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MONETARY EMERGENCY POWERS OF PRESIDENT NO LONGER APPROPRIATE

The emergency monetary powers of the President and the Secretary of the Treasury had their origin in a period when strenuous action to overcome the forces of deflation was an overwhelming necessity. At the depth of the Great Depression the forces of contraction in which our economic system was caught had become so strong that it was impossible to predict what measures might be necessary to reverse this cumulative process. It was appropriate that the Government should be equipped with broad and diversified powers in order to take whatever action might appear desirable to produce expansion.

This particular emergency has been successfully overcome, and the monetary powers associated with it have become obsolete anachronisms. We are today more likely to be confronted with the problem of controlling expansion rather than that of bringing it about. This is the time for trimming powers that have become redundant--especially when thought and experience have shown that the powers in question are not the best ones to achieve given aims.

No one today would seriously recommend that use be made of the greenback power. The issue of greenbacks is recognized as undesirable because in the public mind the printing of paper money is associated with fears of run-away inflation, while other forms of money creation do not bear that stigma. The issue of greenbacks also adds to the volume of

bank reserves. Experience has shown that these are likely to accumulate in the form of idle, excess reserves when it is desirable that they should lead to credit expansion. And there is a danger that they will provide the basis for such expansion at a time when it is least wanted. To bring about credit expansion through excess reserves is like lighting one's cigarette by gradually storing dynamite in the basement of one's house and waiting for an accidental spark to ignite it.

The Treasury's power to issue silver certificates up to the full monetary value of silver purchased has, similarly, remained unused and there is no thought of using it. It also has become redundant. Although foreign silver is being purchased, in moderate amounts under the Silver Purchase Act of 1934, the principal current significance of such purchases is as a source of dollar exchange to certain silver producing countries--Mexico, Canada, and Peru. It would be far better if our method of providing dollars to these countries were not linked to silver purchases but were integrated to our general programs of aid to Latin America and to the British Empire. This would eliminate a source of expansion in excess reserves.

When the possible desirability of devaluing the dollar was foreseen, the precise amount of devaluation which would be appropriate could not be determined in advance and it was prudent to establish a range within which administrative discretion could be exercised. Moreover, even after the dollar had been fixed at 59.06 per cent of its previous gold parity, it was doubtless appropriate, in view of the fluctuating and unstable condition of the foreign exchanges, to retain the power to

alter again the dollar's gold content, even though this power was never used. Under conditions which have prevailed since the outbreak of war, however, when all important foreign currencies were brought under rigid governmental control, the exchange markets have ceased to be significantly influenced by volatile market forces associated with the movements of private capital from country to country. Exchange rates have become almost purely a matter of governmental decision and the forces of supply and demand have been subjected to rigid governmental control in almost all foreign countries. As a result, variations of the dollar's gold parity no longer provide an appropriate means of influencing the dollar's external value. The President's devaluation power must therefore be regarded as another obsolete remnant of an earlier episode in our monetary development.

# GOVERNMENT SECURITY YIELDS, EXCESS RESERVES, AND BANK DEPOSITS

