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ANALYSIS OF STABILIZATION AMENDMENT TO BANKING ACT OF 1935

By Duncan U. Fletcher

Omitting all non-essentials and unimportant matters, my amendment inserts only four words in the House Committee's mandate to the Federal Reserve Board for the administration of our monetary policy as provided for in Title II of the Banking Act of 1935. I thus meet the criticism that the House amendment does not sufficiently satisfy the constitutional requirement in stating the legislative objective.

The object of Title II is to give power to the Federal Reserve Board to administer our monetary policy in such a way as to bring about or restore full employment and business activity, and, thereafter, to stabilize production, trade, prices and employment.

In view of those facts, my amendment was drawn as follows:

> "It shall be the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to full employment and business activity, and thereafter to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action and credit administration."

The words "full employment," the word "activity" and the word "thereafter", as underscored, were inserted by me in order to attain the objective referred to of stating clearly both the legislative policy and the legislative will, in the form of a Congressional mandate to the Federal Reserve Board.

Recently, I took the pains to point out that there now lies within the hands of bankers the potential makings for one of the most stupendous inflations this or any other nation has ever experienced. It is for this reason that I have said that the Banking Act of 1935 is conceived as our most essential safeguard. My amendment is deliberately conceived with the expressed purpose in mind of strengthening the Act as a safeguard against both inflation and deflation.

It is universally recognized, I believe, that our objective must be the restoration of industrial employment to the highest practicable level and to restore business activity to a maximum. That, it must be conceded, is a legitimate and laudable objective.

Consonant with the increase in industrial employment and business activity,

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there must of necessity take place a legitimate expansion of credit and currency. To the extent that these three factors undergo a proportional degree of change, inflation will not arise. It is axiomatic, I presume, that full employment and business activity cannot be expected to come about without the accompaniment of a somewhat comparable rise in the general level of all prices.

After employment and business activity are restored, the Federal Reserve Board would be required to use all of its powers to "mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action and credit administration."

Those powers of the Board which are directly referred to as being "within the scope of monetary action and credit administration" are: first, the power of the Board to direct Reserve banks to buy and sell eligible paper - including Government securities - in the open market; second, control over rediscount rates; and, third, the power to change the reserve requirements of member banks. Under this mandate, any administration can be held responsible for the results. The power is given; and they can be held responsible if they do not exercise the power to restore and maintain full employment in industry and full business activity.

The absurd objection that this monetary policy would interfere with member banks in extending credit as they see fit, has no foundation whatever in the pending Banking Act of 1935. The monetary policy of Congress is one thing--- the business of lending money by the member banks is another thing entirely.

You will note that in the above amendment no particular reference is made to either silver, gold or a specific price level. This in my estimation is correct.

International exchange, tariffs, embargoes, bounties, subsidies, the ownership of banks, and other issues must be dealt with wholly upon their own merits. It is, in my opinion, impossible for us to find a common solution for any one or all of these issues in conjunction with the main issue raised in Title II, namely, the determination of our monetary policy. For instance, international exchange agreements cannot be legislated by Congress for the obvious reason that Great Britian, France, Germany, Italy, Japan and other nations determine in individual cases one-half of the international exchange equation.

Tariffs, embargoes, bounties, and subsidies must be dealt with subject to the determination of: first, our monetary policy; and second, the international exchang

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ratios. The ownership of either the Federal Reserve banks or commercial banks is not and cannot be made a part of the major problem: namely, the determination of our national monetary policy. Irrespective of who ultimately shall own the banks, a definite answer must be made as to who shall control the administration of our monetary policy and what that policy shall be.

A rise of prices resulting from an undue expansion of credit and currency or in excess of that necessary to promote conditions conducive to "full employment and business activity" would be an evidence of inflation.

Conversely, a recession of prices accompanied by unemployment or the existence of more than a reasonable amount of unemployment, irrespective of any particular price level, would be an evidence of contraction or deflation.

Under my amendment it would definitely be the intention and mandate of Congress that both inflation and deflation, as I have defined them, would be out-lawed; and that the Federal Reserve Board would be held strictly accountable for the ultimate results arising from the administration of our monetary policy under the mandate.

In my estimation, the amendment as drawn satisfies the constitutional question which has been raised. At the same time it avoids any embarrassment or disappointment which might arise from the insertion of a particular price level, due to the fact that any particular price level might prove to be either too low or too high. Moreover, it has the merit of fulfilling almost all of the expressed "norms" or levels advocated by conservatives, liberals, and "left-wingers"; in fact it writes into the law what every reasonable person must be willing to concede is just and proper.

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