a restrictive monetary policy, but in vigorous government intervention with all the powers at its command to deal directly with the causes that might endanger the progress of a stable and enduring recovery.

With reference to these broad policies in connection with the budget and government finances, the President stated in his budget message in January, "We shall soon be reaping the full benefits of these programs (to combat the depression) and shall have at the same time a balanced budget that will also include provision for reduction of the public debt." And in his radio address on March 9, the President said, "In 1933, you and I knew that we must never let our economic system get completely out of joint again—that we could not afford to take the risk of another great depression. We also became convinced that the only way to avoid a repetition of those dark days was to have a government with power to prevent and to cure the abuses and the inequalities which had thrown that system out of joint. We then had a program of remedying those abuses and inequalities—to give balance and stability to our economic system—to make it bombproof against the causes of 1929."

A policy of monetary restraint at this juncture would be calculated to prevent attainment of this objective of balance and stability in our economic system.