

May 11, 1935

Edwards

STATEMENT SUBMITTED BY GOVERNOR ECCLES IN ANSWER TO A
QUESTION BY SENATOR COUZENS

As I understand it, Senator Couzens' question really resolved itself into two questions. The first was, what policy the Federal Reserve Board would have adopted in 1928-1929 if this bill had become law prior to that time. The second was, what policy would I have favored in 1928-1929.

I think it is manifestly impossible for me to give an intelligent or meaningful answer to the first question. If this bill had been law prior to 1928 the composition of the Federal Reserve Board and the decisions of that Board might very possibly have been different from what they actually were. However, in what way they would have differed or whether they would have differed at all, I am in no position to know.

The relevance of this question to the legislation under consideration is not, I confess, apparent to me. What we are attempting to accomplish in this bill is to make conditions as favorable as possible for the successful formulation and execution of monetary policy to the end of promoting business stability. I am fully aware of the limitations of monetary policy. I am also aware that legislative changes in the administrative set-up of the System can never be a substitute for brains. It is quite possible to have good policies adopted by a faulty organization. It is also possible to have bad policies adopted by a good organization. I believe, however, that an organization with centralized authority and responsibility for major policies constitutes a more favorable environment for the emergence of good policy than does an organization with diffused authority and responsibility. I also believe that the more effective the instruments of policy, the more successful is policy likely to be.

In regard to the second question, "what policy would I have favored in 1928-29?", I must again confess my inability to see its relevancy to the proposed legislation. Moreover, I should be extremely reluctant to make any statement regarding policy without having first studied the general financial and economic situation in 1928-1929 more carefully than I have had an opportunity to do.

I should, however, like to make a few remarks of a general nature on Federal Reserve policy and speculation, which is what I suspect Senator Couzens had in mind. I feel that the reserve authorities have been unjustly blamed for their failure to check the bull market of 1928-29. The enormous difficulties of selective credit control are not commonly appreciated, nor is it commonly appreciated that the instruments of control which the reserve authorities then possessed were effective to a degree only over the total volume of deposits. They had no instrument effective to control the total volume of loans made in the community. Money is like water and will flow quickly to where it can receive the highest return. Consequently the restrictive effect of the use of any of the reserve administration's general instruments of control could not be isolated in New York, but were bound to be felt throughout the country and, indeed, throughout the world. Yet there

was nothing in the general state of business activity that called for a drastically restrictive policy. The extreme difficulty and complexity of the situation that confronted the reserve administration is apparent.

Personally, I do not think that it was possible in 1928-29 for the reserve administration to have controlled the amount of money used in the purchase of stocks and the prices at which those stocks sold and at the same time to have assured relatively low rates of interest for industry. With the added instruments of selective control over security speculation provided by the Banking Act of 1933 and the Securities Exchange Act of 1934 I am more hopeful of the ability of the Federal Reserve Board to cope with an analogous situation in the future if it should arise.

On one point I feel comparatively certain, and that is that after the crash a more energetic easing policy should have been pursued. But in saying this I am speaking with the benefit of hindsight. I cannot, of course, say with any assurance what measures I would have favored at that time had I been a member of the Federal Reserve Board.