

CONFIDENTIAL

The following is a summary of my informal statement, together with some of the views expressed, in the discussion with the group of economists of the Federal Reserve Banks who met at the Federal Reserve Board in Washington on February 2 and 3, 1943. It is entirely a personal expression and does not purport to represent the viewpoint of the Board. It is being sent to you in accordance with my promise to furnish a copy of it to those who were present.

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The Federal Reserve System is a central banking organization, with a regional setup that puts it in a unique position to do an educational job primarily in the monetary and fiscal field. The System's standing in the country and its removal from politics give it an opportunity which is enjoyed by no other governmental organization to speak as a disinterested, non-partisan authority.

The System's responsibility to carry on educational work in its field is now clearly recognized not merely by the Board but by all of the Reserve Banks and most of their officers and directors. We have practically a free hand to obtain the ablest available economic as well as administrative services. As I have emphasized on other occasions, our duty is to make our opinion heard but not to make our will prevail. That is to say, it is up to us to offer the best economic counsel of which we are capable. Final responsibility for broad Government policy rests, of course, with the elected administration in power. Our duty is to be informed and to offer our best advice and services whenever we are called upon to do so. If our views or recommendations are not accepted, however, it is not in order for us to go to the country and attempt to organize public opinion against the administration. Such a course would soon defeat itself, for whatever administration was in power and the Congress would quickly strip

us of our authority and functions if we tried to put sand in the machinery.

As a matter of good organization, it is necessary that the initiation and direction for our research work should stem from the Board of Governors, not in any dictatorial sense but in order that the work undertaken throughout the System shall point up to definite objectives and have some uniformity. This, of course, implies consultation with the Reserve Banks and all the aid they can give us in the formulation of our research program. We do not profess to know all of the answers here in Washington. On the contrary, we recognize the importance of close and constant contact with the thought and opinion in the field and are well aware that we can greatly benefit by it. The research work carried on at the Board and at the Reserve Banks has always been and continues to be a direct responsibility of the Board, and we would be remiss, I think, if we failed to give it the direction which it must have if it is to shape up to practical and useful ends.

In order to aid the Board in fulfilling its greatly enlarged responsibilities in this field today, I feel that we should add to our Economics Division a full-time staff member, possibly heading up a special section in the Division, who can take over the special responsibility for this research and educational work, not only as to post-war problems but also in bringing about a much broader public understanding of the measures essential to safeguard the economy from inflationary dangers. If we fail to hold the line against these present dangers on the home front, our post-war plans might as well be consigned to the scrap-basket. It would be advisable, I think, to set up an advisory committee, consisting of heads of

the economic departments of a number of the Reserve Banks, to help develop and carry out the program and to see that it is kept current and abreast of the times.

We should concentrate first of all, I believe, on research and educational work that would illuminate that vital sector of the economic front which relates to monetary and fiscal policy. I can illustrate what I have in mind by referring to this challenging long-range program for urban rehabilitation. Neither this nor any similar program for the future can be adequately understood or successfully advanced unless it is seen against the larger background of over-all Government economic policy and objective. Our job, it seems to me, is to paint in that background as vividly as we can, leaving the elaboration of details of specific projects of this sort to others who are more directly concerned with the many ramifications involved.

I think it is especially important that we concentrate on fiscal and monetary concepts because under war conditions and probably for a considerable time in the post-war period, the underlying economic problems that only gradually began to come to light in the 30's tend to be obscured and covered up. As we all know, a flood of purchasing power is being stored up that will, unless restrained, engulf the civilian markets when the war is ended. The real dangers of a runaway boom will face us then rather than beforehand. It may appear for a time that the old order and the old concepts have come into their own again and will suffice to keep us at a high level of employment and production.

I am convinced that this would be a fatal misconception. For once these accumulated forces have spent themselves, we will be face to face once more with the same economic dilemmas that so perplexed us in the 30's unless we are prepared, unless we keep alive the lessons of the 30's. It will make no difference what party is in power. The problems will be the same and we will have failed in our duty and responsibility if we have lost sight of the underlying causes of economic dislocation and collapse that are inherent in our system in the modern world. Rather, it is our special task, as I see it, to do what we can to help shape monetary and fiscal measures that will tend to offset the dislocations and avert collapse. It is up to us to provide the leadership, guidance and education in this crucial field, recognizing, of course, that full production and employment are not to be had through fiscal-monetary action alone, but that the appropriate measures on this front need to be clearly understood and coordinated with a broad, over-all Government program designed to keep the economy functioning fully without the ruinous swings between inflationary and deflationary extremes.

I do not mean that we should attempt to superimpose upon the thinking of business and banking groups any narrow, rigid theories or ideas. It would be infinitely preferable if by consultation and collaboration with business and banking groups we could help them to see their local and regional problems against the national background of economic forces. They would then be much more likely to arrive at conclusions and to accept and promote policies that are in the national interest.

The danger of an isolationist viewpoint does not arise simply on the international front. There is an equally great danger of sectionalism and provincial approaches to problems on the home front. We can be of immense service, in my judgment, by helping to orient the thinking in our respective Federal Reserve Bank and branch districts on a national basis. We cannot be expected to blueprint public works, but we can do a real educational job in helping to gain a more general understanding of the economic effects of public works.

Our task, it seems to me, is to see this whole picture in proper perspective. We are inclined to err on the side of assuming that matters that are familiar to us from everyday experience are better understood by the business and banking community than is the case. The great majority of people, I venture to say, still see no connection between taxation and economic stability. It is a startling fact that polls taken a few months ago by the Office of War Information disclosed that not more than two per cent of the mass of our people saw any relationship between taxing, borrowing, paying debts, and the control of inflation.

We are still in the dark ages in our approach to budgetary matters. The American Congress has been taxing and appropriating for more than a century and a half though the present budget on which they are working is only the twenty-second that has been submitted, and of these twenty-two budgets, ten have been presented by the Roosevelt Administration. In other words, the budget system is comparatively new. Before that the process was a hit or miss one. It is still approached by Congress on the old basis, with little or no regard for economic effects. During most of

our history it was relatively unimportant, but looking into the post-war world we know that Federal budgets are likely to be fully twenty billions annually - that is probably a minimum figure. They may be far in excess of that amount. This is an enormous sum of money for the Government to be raising and expending. The manner of its raising and spending, and particularly the timing and direction of expenditures, are matters of the utmost concern to us as monetary authorities. They will have the greatest influence on our economic welfare. Yet very little is understood about all this by Congress or by the public in general.

Our research program should be shaped, first of all, with this in mind. This does not mean that we should all do precisely the same thing or that each district should confine itself to any narrow field. Special investigation and research work will doubtless be in order in various districts according to the regional interests represented. Our main objective, which I feel we should keep always before us, is to direct our research and educational work, first of all, toward a wider comprehension on the part of the public, particularly among bankers and business men, of the functional role of monetary and fiscal policy in the maintenance of full production and employment.