DRAFT

STATEMENT FOR THE PRESS

"To have advocated heavy government expenditures in a period of depression and to advocate debt retirement now is no evidence of inconsistency; on the contrary, both attitudes are part and parcel of the same principle of compensatory action," writes Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, in an article to be published in the April issue of Fortune in which he discusses how the present recovery movement may be kept from turning into a runaway boom.

"For my own part, I date the beginning of my economic education to the realization that the economics of the system as a whole differ profoundly from the economics of the individual concern; that what is economically wise behavior on the part of a single individual may on occasion be suicidal if engaged in by all individuals collectively; that the income of the nation is but the counterpart of the expenditures of the nation. If we all restrict our expenditures, this means restricting our incomes, which in turn is followed by a further restriction in expenditures, and so on.

"The problem of preventing booms and depressions, therefore, is the problem of insuring a flow of public and private disbursements just sufficient to call forth the optimum flow of goods and services. An excessive volume of expenditures results in widespread overtime work, inefficiency, and rapid price advances--an

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unstable and undesirable condition inevitably followed by reaction. An inadequate flow, on the other hand, results in the nonutilization of our human and physical resources and hence a lowered standard of living."

Chairman Eccles believes, therefore, that public agencies should adopt a policy of compensatory action. But he emphatically does not believe that this policy can be effective if it works only along a single line of attack. For this reason he presents the problem in terms of monetary policy, fiscal policy (government spending), foreign funds, labor and prices. He expects that closer monetary control will soon be possible, but warns against putting too much trust in it. Referring to recent reductions in excess reserves, he writes, "It is expected that the remaining half billion dollars of excess reserves will be absorbed in other ways in the course of the year. Normally banks have a negligible amount of excess reserves. When we return to this normal situation of no excess reserves credit control measures will be felt more quickly and are likely to be more effective.

"This single instrument, however, has its limitations. Although upper and lower limits to business activity and price movements may be set by effective monetary control, the distance between these limits appears to be wide enough to permit fluctuations of considerable magnitude. I am afraid that such fluctuations would

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keep us far from our goal of stable prosperity and feel, therefore, that monetary control must be supplemented by other types of action."

Fiscal policy in the future can show the compensatory principle in a clear light. On this line of approach to boom control the Chairman writes, "There is good reason to believe that a policy of debt retirement acts as a salutary restraint, whereas a series of deficits after a recovery movement has acquired momentum on its own account unquestionably serves to aggravate and intensify the movement.

"A final reason for rapid reduction in the government debt in prosperous times is to make conditions more favorable for its increase in bad times. On fiscal grounds it is desirable that the federal debt be reduced to as low a point as possible so that there will be no hesitation in increasing it when the need arises. As the upward movement continues, therefore, provision should be made for a rapid rate of retirement of the public debt."

Foreign investments here are a potential danger to us, it is pointed out, because they would be turned into cash in case of war abroad, with the result that there might be pressure to involve us. This problem the Government is now engaged in studying.

Over labor and prices, public agencies have less control.

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Discussing labor, the Chairman writes, "From the point of view of an orderly upward movement and a sustained period of prosperity, it is important that the share of the national income going to labor should not be diminished. But the consequences of any further and substantial shortening of hours should be carefully weighed. In the past the shortening of excessively long hours actually had the effect of increasing output per worker because of the lessening of fatigue. It is obvious, however, that a point must be reached when any further shortening of the time worked cannot be counterbalanced by increased output due to less fatigue. This point probably varies in different industries, and there are still fields in which the hours appear to be excessively long. By and large, however, the present work week throughout large sectors of industry can probably not be shortened without entailing a decrease in output per worker."

Regarding prices, Chairman Eccles frankly confesses that "the chief responsibility for avoiding excessive price advances rests on industry itself." But he points out that, "in the case of individual runaway price situations in important fields, something of a direct nature might possibly be done in connection with anti-trust legislation and tariff policy."

In conclusion, he points the importance to stable prosperity of a continuous flow of investment funds. The volume of such funds may be somewhat checked by taxation, but what is left should have a proper outlet. "The monetary authorities can help," he says, "by maintaining

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relatively low interest rates. It will be borne in mind that I am here discussing a long-range problem. The general interest-rate structure might possibly experience some rise in the next few years. Over the longer term, however, I should be very surprised if interest rates attain the levels prevailing throughout the late twenties; and if they do I should be fearful of our ability to secure enough investment at such levels to maintain full employment."

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