July 5, 1949.

Chairman McCabe

Governor Eccles

Unfortunately several erroneous newspaper reports have indicated that I disagreed with the open market policy announcement of last week. As a matter of personal privilege, I feel that I should correct these reports which becloud and mar the effect of our action. Accordingly, in order that my position and the reasons therefor may be correctly understood I am giving out the attached short statement.

ET:jt

STATEMENT BY GOVERNOR ECCLES

Some newspaper reports have erroneously indicated that I disagreed with the Federal Open Market Committee's announcement last week of a policy of greater flexibility in open market transactions with a view to a further easing of bank credit. I strongly favored the policy, as an appropriate step in a time of credit contraction, because it permits the automatic release of about $800,000,000 of reserves on June 30 to take effect in the money market without being nullified by open market sales from the System's portfolio. As far as practicable, the market will be free to determine prices and yields without the intervention of the Federal Open Market Committee.

Since we have had easy money conditions with relatively low rates all along in the money market it should not be supposed that still easier conditions with lower rates will correct or cure a deflationary trend, although they may encourage greater use of the existing money supply and put the banks in a position where they will have still less reason to restrict credit. To the extent that the Reserve System becomes a reluctant seller of its holdings of Government securities banks may be more disposed to make productive loans to private borrowers or at least avoid putting pressure on good borrowers to pay off loans. Monetary policy cannot, of course, make lenders lend or borrowers borrow; it cannot correct maladjustments within the economic structure which have arisen from non-monetary causes. It cannot by itself bring about the very necessary price and other readjustments within the economy.

The liquidity of the economy today is unprecedented and the consuming public, investors, and financing institutions of all kinds are in stronger financial position than ever before. It is clear, therefore, that with the existence of this condition of underlying strength the only change in monetary and credit policy that needs to take place is in the emphasis and direction of Federal Reserve actions towards relaxation rather than restraint.