

*Very Confidential
Stabilization*

THIRTY THREE LIBERTY STREET
NEW YORK

December 14, 1936.

PERSONAL AND CONFIDENTIAL

Dear Marriner:

As you suggested, I am enclosing a memorandum of some personal views relative to the matter which we discussed Saturday on the telephone.

I am also enclosing excerpts from Dodwell's book "Treasuries and Central Banks," and Kisch & Elkins "Central Banks," which might be of interest to you.

The subject is such a big one that it seems to me to merit very careful and thoughtful analysis. Certainly, it is one which I would prefer to discuss with you in person rather than through the medium of a hurriedly prepared memorandum. But as you asked me to send you something today I am forwarding this now in the hope that it may not be too late to be useful to you.

Faithfully yours,



Hon. Marriner S. Eccles,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Encs.

p. 12

"This has brought us already to the third heading under which we have to consider the relations of Treasuries and Central Banks; that is, the question of general credit control. Something more elastic and quick-moving than a Treasury, and more closely in touch with active business, trade and industry, is needed to carry out a credit policy from day to day. If a firm and continuous policy is to be enforced, the institution charged with this duty should also be free from the pressure of political interests in particular matters. It may be assumed, therefore, that a Central Bank is the proper and indispensable instrument of credit control in the general interest."

p.206

" . . . The whole community through its proper representatives must no doubt have the ultimate control and the last word as to central banking policies. But it should use its power only to choose certain general ends, and to provide for the best possible choice of experts to organize the means for attaining those ends. Just now the pendulum has swung too far in the direction of interference by political authorities in the details of central banking. The community must give its central banking experts a fair degree of freedom and real responsibility, or they will have but a poor chance of attaining the ends prescribed. . . ."

Kisch & Elkins. "Central Banks"

p.5 & 6

The maintenance of a stable currency is so fundamental to the well-being of every nation that at first sight it might appear as if the State itself should carry out this vital national service. One explanation of the fact that in most countries the State has handed over the responsibility of the note issue to banking institutions is to be found on the economic side in the relation . . . between the rate of discount and the note circulation and the volume of credit. The rate of discount is the chief weapon for ensuring the due proportion between the volume of credit, the note issue and gold holdings, and thus for maintaining the stability of value of the currency unit, and since the rate of discount is properly the instrument of a bank, there is a sound reason for entrusting to a bank the control of the note issue.

There is further the danger that if the management of the note issue is entrusted to the State itself, the Government may be tempted to use its power of printing notes as the readiest method of raising funds. Taxation is never popular, and keeping expenditure within due bounds is not always easy. As experience has abundantly proved, increasing the note issue is an all too simple method of temporarily filling in the gap, if the power to do so rests with the Government. Monetary policy should be independent of political contingencies, and the surest way to secure this result is to place the control of the note issue in the hands of a bank. These two considerations, economic and political, explain why the creation of money in the form of notes has not been left in most countries under the control of the State, but has been handed over to appropriately constitutes banks. . . . "

" . . . Central Banks have more and more come to be looked upon as analogous to large public trusts and less and less as Departments of State. It has also become increasingly recognized that where private shareholders exist their interests cannot be the only, or even the chief, preoccupation of the directors to anything like the extent that they would properly be in the case of an ordinary commercial company trading for profit. The case for the direct intrusion of the State into the actual workings of a nicely balanced economic machine loses its force as soon as the public responsibilities and public objects of the institution are fully recognized by those responsible for its management and in the code of legal provisions or established tradition by which they are guided.

" . . . Nevertheless, there can be little doubt that in practice there is at all times close and continuous co-operation between the Bank ⁽¹⁾ and the Government when important issues are involved, and in exceptional periods of stress there is even more than this. The financial policy adopted by this country during the war and subsequent years, being a matter of legal enactment, was dependent on the decisions of the Government. Such war-time measures as the embargo on gold exports, the de facto abrogation of specie payments and the issue of Treasury notes, and such later developments as the restoration of the gold standard in 1925 and its suspension in 1931, obviously involved consultation with the Bank by the Government with a view to the formulation of an agreed policy; but had there been a variance of opinion between the two authorities, the Government, with its exceptional responsibilities, must in the last resort have been empowered to enforce its will. Thus in times of crisis the Bank, like many other normally independent organisations, is likely to find itself to a large extent under the influence of the Government. At all

other times, however, its independence is secure and unassailed. . . . "

. 20 & 21

"The theory underlying the conception of a State Bank centres on the proposition that since a wise central banking policy is the basis of a sound national economic life, the Bank should be under the control of the national Government. But the dangers of this course are great. Just because the decisions of the Bank react on every aspect of the economic activities of the country, it is essential that its direction should be as unbiassed as is humanly practicable, and as continuous as possible. But clearly if the Bank is under State control continuity of policy cannot be guaranteed with changing Governments, nor can freedom from political bias in its administration be assured. In most economically developed countries the probabilities are that the national Government will be the largest individual customer of the local money market. In such circumstances it is evident that, if it also controls the administration of money market policy, it may easily find itself in an equivocal position where it may be called upon to decide between two courses, one of which may be immediately convenient to itself and the other conducive to the to the ultimate interests of the country as a whole. . The creation of such dilemmas should be avoided. . . . "