

STATEMENT BY CHAIRMAN ECCLES
AS RESULT OF CONFERENCE WITH SECRETARY SNYDER

December 10, 1947.

In view of the fact that some of the press has emphasized a difference in viewpoint between Secretary Snyder and myself in regard to the Board's so-called special reserve proposal, I would like to take this opportunity to clarify the record. I have discussed the matter with the Secretary. The fact is that the area of agreement between us is much more complete than has been represented. Such difference as exists is in evaluating the degree of restraint on inflationary expansion of bank credit that would be exerted by the special reserve requirement. He has expressed to this Committee some doubt as to its effectiveness. I am more sanguine about it. We both feel that whether the special reserve is needed at all or whether some stronger measure of restraint may be needed next year depends on factors which cannot be determined in advance with certainty at this time. We are in full agreement:

1. That the most effective anti-inflationary measure has been and should continue to be a vigorous fiscal program to insure the largest possible budgetary surplus consistent with the Government's obligations at home and abroad.

2. That coupled with an intensified savings bond campaign, the program accomplishes two vital purposes. To the extent that savings of the public are invested in savings bonds, spendable funds are taken out of the market place at this time of excessive demand and insufficient supply and can be used to pay off maturing debt held by the banking system. Likewise, a budgetary surplus can be used to reduce bank-held debt. Both measures reverse the process by which the money supply was increased during the war and are effective anti-inflationary influences.

3. That the program which the Treasury and the Open Market Committee have been pursuing during the year has been effective and will continue to exert restraint during the next few months, when the Treasury will continue to have a substantial cash balance that can be used to reduce bank-held public debt.

4. That some additional restraint may be expected as a result of the joint statement of Federal and State bank supervisory authorities cautioning banks against overextension and inflationary lending.

5. That the problem will present a different phase when current debt-payment operations are no longer available. If it appears that other restrictive steps are needed, increased reserve requirements or possibly some stronger measure may be necessary.

6. That this will depend on the course of events and in part upon self-imposed restraint by the banking community, which has gained a broader understanding of the problem as a result of discussions before Congress and in the press.

7. That the Board's proposal is not in any sense a substitute for but a supplement to the fiscal program and direct action on other fronts where inflationary forces are generated but cannot be corrected by monetary and fiscal policy alone.

8. That under present and prospective conditions it is essential to maintain the established 2-1/2 per cent rate on long-term marketable Government securities.

9. That restraints should be reinstated on instalment credit.

The area of disagreement, therefore, narrows down to whether the special reserve would be appropriate if additional measures prove necessary to limit the now unrestricted access of the banking system to reserves upon which a multiple expansion of bank credit can be built.