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(letterhead of)

FEDERAL RESERVE BANK OF CHICAGO

May 10, 1940

Mr. Chester Morrill, Secretary
Board of Governors of the Federal Reserve System
Washington, D. C.

Dear Mr. Morrill:

Referring to your letter R-644, addressed to Robert E. Wood, Chairman, and in accordance with request therein, we addressed the topics mentioned to our individual directors inasmuch as we will not have a meeting of the Board of Directors prior to May 19.

To this date we have received replies from which the enclosed excerpts are taken and are submitted to the Board of Governors for consideration. We are not waiting for further replies, feeling that it might be too late for your use but should further comments be made that we feel would be of interest to you, same will be forwarded later.

Very truly yours,

(signed) GEO. J. SCHALLER

President.

FEDERAL RESERVE BANK OF CHICAGO

Comments on topic suggested in Board letter R-644, addressed to General Robt. E. Wood, May 1, 1940.

Topic No. 1. - "The Council has urged upon the Board the 'modification of the policy of extreme easy money.' The Board would like to have the opinion of the Council as to the more important causes of the 'easy money' conditions; as to what actions within the power of the Board of Governors would be desirable and effective in the public interest; and as to the probable consequences of such actions."

- (a) "It seems a condition over which the Board of Governors does not have effective control, rather than a theory, confronts that body. Indeed, under disturbed world conditions, one may be permitted to wonder whether the great stock of monetary gold, and even the excess of banks reserves, might not possibly be useful at some period in an unpredictable future."
- (b) "At to 'constructive action,' the great uncertainty abroad and the likelihood of no radical change in business conditions here during the next ninety days would seem clearly to suggest the wisdom at present of essentially a stand-by policy. Meanwhile interest in legislation that would provide for the re-circulation of gold and gold certificates would be in keeping with the hopes of those who are convinced that such legislative action would be at once conducive to sounder interest rates and protective against possible future inflation."
- (c) "Two main causes are the purchase of gold and silver at a high price and failing to sterilize it as purchased and federal spending in excess of income. If the Board should take any direct action at the present time it might easily lay itself open to blame for any sudden change in conditions due to entirely other causes. Consequently, I would suggest that the members confine themselves to urging upon the Administration the proper sterilization of gold and silver and the balancing of the budget."
- (d) "Do not see any change in the situation as far ahead as we can reasonably predict that would create enough new demands for capital to make any substantial change in the interest rate situation. It is possible, of course, that at the close of the war there might be a very large demand for American funds for reconstruction purposes. The question in this connection is whether or not there is any possible form of security that could be offered to justify loans of this character."

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Topic No. 2 - "What are the business prospects for the next 90 days and in the Council's opinion do such prospects justify any change in the System's present banking and monetary policies?"

- 2-A "Contacts with customers and a re-examination of current business information lead to the opinion that prospects for the next 90 days are not likely to cause an upsurge of bank loans. There is no indication of a 'dollar volume' of business sufficient to bring that about. And 'inflation' in the sense of a rise in commodity prices justifying that term, is not probable within the period. All told, business prospects in the near future do not seem to call for any immediate modification of the System's banking and monetary policies."
- 2-B "Would suggest that the prospects seem to be fairly good and I see no reason to urge any change in the System's present banking and monetary policy other than that the Board of Governors direct its 'moral' influence against the extreme easy money policy."
- 2-C "Do not see any change in prospect during the next ninety days to justify any change in present bank and monetary policies."
- 2-D "Business prospects for the next ninety days do not justify any change in the System's present banking and monetary policies."