

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 10, 1940To Chairman EcclesSubject: Program of workFrom Mr. Goldenweiser

In accordance with your request, we (Messrs. Thomas, Gardner, Despres, Garfield, and I) have discussed and considered the program of work to be undertaken for answering the President's questions. There were three questions: (1) What to do with our gold? (2) What to do with idle money? and (3) How to keep prices stable?

Answers to these three questions can be made only on the basis of an analysis of all the principal phases of our national economic life and of the new world situation in which we will have to function. In laying out the work we recognize that the problems overlap, but that is unimportant, since we shall all work in close contact with one another. In the outline below we group them under the three main topics, recognizing that they may have to be regrouped in practical operation.

I. Idle money

Employment of idle money depends on employment of idle men and idle machines. The problem, therefore, requires a general plan for economic activity and the Government's participation in this activity. It comprises:

(1) Appraisal of the extent to which the armament program will employ our labor force and our plant capacity. The probable shortages and bottlenecks that may develop. The speed with which the program is likely to get under way, and the measures that can be undertaken to speed it up. These measures may include, among others, such things as Government advances for plant expansion, allowances for rapid depreciation, and direct participation by the Government.

(2) Plans for employment of such persons as will not be absorbed into the defense program; this with a view both to conquering unemployment now and laying the foundation for reemployment in the future in peace-time occupations of persons to be released from defense work.

(3) Plans for financing the program. This would include programs of taxation, borrowing and utilization, if advisable, of existing public assets, such as gold, silver, etc.

A general observation about this part of the program is that a plan for a period of years should be adopted and, in general terms, should be made public. This is for the purpose of making it possible for industries to make plans for more than immediate day-to-day demands. By removing some of the uncertainties this would, we believe, considerably increase the speed of undertakings.

For developing this program we would recommend the employment of Professor Hansen to work with Despres, Terborgh, Krost, and Sherrard, as well as Fiser and Edmiston.

II. Stable prices

This phase of the program would comprise: (1) Quick appraisal of principal commodities - the available supply and the probable demand -

(2) Quick appraisal of the character of the available labor supply and the probable bottlenecks.

(3) Methods of combating shortages:

- (a) Expansion of supply where possible
- (b) Encouragement of substitutes where needed
- (c) Training of people for production jobs and development of machinery for settling disputes between capital and labor
- (d) Housing programs in places to which labor is likely to migrate
- (e) Publicity and prosecutions, where necessary
- (f) Ultimately, if price advances become general, possible direct price control and credit restriction

(4) Program for putting the banking and monetary mechanism into effective shape. This would comprise: methods of controlling reserves, Federal Reserve structure, relation of Federal Reserve to other banking and monetary authorities and powers, and the problem of member and nonmember banks. This is the place where our general program of banking and monetary legislation fits into the plan. Such a program is in process of preparation by the Board's staff.

This phase of the problem, on the economic side, can be carried out by Garfield, Terborgh, Foster, Gehman, and Barton, supplemented by some price specialist like Henry Arthur, Edward Mason, or Donald Wallace. On the banking and monetary side, it would be handled by Thomas, Longstreet, Robinson, and me, supplemented possibly by Professor Leonard Watkins of Michigan, or Ralph Young of Pennsylvania.

III. Gold

The gold problem cannot be considered without relation to foreign trade. Major shifts in the international situation will greatly affect the domestic problems with which we have to deal. Export industries may be severely curtailed and problems of supply of essential materials may arise.

(1) The chief possibility of change lies in the possible emergence of a greatly enlarged and more aggressive German system. Analysis of German techniques and command of raw materials would be necessary in order to learn from German experience, to be prepared to meet German competition, and to adjust our internal economy to the changes that may be forced upon us.

(2) The shifts in South American trade in view of the altered positions of Germany, England, and the United States would have to be analyzed and methods for dealing with the situation devised.

(3) The altered trade position in other areas of the world would also have to be developed.

(4) While the principal importance of the great potential changes in our international trade position is in their effects on our domestic economic problems, they also raise questions about the status of gold in this country and in the world. Policies in regard to gold, silver, capital movements, and foreign exchange must be determined.

This work could be done by Gardner, Morse, Knapp, and Maisel of our staff, supplemented by Paul Hernberg for Germany, possibly Tirana and George Willis of the New York bank, and Charles Kindleberger of the Bank for International Settlements.

General comment

In order to do the job effectively we must know what is being done elsewhere in the Government and outside. Some method of avoiding gaps and duplications must be developed. Possibly the President could direct all agencies engaged in this sort of planning to report their plans and progress to the Director of the Budget, and make the information in his hands available to authorized representatives of other agencies.

Finally, and in this matter speaking for myself alone, I believe that, in order to make effective any program that may be adopted by the Government, it will be essential to guide public opinion in a big way. We need a Ministry of Propaganda, or more euphemistically, a Ministry of Information. There is nothing insoluble in the problems that confront us, but the solutions must have popular support. This calls for an organized, purposeful, and extremely capable campaign of education. It must not be left in its present inadequate and chaotic condition. It must also be free from party politics. In a way, this is the touchstone of the ability of a democracy to do the job.

Personnel

Possible additions to our personnel have been indicated. One or two other seniors, particularly in the foreign trade field, may be necessary. These seniors will need some junior assistants, in addition to those now on the staff, and some clerical help. Information about Alvin Hansen, Henry Arthur, Edward Mason, Donald Wallace, Leonard Watkins, Ralph Young, Paul Hernberg, Tirana, George Willis, and Charles Kindleberger, who are mentioned in this memorandum, is attached.

Attachment

INFORMATION ABOUT SUGGESTED PERSONNEL

For general economic and fiscal policies

✓ Alvin H. Hansen

Littauer Professor of Political Economy, Graduate School of Public Administration, Harvard; previously taught for many years at the University of Minnesota. Major interests are business cycle, fiscal policy, monetary theory. Author of "Full Recovery or Stagnation" and other books dealing with business cycle and monetary and fiscal policies in this country and abroad. Now engaged in a special study for the Council of Foreign Relations in the general field of this Government's economic policy in view of prospective war developments. About 50 years old.

For banking program

1. Leonard Lyon Watkins

Professor of Economics at the University of Michigan; taught at the University of Texas and the University of Cincinnati 1924-1926. Teaching and writing in general field of money and banking with special interest in money market structure and central banking policy. He has held a Social Science Research Council fellowship for study of the London money market, and received the Chicago Trust Company prize of \$2,500 for his study of Bankers' Balances. In addition to this study, his publications include a monograph on Commercial Bank Reform and several articles in the economic journals. He is 44 years old.

2. Ralph A. Young

Chairman of the Department of Economics, University of Pennsylvania. Member of research staff in charge of financial research project of the National Bureau of Economic Research; has directed a number of research projects in banking and financial subjects for the National Bureau of Economic Research and the National Industrial Conference Board. About 40 years old.

For international trade

✓ 1. Paul Harnberg

1913-1922: on the faculty of the University of Kiel, where his field was in international economics and where in 1920 he became head of the statistical department. During the war of 1914-1918 he was an officer in the Field Artillery. 1922-1929: served as director or professor in

various agencies of the German Government and the German universities. 1929-1933: full professor of statistics at the University of Jena, resigned when Hitler came to power. In 1936 became a financial adviser to the Colombian Government with the job of reforming economic statistics. Recently came to United States; now engaged in writing chapter on competition between Europe and the United States in South American markets as part of forthcoming volume of New School for Social Research. Published several books on international statistics and competitive conditions in world markets as well as articles in economic journals and encyclopedias on a variety of statistical subjects. He is 52 years old.

✓ 2. Rifat Tirana

Since June 1939 with the foreign research department of the Federal Reserve Bank of New York, where his field is continental Europe. Previously worked on money and banking for the League of Nations, covering a considerable number of countries. His earlier training was at the London School of Economics.

3. George Willis

Since 1935 with the foreign research department of the Federal Reserve Bank of New York, where his main field has been England and the British Empire, although he has also worked on France and other European countries at various times.

✓ 4. Charles P. Kindleberger

Now with the Bank for International Settlements in Switzerland. From 1936 to 1939 with the Federal Reserve Bank of New York, where he analyzed the weekly capital movement statistics. Before that he worked for a short while with the Treasury in the same field. He is a Columbia Ph.D. and has published a book entitled "International Short-Term Capital Movements".

For price studies

✓ 1. Henry B. Arthur

Thoroughly acquainted with price information, business practices, and problems of social control. Made excellent comprehensive recommendation for revision of wholesale price index of Bureau of Labor Statistics. Also published recommendations to businessmen of changing accounting practices with regard to inventories. Now the Economist for Swift and Company. About 35-40 years old.

2. Edward S. Mason

A leading student of prices in relation to public policy. Chairman of Price Conference established by National Bureau of Economic Research. Worked on TNEC material. Probably 40-45 years old. Professor of Economics, Harvard University.

3. Donald Wallace

Has worked and written extensively in field of industrial markets and public policy. Made special study of aluminum prices. Is Chairman of one of the committees set up by the Price Conference organized by the National Bureau of Economic Research. Closely associated with Edward S. Mason, who recommends him for this type of work. Worked at Labor Department on price material for TNEC. Probably 35-40 years old. At present Associate Professor of Economics at William College.