

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

STATEMENT BY MARRINER S. ECCLES
BEFORE THE
SENATE SPECIAL SILVER COMMITTEE
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TO BE RELEASED UPON DELIVERY AT THE HEARING

After I testified before your Committee on Tuesday, I realized that the problems we were discussing are only a part of a broader picture, and that it might serve your purposes better if I made a statement dealing briefly with the main issue that confronts us.

There is an infinite variety of opinion as to how to bring about recovery, but all shades of opinion agree on the main objective, which is the restoration of a volume of industrial, trade, and agricultural activity that would result in full employment of labor and would give all our people an opportunity to earn a decent livelihood. At this juncture we all want to concentrate our efforts on achieving this common objective and over the longer pull we want to prevent the recurrence of booms and depressions and of violent changes in the national income.

There are those, and I believe that they include some members of this Committee, who believe that the general objective can be achieved best by the issuance of additional currency by the United States Government, whether in the form of silver certificates or United States notes. I sincerely wish that the problem were as simple as that, because that would not be a difficult thing to do. But experience convinces me that the problem cannot be solved in this manner. Under our financial system and with the habits of our people, currency is used only to make minor payments or for hoarding and all the currency in excess of day-to-day requirements of the people finds its way back to the banks and is redeposited by them with the Federal Reserve banks. In other words, redundant currency would not stay in circulation. It would only add to the present huge excess of

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bank reserves and to existing demand deposits without creating an opportunity for the use of either these reserves or these deposits.

That prosperity does not depend upon the volume of currency is evident from the fact that we had considerably less currency outside of banks during the entire period of the 1920's -- when we had reasonably full employment and production -- than we have today. In 1929 currency outside of banks was \$3,600,000,000 and now it is \$5,700,000,000.

In our modern economy when we speak of money we mean not only coins and paper money, but also deposits at the banks, and we now have more deposits than at any other time in the history of the country. The amount of deposits subject to check is \$26,000,000,000 today, as compared with \$23,000,000,000 at the peak of the boom in 1929 and \$22,000,000,000 in 1926, which is generally considered a prosperous year.

Employment and national income depend not merely on the volume of money in existence, but also on the use that is made of this money. Today we have large holdings of idle deposits and currency which, if put to use by the owners, would employ all our workers and would produce a national income adequate for a reasonable degree of prosperity.

The crucial question, therefore, is how to make the existing abundant money supply function more effectively. On this question there are two opposite schools of thought. I belong to the school that believes that every possible encouragement should be given to private investment

and private enterprise for profitable employment of the great surplus of idle funds, idle men and idle resources which we have in this country today. However, I believe that when private enterprise is unable or unwilling to do so, Government should help to put this idle money, some of the ten millions of unemployed, and idle facilities to work in non-competitive, socially and economically desirable public activities, including the building of roads, schools, hospitals, housing, etc. This, of course, should be done as efficiently as possible and in a way that will stimulate and supplement private activity. Expenditures for these purposes, for farm benefits and for adequate pensions for the aged will increase the effective demand for the output of industry and thus not only sustain existing investments but provide profitable outlets for investment in new enterprise. This would increase the national income and the Federal revenue and thus ultimately bring about a balanced budget, which we all desire.

To my mind, this would be practising real national economy, for I believe that the failure to use these factors of production causes a great and irreparable waste.

When our productive capacity is in excess of current demand, as it is today, it does not make sense to me to expect that a reduction in the demand originating from government activities is going to lead the makers of agricultural implements, the railroads, the automobile manufacturers, the textile industry or, for that matter, any other industry, to enlarge plant capacity, increase production and thus furnish employment. If the buying power of millions of people on WPA rolls or in public construction, or in shipyards and airplane factories is reduced, I do not

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see how we can expect more houses to be built and more capital expenditure to take place.

Another school of thought, however, believes that business confidence cannot be restored until a balanced budget is assured through reduction of government expenditure, that continued deficits are holding back private investment, that government employment is demoralizing and destructive of the moral fibre of our people, that the public expenditures are wasteful and are piling up a burden of debt which our children and grandchildren will have to pay off. Senator Byrd has stated that he believes that for every dollar the Government borrows and spends, private enterprise is deterred from spending two.

A similar viewpoint has been expressed by the United States Chamber of Commerce, by stockholders replying to a questionnaire sent out by the National Association of Manufacturers, by the New York State Bankers Association, and by the American Institute of Steel Construction, representing an important element in heavy industry. It is not too much to say, in fact, that this appears to be the prevailing point of view among business men and the public generally, as reflected by a recent Gallup poll, by innumerable resolutions of trade associations, by bankers' groups, and -- as I can testify from personal experience -- by the overwhelming majority of newspaper editorials.

A great majority of people appear to believe, therefore, that business confidence would be restored if the budget were balanced, and that the spurt of economic activity that would result would accomplish

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our common aim of recovery. It would appear that the majority of the business leaders on whom would fall the task of producing the activity necessary to recovery are convinced that the Government's expenditures compete with and discourage private investment in existing and in new enterprise. A majority in both houses of Congress have indicated that they also hold this view. While I am convinced that such a policy of retrenchment under present conditions would have disastrous results, we live in a democracy and, therefore, I believe that the viewpoint of the majority should promptly be made effective.

The country is entitled to a clear-cut and prompt determination of policy on this vital issue. Uncertainty and hesitation do not contribute to recovery. It is Congress that determines the rates and the nature of our taxes; it is Congress also that determines the amount of government money to be used for different purposes. If balancing the budget will bring about recovery, then Congress can promptly do so by reducing expenditures to the level of receipts. If, in addition, taxes were to be revised and cut as a further inducement for private enterprise, government expenses could be reduced still further to make up for the decline in tax receipts.

In order to effect sufficient economy and reduce taxes, Congress would have to reduce substantially practically all of the large items in the budget. Not much economy could be effected in the regular establishments of the Government, which in the aggregate absorb only about one-tenth

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of the national budget. Such items as works relief projects, CCC camps, roads and public works of all kinds, veterans' benefits, all farm benefit payments, and national defense, some or all of these would have to be drastically curtailed.

This would not be my program, but if, as would appear, it is the program of the majority, they should assume full responsibility for it and put it into effect without delay and without compromises for the benefit of any special groups.