

EXCERPT FROM REPORT
OF THE
SUBCOMMITTEE ON MONETARY, CREDIT, AND FISCAL POLICIES
OF THE
JOINT COMMITTEE ON THE ECONOMIC REPORT
CONGRESS OF THE UNITED STATES
PURSUANT TO
S. Con. Res. 26

MONETARY, CREDIT, AND FISCAL POLICIES

PART A. SUMMARY OF RECOMMENDATIONS

I. THE ROLE OF MONETARY, CREDIT, AND FISCAL POLICIES IN ACHIEVING THE PURPOSES OF THE EMPLOYMENT ACT

We recommend not only that appropriate, vigorous, and coordinated monetary, credit, and fiscal policies be employed to promote the purposes of the Employment Act, but also that such policies constitute the Government's primary and principal method of promoting those purposes.

II. FEDERAL FISCAL POLICIES

1. We recommend that Federal fiscal policies be such as not only to avoid aggravating economic instability but also to make a positive and important contribution to stabilization, at the same time promoting equity and incentives in taxation and economy in expenditures. A policy based on the principle of an annually balanced budget regardless of fluctuations in the national income does not meet these tests; for, if actually followed, it would require drastic increases of tax rates or drastic reductions of Government expenditures during periods of deflation and unemployment, thereby aggravating the decline, and marked reductions of tax rates or increases of expenditures during periods of inflationary boom, thereby accentuating the inflation. A policy that will contribute to stability must produce a surplus of revenues over expenditures in periods of high prosperity and comparatively full employment and a surplus of expenditures over revenues in periods of deflation and abnormally high unemployment. Such a policy must, however, be based on a recognition that there are limits to the effectiveness of fiscal policy because economic forecasting is highly imperfect at present and tax and expenditure policies under present procedures are very inflexible.

2. We recommend that the Joint Committee on the Economic Report make an intensive study of the various possible methods of increasing the flexibility of tax and expenditure policies in order to discover whether and to what extent it is feasible to make these instruments more effective for stabilization purposes.

III. MONETARY AND DEBT-MANAGEMENT POLICIES ¹

1. We recommend that an appropriate, flexible, and vigorous monetary policy, employed in coordination with fiscal and other policies, should be one of the principal methods used to achieve the purposes

¹ Further views of Representative Wright Patman:

"These proposals do not, I believe, make the Federal Reserve System sufficiently responsible to the executive department of the Federal Government. In creating money and regulating the supply and cost of money and credit, the Federal Reserve is performing a governmental function; it even issues Federal Reserve notes which become obligations of the United States. Moreover, it is now possible for the Federal Reserve to follow policies that would conflict with, and perhaps defeat, the Government's economic program. I believe, therefore, that steps should be taken to increase the responsibility of the Federal Reserve System to the executive department. Though I favor, as proposed in this report, the establishment of a Monetary and Credit Council to be headed by the Chairman of the Council of Economic Advisers, I do not believe that it will make the Federal Reserve sufficiently responsible to the Executive."

of the Employment Act. Timely flexibility toward easy credit at some times and credit restriction at other times is an essential characteristic of a monetary policy that will promote economic stability rather than instability. The vigorous use of a restrictive monetary policy as an anti-inflation measure has been inhibited since the war by considerations relating to holding down the yields and supporting the prices of United States Government securities. As a long-run matter, we favor interest rates as low as they can be without inducing inflation, for low interest rates stimulate capital investment. But we believe that the advantages of avoiding inflation are so great and that a restrictive monetary policy can contribute so much to this end that the freedom of the Federal Reserve to restrict credit and raise interest rates for general stabilization purposes should be restored even if the cost should prove to be a significant increase in service charges on the Federal debt and a greater inconvenience to the Treasury in its sale of securities for new financing and refunding purposes.

2. We recommend as means of promoting monetary and debt-management policies that will contribute most to the purposes of the Employment Act:

(a) That every effort be made to build up the quality and prestige of Federal Reserve officials; among these measures should be a reduction in the number of members of the Board of Governors from seven to not more than five and an increase in their compensation.

(b) That Congress by joint resolution issue general instructions to the Federal Reserve and the Treasury regarding the objectives of monetary and debt-management policies and the division of authority over those policies. These instructions need not, and in our judgment should not, be detailed: they should accomplish their purpose if they provide, in effect, that, (i) in determining and administering policies relative to money, credit, and management of the Federal debt, the Treasury and the Federal Reserve shall be guided primarily by considerations relating to their effects on employment, production, purchasing power, and price levels, and such policies shall be consistent with and shall promote the purposes of the Employment Act of 1946; and (ii) it is the will of Congress that the primary power and responsibility for regulating the supply, availability, and cost of credit in general shall be vested in the duly constituted authorities of the Federal Reserve System, and that Treasury actions relative to money, credit, and transactions in the Federal debt shall be made consistent with the policies of the Federal Reserve.

(c) That the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System be made members of the National Monetary and Credit Council recommended elsewhere in this report.

IV. RESERVE REQUIREMENTS OF COMMERCIAL BANKS ²

1. We recommend that all banks which accept demand deposits, including both member and nonmember banks, be made subject to

² Mr. Wolcott dissents from this recommendation. It is his opinion that the so-called dual banking system should be preserved in order that possible checks and balances may be maintained to prevent unwise concentration of credit and economic controls. He contends that any such centralization of banking authority might well be interpreted as a step toward the nationalization of all banking and credit. That, instead, there should be full cooperation between the State banking authorities and the Federal Reserve Board to remove any discriminations which might seem to give advantage or disadvantage to either the Federal or State systems.

the same set of reserve requirements and that all such banks be given access to loans at the Federal Reserve banks.

2. Without endorsing any particular plan, we recommend that serious consideration be given to the Federal Reserve proposal that the present system of member-bank reserve requirements based partly on the size of the city in which a bank is located be replaced by a new system of requirements that would be geographically uniform but that might require different percentages of reserves against different types of deposits.

V. FEDERAL CHARTERING, SUPERVISION, AND EXAMINATION OF COMMERCIAL BANKS

We recommend a thorough and complete study of the broad question of Federal chartering, supervision, and examination of commercial banks, including not only the organization and coordination of the Federal agencies performing these functions but also the substance and applicability of the relevant Federal laws and regulations.

VI. MONETARY POLICY RELATIVE TO SILVER

We recommend that the United States Government cease buying silver for monetary purposes.

VII. THE RESTORATION OF A GOLD-COIN STANDARD IN THE UNITED STATES

We believe that to restore the free domestic convertibility of money into gold coin or gold bullion would at this time militate against, rather than promote, the purposes of the Employment Act, and we recommend that no action in this direction be taken. We also recommend a thorough congressional review of existing legislation relating to the power to change the price of gold with a view to repealing any legislation that might be so construed as to permit a change in the price of gold by other than congressional action.

VIII. DEPOSIT INSURANCE

We recommend that Congress, while considering questions relating to the base and rate for deposit-insurance premiums, also study thoroughly the advantages and disadvantages of increasing the coverage of deposit insurance for the primary purpose of protecting the economy against the adverse deflationary pressures that would accompany cash withdrawals from the banking system during any depression period that may occur, and that no changes in deposit-insurance premiums be made until after the study is completed.

IX. OTHER FEDERAL CREDIT AGENCIES

1. We recommend that Congress review the programs and policies of the various Federal credit agencies to find out to what extent if at all they can be made to contribute more to the purposes of the Employment Act without an undue sacrifice of the substantive programs to which they are related.

2. We recommend that the head official of each of the most important agencies in this group be included on the National Monetary and Credit Council, which we recommend elsewhere in this report.

X. A NATIONAL MONETARY AND CREDIT COUNCIL ³

We recommend the creation of a National Monetary and Credit Council which would include the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, and the heads of the other principal Federal agencies that lend and guarantee loans. This Council should be established by legislative action, should be required to make periodic reports to Congress, and should be headed by the Chairman of the Council of Economic Advisers. Its purpose should be purely consultative and advisory, and it should not have directive power over its members.

XI. A COMPREHENSIVE STUDY OF MONEY AND CREDIT

1. We recommend that the Joint Committee on the Economic Report, as well as the Banking and Currency Committees of the Senate and of the House of Representatives, continue a thorough and complete study of the monetary and credit systems and policies of the United States, and that they be provided with funds adequate for the purpose.

2. We recommend that S. 1559, which would provide for the establishment of a National Monetary Commission, be not enacted.

XII. A CONTINUING STUDY OF FISCAL POLICY BY THE JOINT COMMITTEE ON THE ECONOMIC REPORT

We recommend that the joint committee, while carrying out its general duties to make a continuing study of matters relating to the Economic Report and to study means of coordinating programs in order to further the policy of the Employment Act, make a special intensive study of the various possible methods of increasing the flexibility of Federal tax and expenditure policies in order to discover how and to what extent it may be feasible to make these instruments more effective for stabilization purposes.

XIII. EARNINGS OF THE FEDERAL RESERVE IN EXCESS OF DIVIDEND REQUIREMENTS

We recommend that Congress reenact a franchise tax on the net earnings of the Federal Reserve System to replace the voluntary contributions now being made to the Treasury by the Board of Governors.

³ Mr. Wolcott joins in recommending the creation of a National Monetary and Credit Council, but disagrees with the recommendation that it should be headed by the Chairman of the Council of Economic Advisers. In his opinion, this would concentrate too much power in the Executive over the volume and cost of credit. He recommends, instead, that the Chairman of the Credit Council be a person of neutral interests removed as much as possible from the direct influence of either the Executive or the Federal Reserve Board. He also agrees that periodic reports should be made to Congress by the Council.