

## Office Correspondence

FEDERAL RESERVE  
BOARDDate May 9, 1935.To Governor EcclesSubject: The monetary objective.From Lauchlin Currie

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Mr. Hemphill called me today and said that Senator Fletcher was going to propose striking out of our objective the words "business stability" and substituting "full employment and business activity". I think it would be unwise to agree to this amendment. Full employment and full business activity are concomitants of boom conditions in business. We had them in 1919 but at no time in the 20's. The economists and the financial press would immediately interpret these words as inviting unlimited inflation. It is far more "inflationary" than the stable price objective. Moreover, any group of unemployed could claim that we were not carrying out our objective even though fairly widespread prosperity prevailed. In other words, there is a possibility that the Board will be under constant pressure to pursue expansive policies. If we omit the concepts of maximizing real income or business stability it is going to be difficult to justify any restrictive policy at any time. We can point to the word "unstabilizing" in the second part of the objective but I think it is very undesirable to have our objective susceptible of widely differing interpretations.

If you feel that you must make concessions, I recommend the following words:

"It shall be the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to the maximization of the real income of the community under conditions of enduring business stability..."

The two parts of our objective will then be consistent; stability at a low level is precluded; the inflation cry cannot be raised; we will not be so exposed to pressure from specific classes of industry temporarily depressed or from groups whose unemployment has arisen out of technological changes, etc.; we can justify restrictive action when business is prosperous if we feel that enduring stability calls for such action; and, finally, the economists who will write voluminously on the bill will not be able to make hash out of our objective, as they would if "full employment and business activity" were substituted for the idea of stability.

The phrase I suggested to you on April 29th is, I think, preferable to the change I have suggested above, but it involves more changes in the wording of the present objective. It is as follows:

"It shall be the duty of the Federal Reserve Board, so far as may be possible within the scope of monetary action and credit administration, to facilitate the maximization of the real income of the community by promoting conditions conducive to enduring business stability. The Federal Reserve Board shall seek to prevent or to mitigate by its influence such movements in the general

level of production, trade, prices, and employment, as are, in its opinion, incompatible with the attainment of this objective."