Suggested [illegible]

It has been the Administration's purpose, as stated by the President on more than one occasion, to restore the price level and then to "establish and maintain a dollar which will not change its purchasing and debt-paying power during the succeeding generation."

Since the President first declared that purpose, the general price level has been restored. It is essential now that monetary authorities do what they can towards the maintenance of a dollar of stable purchasing and debt-paying power.

To protect the dollar against the danger of monetary inflation that may arise when the country has reached a condition of full utilization of its economic capacity, the Federal Reserve System has submitted to the Congress a special report, in which all members of the Board of Governors, the presidents of the Federal Reserve Banks and the members of the Federal Advisory Council have unanimously joined.

It is scarcely necessary to point out that inflation means high prices. It means loss of the purchasing power of the dollar. It would be exactly contrary to the declared purpose of the Administration to establish and maintain a dollar of steady purchasing power. Such a dollar is one that is safeguarded both against inflation and deflation.

Congress has placed upon the Federal Reserve System definite responsibilities in the banking and monetary field. Monetary authorities cannot prevent price inflation due to bottlenecks or other non-monetary causes, but they have a duty to recommend precautionary measures necessary in their field to cope with monetary inflation. In its special report the System has sought to discharge that duty.

The Secretary of the Treasury is quoted in the press as having stated that there has been an unwarranted decline in the price of U. S. Government securities, that the decline has been caused by the System's special report, that he sees no reason for a hardening of rates at this time, and that he does not believe any artificial means should be taken to increase rates at this time.

It is important, first of all, to make perfectly clear that it is the Treasury, and not the Federal Reserve System, which is responsible for the excessively low levels of interest rates. Virtually all of the powers and authority to influence the money market reside in the Treasury. Money rates are at the lowest levels in all history. They are so low that Treasury bills issued this week are selling at a premium above a no-yield basis -- a negative rate of interest. The latest issue of Treasury 5-year Defense notes is selling on a 0.77 per cent yield basis. Treasury 2-3/4 per cent bonds, with a maturity of from twenty to twenty-five years, sold on January 8 at 109-1/4, or at a yield of only 2.17 per cent. It is premature, to say the least, for the Secretary to talk of a hardening of rates in the light of these facts.

If our country is to preserve the debtor-creditor system which is at the heart of our political and economic order, then interest rates must be fair to lender and borrower alike. They must be a means to an end, not an end in themselves. The end which they serve is that of stabilized economic progress, free from the disasters of uncontrolled inflations and deflations.

If we are to scrap that system and consider only how cheaply the Government can sell its bonds, then we might as well go all the way and put out non-interest bearing obligations, commonly known as greenbacks. For the

Government controls interest rates. It can pay some interest or no interest at all, if it pleases.

We have had a condition of artificially low interest rates for a long period. So long as we were on the road upward recovering from the worst deflation this country has ever known I, for one, have favored so-called easy money conditions. That was necessary to economic restoration and it has been effective. I have never favored, nor can anyone who subscribes to the President's purpose of maintaining a reasonably stable dollar, favor applying to a period of full economic activity the same policies that are appropriate for a period of stagnation. It is because we are rapidly advancing into new high ground of economic activity and production that the steps proposed by the Reserve System become necessary as a prudent safeguard.

Let there be no misunderstanding about interest rates. In our system it is vitally important to be fair to both creditor and debtor. Many millions of our people have both debts, on which they prefer to pay as little interest as possible, and savings on which they wish to earn as much interest as possible. There are tens of millions of people in this country who have insurance policies and savings accounts. There are innumerable educational, religious, and fiduciary institutions, representing the vast majority of all of our millions of citizens. The survival of these institutions depends upon their ability to derive a fair return upon the accumulations of savings in their hands. The Government has a grave responsibility to these purchasers of Government obligations -- and they are the chief purchasers today when the Treasury itself is seeking to tap existing savings in meeting defense needs, instead of creating more deposits by selling securities to the commercial banks.

I regret that the Secretary of the Treasmry and I appear to have opposite ideas as to what constitutes "artificial" influences upon the money market. In his press conference he referred to the Reserve System's program as one that would apply "artificial" restrictions upon the money market. I wish merely to say that if the condition now prevailing whereby the banking system has an unprecedented total of more than seven billion dollars of excess reserves it not an artificial one, then that word has no meaning for me. This vast excess, on which a runaway inflationary credit expansion of fifty to sixty billions could be pyramided is not the result of Reserve System action -- quite the contrary. It is a result of Treasury policies and the purchasing of gold and silver. The time has come, in my judgment, when the justification for permitting these excessive funds to weigh down the money markets no longer exists -- when the interest rate should be governed by the supply of savings and the demand for their use.

The System's special report to the Congress proposes that monetary authorities be placed in a position where they can cope with the potentialities inherent in this now uncontrollable reservoir of bank credit. The problem is real, it cannot be ignored, it needs to be faced frankly and courageously.