LEGISLATIVE MANDATES FOR CENTRAL BANKS AND OBJECTIVES OF CREDIT POLICY

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The following collection of quotations is designed to present a survey of legislation and discussion on the objectives of central bank policy. The quotations fall into two parts. The first part consists of legislative mandates proposed for the Federal Reserve System, whether incorporated into actual legislation, contained in bills introduced in Congress but not passed, or merely suggested, and of the mandate clauses in foreign central bank statutes. The second part is divided into the following groups:

1. Official statements by the Federal Reserve Board and the Federal Reserve Bank of New York on the objectives that should guide their actions.

2. The opinions of individual Federal Reserve officials, taken largely from testimony before Congressional committees.

3. Statements representing (a) the views of the present Administration, one made by President Roosevelt in 1933, the other by Secretary Morgenthau in 1937, and (b) the views of three men who were instrumental in drafting the Federal Reserve Act.

4. Discussions in the Macmillan Report of monetary objectives for England, and by various writers of Swedish monetary policy in recent years.

5. Discussions in the writings of economists on monetary policy or on business cycles.

PART 1

MANDATES ACTUAL AND PROPOSED

I. Mandates proposed for Federal Reserve System

A. In drafts of Federal Reserve Act

1. As introduced in House by Representative Glass

The rate of discount shall be established "with a view to accommodating the commerce of the country and promoting a stable price level...."

2. As passed by House

"...with a view of accommodating the commerce of the country...."

3. As amended by Senate and as enacted

"...with a view of accommodating commerce and business...."

B. In proposed stabilization bills

1. First Strong price stabilization bill (1926)

(a) Strong bill as introduced

"...with a view to accommodating commerce and promoting a stable price level for commodities in general. All of the powers of the Federal reserve system shall be used for promoting stability in the price level."

(b) Strong's first revision after the hearings

Title: "An act to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to maintain the gold standard and the value of gold, to avoid inflation and deflation, to provide business and economic stability, to afford means for rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

"All the powers of the Federal Reserve Board as granted by this act and of all Federal reserve banks....shall be directed to the purpose of preventing inflation and deflation and stabilizing the purchasing power of the dollar, so far as may be: Provided, That such powers shall be used to control the total volume of credit and currency in circulation and use, rather than the uses made of such credit...."

"It is hereby declared to be the intention of Congress that the primary function of the Federal reserve system shall be to stabilize the general price level by stabilizing the purchasing power of the dollar, so far as may be possible, consistent with sound economic principles."

(c) Strong's third revision

Title: "AN ACT To....maintain the gold standard, to prevent inflation and contraction, to promote the stability of commerce, business, and agriculture, to promote economic justice between creditors and debtors, between bondholders and stockholders, and between the parties to all contracts into which time and money enter by providing a more stable money, and for other purposes."

Discount rates "shall be fixed with a view to accommodating and stabilizing commerce, business, and agriculture."

The Federal reserve system shall use its powers, "...in so far as they have any effect thereon, with a view to regulating the volume of credit, currency, and money in circulation so as to prevent inflation and contraction and thereby to stabilize, so far as may be, the purchasing power of the dollar in terms of commodities in general; but nothing herein shall be construed as enlarging or extending any of the existing powers of the Federal Reserve Board in this respect or as authorizing any interference with the natural tendency of prices of specific commodities or groups of commodities to vary among themselves under the influence of demand and supply."

(d) Mandate proposed at hearings by Irving Fisher, quoting wording suggested by Rep. Goldsborough in 1922.

Discount rates "shall be fixed with a view of accommodating and stabilizing agriculture, commerce, and business, and preventing deflation and inflation."

2. Second Strong bill (1928)

(a) As introduced

"The Federal reserve system shall use all the powers and authority now or hereafter possessed by it to maintain a stable gold standard; to promote the stability of commerce, industry, agriculture, and employment; and a more stable purchasing power of the dollar, so far as such purposes may be accomplished by monetary and credit policy."

(b) Mandate suggested by Governor Hamlin at the hearings

"The Federal reserve system shall use all the powers and authority now or hereafter possessed by it to maintain a stable gold standard and shall furnish credit facilities commensurate with the requirements of credit stability of agriculture, industry, employment, and of the purchasing power of the dollar, so far as such purposes can be accomplished by monetary and credit policy."

3. Goldsborough bill (1932)

(a) As introduced

"The Federal Reserve Board and the Federal reserve banks are hereby authorized and directed to take all available steps to raise the present deflated wholesale commodity level of prices as speedily as possible to the level existing before the present deflation, and afterwards to use all available means to maintain such wholesale commodity level of prices."

(b) As passed by House

"It is hereby declared to be the policy of the United States that the average purchasing power of the dollar as ascertained by the Department of Labor in the wholesale commodity markets for the period covering the years 1921 to 1929, inclusive, shall be restored and maintained by the control of the volume of credit and currency."

4. Federal Monetary Authority bill (1934)

"It is hereby declared to be the policy of the United States to restore and maintain the normal purchasing power of the dollar, which shall, for the purposes of this act, be the average purchasing power of the dollar for all commodities during the year 1926."

5. Thomas Monetary Authority bill (1937)

"A bill for the regulation and stabilization of agricultural and commodity prices through the regulation and stabilization of the value of the dollar..."

"The monetary policy of the United States shall embrace, among others, the following principles:

"(a) To coin and keep constantly available an adequate supply of sound money;

"(b) To regulate the value of the dollar so as to best serve the domestic economy of the people...."

"...the regulation and stabilization of the value of the dollar shall be a fixed policy of the Government of the United States, and, in order to promote and give stability to agriculture, industry, commerce, manufacturing, mining, forestry, fisheries, employment, and other human activities, the regional Federal Reserve banks and the member banks of the Federal Reserve System, under the supervision and direction of the Monetary Authority, shall cooperate in carrying out the policy and principles herein set forth...."

"...the constitutional clause, regulating the value of money, shall be construed to mean adjusting the value of the dollar to that point which will serve the best interests and best promote the domestic economy of the people of the United States...."

6. Thomas price stabilization resolution (S. Res. #216, 1938)

"...it is the sense of the Senate that the Federal Reserve Board, the Treasury, and the executive agencies of the Government should proceed forthwith to adjust the purchasing power of the dollar by the necessary monetary policies and measures to attain within the next twelve months the 1926 price level of wholesale commodities, including farm products."

7. Patman bill for Federal ownership of the Federal Reserve banks (1938)

(a) As introduced

"It is hereby declared to be the policy of Congress... to prevent injurious expansion and contraction of credit and currency; to stabilize and maintain a dollar of uniform purchasing power for the purpose of assuring the kind of dollar which a generation hence will have the same purchasing and debt-paying power...."

(b) Amendment proposed by Representative Patman

"It shall be the duty of the Federal Reserve Board to raise the all-commodity index, or the so-called price level, until full employment of all persons able and willing to work shall have been achieved, and until the price level shall at least reach the all-commodity index of 100 as established by the Department of Labor for the year of 1926, which is the same as the average for the years 1914-1930, inclusive."

"Thenceforth such price level shall be standardized and maintained at a variation not to exceed 2 percent above or below the standard reached as aforesaid. It shall be the duty of the Federal Reserve Board in accomplishing these ends to expand demand bank deposits by the purchase of United States bonds and notes, or bonds secured by the United States, or bonds of States and subdivisions thereof, or other sound bankable assets; and to contract demand bank deposits by the sale of the securities aforesaid."

C. Enacted in Banking Act of 1933

1. Conditions governing the extension of loans to member banks

The words: "the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture" were added to the original act.

2. Objective of open-market operations

"The time, character, and volume of all...open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country."

D. Enacted or proposed in connection with the Banking Act of 1935

1. Objective of changes in reserve requirements, as enacted

"in order to prevent injurious credit expansion or contraction...."

2. Mandate proposed by Chairman Eccles and adopted by House

"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 business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action and credit administration."

3. Revision of Eccles mandate proposed by Senator Fletcher (words added or altered by Senator Fletcher are underlines)

> "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 full employment and business activity, and thereafter to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action and credit administration."

4. Objective of open-market operations proposed by Adolph C. Miller

> "...in order to aid in the establishment and maintenance of sound banking, credit, financial, and economic conditions."

5. Mandate proposed by ex-Senator Robert L. Owen

> "It is the purpose of the Federal Reserve Act as herein amended, to regulate the value of money, to furnish the people at all times with a supply of sound credit and currency, adequate for the achievement and maintenance of maximum business activity and employment; to create conditions conducive to the restoration of the value of property, labor and services and to the restoration to normal of governmental revenues, thus enabling the Government, without public distress, to establish and maintain a balanced budget; thereafter to establish and maintain a dollar of uniform, permanent debt-paying (and?) purchasing power by regulating the supply of money and credit."

6. Amendment proposed by Representative Goldsborough

> "It is hereby declared to be the policy of the United States that the average purchasing power of the dollar, as ascertained by the Department of Labor in the wholesale commodity markets for the period covering the years 1921 to 1929, inclusive, shall be promptly restored; and that after such restoration shall have been achieved the purchasing power of the dollar shall be maintained substantially stable in relation to a suitable index of basic commodity prices which the Federal Reserve Board shall cause to be compiled and published in complete detail at weekly intervals."

7. Suggested in the course of discussion within the Federal Reserve Board

(a) "The Federal Reserve Board shall use such powers as it possesses to maintain sound banking and credit conditions and to exert such influence as lies within the scope of monetary action and credit administration toward the restoration of the largest volume of employment, production, and national income that can be sustained and, thereafter, toward the mitigation of such fluctuations in the general level of production, trade, prices, and employment as militate against stability of economic conditions."

(b) "The Federal Reserve Board shall use its powers to maintain sound banking and credit conditions and, so far as banking administration and monetary action may contribute to this end, toward the restoration and maintenance of full and sustained employment of labor and of the productive capacity of the nation."

II. Objectives of foreign central banks prescribed by statute

1. New Zealand

Reserve Bank of New Zealand Amendment Act, April 8, 1936. Article 10, Section 1:

Restatement of General Functions of Reserve Bank

"It shall be the general function of the Reserve Bank, within the limits of its powers, to give effect as far as may be to the monetary policy of the Government, as communicated to it from time to time by the Minister of Finance. For this purpose, and to the end that the economic and social welfare of New Zealand may be promoted and maintained, the Bank shall regulate and control credit and currency in New Zealand, the transfer of moneys to or from New Zealand, and the disposal of moneys that are derived from the sale of any New Zealand products and for the time being are held overseas."

2. Canada

Act of July 3, 1934.

Preamble - "Whereas it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion:...."

3. India

Act of March 6, 1934.

The preamble states that pending such clarification of the world financial situation as would permit establishment on a permanent basis of the Indian monetary system, the purpose of the new Reserve Bank of India shall be "to regulate the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in British India and generally to operate the currency and credit system of the country to its advantage...."

4. <u>Hungary</u>

Amendments to Statutes of National Bank of Hungary, adopted June 23, 1938. Article 1:

> "Its duty in the public interest is to regulate the circulation of money within the country; to facilitate the settlement of payments; to regulate and control credit amongst other methods by taking care of and directing the money market and the capital market; to collect reserves of gold and foreign exchange for the purpose of international payments, and especially for settling any deficit which may arise from time to time in the balance of payments; further to put itself in a position to be able to deliver gold or foreign exchange against the bank notes issued, on terms to be fixed by law, after the restrictions on payments with foreign countries have ceased (Article 83).
>
> "In carrying out all these duties it must equally take care, on the one hand, that the circulation of money and credit shall always develop in a manner which is sound and consistent with economic public interest and, on the other hand, that the value of the bank notes in relation to currencies whose value has shown stability, shall remain steady."

5. <u>Mexico</u>

Organic Law of the Bank of Mexico, August 28, 1936. Article 5:

> The Purposes of the Bank Shall Be:
>
> "1. To regulate the issue and circulation of currency, the foreign exchanges, and the money market.
>
> "2. To operate as a reserve bank for the member banks, and to function as a clearing-house for them.
>
> "3. To constitute and manage the reserves which are required for the purposes stated above.
>
> "4. To direct the activities of the National Banking Commission insofar as they affect these purposes or can contribute to their realization.
>
> "5. To act as fiscal agent and adviser of the Federal Government in external and internal credit operations and in the issue and servicing of public loans, and to take charge of the treasury service for the Government."

6. Argentina

Law of March 28, 1935.

"Art. 3 - The objects of the Bank shall be:-

"(a) To concentrate sufficient reserves to moderate the consequences of fluctuations in exports and investments of foreign capital, on currency, credit and commercial activity, in order to maintain the value of the currency;

"(b) To regulate the volume of credit and the means of payment, adapting them to the real volume of trade;

"(c) To promote the liquidity and sound functioning of bank credit; and to apply the provisions of the banking law for the inspection, examination, and regulation of banks;

"(d) To act as financial agent and counsellor of the Government in foreign or internal credit operations and in the issue and service of public loans."

7. Turkey

Statutes of the Bank, September 20, 1931.

"Article 3.-

"The Bank is established in order to contribute to the economic development of the country. Its principal functions are as follows:

"(a) To fix the rate of discount;

"(b) To regulate the international value (cours) and circulation of currency;

"(c) To act as fiscal agent for the Government;

"(d) To adopt, together with the Government, measures designed to insure the future stabilization of the Turkish currency."

8. Yugoslavia

Law of June 17, 1931.

"Art. 2. - The objects of the Bank are:

"(1) To regulate...the circulation of the currency (according to the relevant laws) and to maintain its stability and security...."

"(2) To provide and control the short-term credit necessary for the economic life of the country;

"(3) To cooperate, in its capacity as cashier to the State, with the Treasury and to make temporary advances to the Treasury for its requirements at seasons of the year when public receipts are less than expenditures."

9. U. S. S. R.

Statutes of the State Bank of the U. S. S. R., June 12, 1929.

Article 1:

"The State Bank...has as its object to regulate the monetary circulation and to supply short-term credits to industry, agriculture, commerce, transportation, and other branches of the economic system, on the basis of the present statutes and in accordance with the plan of development of the national economy of the U. S. S. R."

10. Poland

Statutes of the Bank, November 1927.

Article 1 states that the Bank is established "in order to insure the stability of the currency, to regulate the monetary circulation and credit...."

11. Finland

Regulations for the Bank of Finland, 1925.

"Article 1. - The object of the Bank of Finland is to maintain stability and security in the monetary system of Finland and to assist and facilitate the circulation of money in the country."

12. Danzig

Statutes of the Bank, 1924.

"Article 2. - The purpose of the Bank shall be to regulate the circulation of money..., to facilitate the clearance of payments in Danzig and transactions in foreign exchange, and, further, to carry on banking business on the basis of the charter granted to it."

13. Lithuania

Law of August 1922.

in Lithuania
"Article 1 (paragraph 2). - The Bank's functions are to regulate the circulation of money; to facilitate the payment of money in the country and abroad; to realize a stable and strong currency system...; and to encourage the growth of agriculture, commerce, and industry."

14. Switzerland

Objective stated in Law of October 6, 1905; same statement in Law of April 7, 1921.

Article 2 states that the principal task of the Bank is "to regulate the money market and to facilitate payments."

The statutes of England, France, Italy, and Japan prescribe no objectives for the central banks of those countries. In the following countries chief emphasis is placed, in the provision stating the purpose of the central bank, on controlling the currency with a view to maintaining a fixed gold value:

Austria - Statutes of the Bank, 1932.

Bulgaria - Act of November, 1926.

Estonia - Statutes of Bank, 1927.

Greece - Statutes of Bank, October 1927.

Portugal - Constitution of Bank, revised by decree of June 1931.

Rumania - Statutes of Bank, March 3, 1929.

PART 2

DISCUSSION OF OBJECTIVES

I. Official policy declarations by the Federal Reserve Board and the Federal Reserve Bank of New York

1. From the Annual Report of the Federal Reserve Board for 1923

After stating that the traditional guide to credit policy, the reserve ratio, is no longer applicable, the report continues:

> "The anomalous situation thus confronting central banking administration in all countries has led to much discussion in the United States and elsewhere as to workable substitutes for reserve ratios as guides to credit and currency administration. Particular prominence has been given in discussions of new proposals to the suggestion frequently made that the credit issuing from the Federal reserve banks should be regulated with immediate reference to the price level, particularly in such manner as to avoid fluctuations of general prices. Entirely apart from the difficult administrative problems that would arise in connection with the adoption of the price index as a guide and entirely apart from the serious political difficulties which would attend a system of credit administration based on prices, there is no reason for believing that the results attained would be as satisfactory as can be reached by other means economically valid and administratively practicable. ... it must not be overlooked that price fluctuations proceed from a great variety of causes, most of which lie outside the range of influence of the credit system. No credit system could undertake to perform the function of regulating credit by reference to prices without failing in the endeavor.
>
> "The price situation and the credit situation are no doubt frequently involved in one another, but the interrelationship of prices and credit is too complex to admit of any simple statement, still less of a formula of invariable application. An oversimplified statement of complex problems contributes nothing toward the development of an effective administrative procedure. It is the view of the Federal Reserve Board that the price situation and the credit situation, while sometimes closely related, are nevertheless not related to one another as simple cause and effect; they are rather both to be regarded as the outcome of common causes that work in the economic and business situation. ....
>
> "Credit administration must be cognizant of what is under way or in process in the movement of business before it is registered in the price index. The price index records an accomplished fact. Good credit administration in times of active business expansion should not encourage or assist the excessive accumulation of forward commitments in business and banking which only later on will definitely reflect

the rate at which they have been taking place in resulting changes of credit volume and changes of price levels; and in times of business reaction should discourage enforced liquidation of past commitments which also will only later on reflect the rate at which it has been taking place in altered credit volume and price levels. The problem of efficient credit administration is, therefore, largely a question of timeliness of action. ...

"The Federal reserve act has laid down as the broad principle for the guidance of the Federal reserve banks and of the Federal Reserve Board in the discharge of their functions with respect to the administration of the credit facilities of the Federal reserve banks the principle of 'accommodating commerce and business.' (Sec. 14 of the Federal reserve act, par. (d).) The act goes further. It gives a further indication of the meaning of the broad principle of accommodating commerce and business. These further guides are to be found in section 13 of the Federal reserve act, where the purposes for which Federal reserve credit may be provided are described as 'agricultural, industrial, or commercial purposes.' ... The Federal reserve system is a system of productive credit. It is not a system of credit for either investment or speculative purposes. Credit in the service of agriculture, industry, and trade may be described comprehensively as credit for productive use. The exclusion of the use of Federal reserve credit for speculative and investment purposes and its limitation to agricultural, industrial, or commercial purposes thus clearly indicates the nature of the tests which are appropriate as guides in the extension of Federal reserve credit. ...

"But the problem of credit and currency administration implies the use not only of qualitative tests but also of quantitative tests. By what means may it be known whether the volume of credit provided by the Federal reserve banks is in any given set of circumstances adequate, excessive, or deficient? The problem in good administration under the Federal reserve system is not only that of limiting the field of uses of Federal reserve credit to productive purposes, but also of limiting the volume of credit within the field of its appropriate uses to such amount as may be economically justified--that is, justified by a commensurate increase in the Nation's aggregate productivity. The Board is fully aware of the fact that the problem of credit extension involves the question of amount or volume as well as the question of kind or character; otherwise stated, involves a <u>quantitative</u> as well as a <u>qualitative</u> determination. ... It is the belief of the Board that there will be little danger that the credit created and contributed by the Federal reserve banks will be in excessive volume if restricted to productive uses.

"A characteristic of the good functioning of the economic system is to be found in the smooth unobstructed movement of goods from the producer through the channels of distribution to their several ultimate uses. The characteristic of the good functioning of the credit system is to be found in the promptness and in the degree with which the flow of credit adapts itself to the orderly flow of goods in industry and trade. So long as this flow is not interrupted by speculative interference there is little likelihood of the abuse of credit supplied by the Federal reserve banks and consequently little danger of the undue creation of new credit. The volume of credit will seldom be at variance with the volume of credit needs as they are reflected in the demands of productive industry as long as (1) the volume of trade, production, and employment, and (2) the volume of consumption are in equilibrium. Credit for short-term operations in agriculture, industry, and trade, when these operations are genuinely productive and nonspeculative in character, that is to say, credit provided for the purpose of financing the movement of goods through any one of the successive stages of production and distribution into consumption, is a productive use of credit. But when the effect of the credit used is to impede or delay the forward movement of goods from producer to consumer, unless such delay is made necessary by some unavoidable cause, e.g., the interruption of transportation facilities, credit is not productively used. The withholding of goods from sale when there is a market or the accumulation of goods for an anticipated rise of price is not a productive use. It is the nonproductive use of credit that breeds unwarranted increase in the volume of credit; it also gives rise to unnecessary maladjustment between the volume of production and the volume of consumption, and is followed by price and other economic disturbances. Administratively, therefore, the solution of the economic problem of keeping the volume of credit issuing from the Federal reserve banks from becoming either excessive or deficient is found in maintaining it in due relation to the volume of credit needs as these needs are derived from the operating requirements of agriculture, industry, and trade, and the prevention of the uses of Federal reserve credit for purposes not warranted by the terms or spirit of the Federal reserve act."

2. <u>From answer of New York Federal Reserve Bank to cuestionnaire of Senate Banking and Currency Committee, 1931</u>

"...whatever the cause of growth or expansion in the country's credit structure, if the growth is at a rate greater than that at which experience has shown the country's business can grow on a sound and secure basis, then Federal reserve authorities have the responsibility, however unpopular, of lending their efforts, either through open-market operations or discount rates or both, toward restraint. Conversely, in a period of credit contraction or of less than the normal rate of growth, whether caused by business recession, declining prices, wages and employment, or any other cause, Federal Reserve policy, in our opinion, should be to lend its efforts toward making money and credit plentiful and cheap.

"It is our belief that it is in this direction that the Federal reserve system can most effectively exert an influence to prevent excessive speculation and to mollify business depression rather than in any attempt to control directly the use to which Federal reserve credit is put. Efforts by the reserve system to control the particular uses of credit are, we believe, impracticable and ineffectual, whereas the system does have a considerable influence over changes in the total volume of credit and its cost.

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"... Generally speaking, purchases of Government securities since 1922 have been made at times of business depression or recession in the United States accompanied by unemployment, declining foreign trade, weak commodity prices, and reduced speculative activity. Broadly speaking, also sales of securities have taken place at times of large industrial activity, full employment, firm commodity prices, and tendencies toward excessive speculation. ...

"Since the purchase of securities has a tendency to make money easier and thus has an influence toward stimulating business activity, and since the sale of securities tends to make money firmer and has an influence toward checking excesses, it may be said that purchases and sales of government securities since 1922 have been such as might reasonably be expected to exercise some influence toward business stability by aiding recovery at times of depression and retarding excesses at times of prosperity."

3. Conclusion of Board of Governors' statement of August 2, 1937, on "Objectives of Monetary Policy"

"To sum up, the Board believes that economic stability rather than price stability should be the general objective of public policy. It is convinced that this objective cannot be achieved by monetary policy alone, but that the goal should be sought through coordination of monetary and other major policies of the Government which influence business activity, including particularly policies with respect to taxation, expenditures, lending, foreign trade, agriculture and labor.

"It should be the declared objective of the Government of the United States to maintain economic stability, and it should be the recognized duty of the Board of Governors of the Federal Reserve System to use all its powers to contribute to a concerted effort by all agencies of the Government toward the attainment of this objective."

4. Summary and Conclusion of Board's statement of March 13, 1939, on "Proposals to Maintain Prices at Fixed Levels through Monetary Action."

"Summary.- To summarize, the Board of Governors is in complete sympathy with the real purpose of the price-stabilizing bills, which is to prevent booms and depressions and have business always on an even keel. But experience has shown that prices do not depend primarily on the volume or the cost of money; that the Board's control over the volume of money is not and cannot be made complete; and that steady average prices, even if obtainable by official action, would not assure lasting prosperity. The Board exerts all its powers to provide a constant and ample flow of money at reasonable rates to meet the needs of commerce, industry, and agriculture. In order to maintain a lasting prosperity many other agencies of the Government, as well as many groups in the general public, must cooperate, since policies in respect to taxation, expenditures, lending, foreign trade, agriculture, and labor all influence business conditions.

"The Board believes that an order by Congress to the Board or to any other agency of Congress to bring about and maintain a given average of prices would not assist but would hinder efforts to stabilize business conditions. It would hinder, because the price average frequently would indicate a policy that would work against rather than for stability. Such an order would also raise in the public mind hopes and expectations that could not be realized.

"Conclusion.- In view of all these considerations the Board does not favor the enactment of any bill based on the assumption that the Federal Reserve System or any other agency of the Government can control the volume of money and credit and thereby raise the price level to a prescribed point and maintain it there."

II. Public but not official statements by officials of the Federal Reserve System

1. Benjamin Strong

Testimony on first Strong price stabilization bill

"...there is no magic formula that can be introduced into the Federal reserve act to control prices. You can not eliminate human judgment in the administration of these matters. ...

"I am not differing with the purpose (of the bill) at all ...."

Mr. Williamson: "Do you think that the Federal Reserve Board could, as a matter of fact, stabilize (the) price level to a greater extent than they have in the past...?"

Governor Strong: "I personally think that the administration of the Federal reserve system since the reaction of 1921 has been just as nearly directed as reasonably human wisdom could direct it toward that very object."

****

"Now, I believe there is a tendency, possibly a very natural tendency, on account of the possibly exaggerated consideration of the 'money' influence in everything that we do, to look at this price level as though it operated up and down against a counterweight of credit, and as though you could open a spigot when prices are declining and put a little more credit in the counterweight and raise prices, and if prices are going up you could drain a little credit out of the counterweight and let prices go down. But I am afraid the price problem is much more complicated than that."

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"...I believe that an administration of credit such as is afforded by the Federal reserve system, is capable of exerting an influence upon the volume of credit employed by the country and an influence upon the cost of that credit, and, within the limitations which the volume of credit and the cost of credit exert an influence upon the price level and only within that limitation, can the operations of the Federal reserve system influence prices, that is, the general price level; that there will be times when even the power to somewhat regulate the volume of credit and its cost will fail of complete or anything like complete regulation of the price level, because there are many other things far beyond the control of the influence of credit, that is, the volume and cost of credit, such as the mood of the people.

"Therefore, if any expression is contained in the Federal reserve act which appears to represent to the people that the Federal reserve system can do more in stabilizing the price level than the limited control of credit is capable of performing, I am afraid that disappointment will come when there are fluctuations of prices which can not be controlled within the strict limitations I have described."

From a paper on "Prices and Price Control"

"So the reserve percentage is a bad and dangerous guide to a lending policy. But it will then be asked, 'What shall be the guide if not the reserve percentage?' and a chorus of answers will come back-- 'Prices,' or 'An index number,' and we again get around to the point where, for the moment, some people think that prices should be <u>the</u> guide, which comes close indeed to thinking that the Reserve System can and should fix prices.

"Here is a way to distinguish. Just as credit is <u>one</u> of the influences upon the price level, so the price level should be <u>one</u> of the influences in guiding a credit policy. There are other influences which affect prices, and so must there be other influences which affect a credit policy. Here are a few briefly suggested:

Is labor fully employed?
Are stocks of goods increasing or decreasing?
Is production up to the country's capacity?
Are transportation facilities fully taxed?
Is speculation creeping into the productive and distributive processes?
Are orders and repeat orders being booked much ahead?
Are bills being promptly paid?
Are people spending wastefully?
Is credit expanding?
Are market rates above or below Reserve Bank rates?

"What this country and the world needs is stability--social, political and economic; stable thoughts, habits and methods. The contribution to be made by our banking system just now can be but a part, though a helpful one, toward stability. Its best policy is to supply enough credit and not too much--enough for legitimate enterprise, but not enough to satisfy those who want simply cheap and limitless supplies of credit regardless of the consequences they are too blind to perceive.

"How much that supply should be will be vastly difficult to determine until the free play of international markets and exchanges and credit and gold payment is restored. It is slowly but surely coming and meantime it will be well for us to avoid those rushes to extremes—such as price control itself is—and, at least in our banking policy, just do the best we can to avoid excesses."

From testimony before the Royal Commission on Indian Currency and Finance, 1926

"We shall all admit that the object of perfecting monetary systems is the achievement of a stable domestic and international purchasing power for the currency—a goal unattainable by any one party acting alone, and only possible through cooperative effort. Because a gold currency is that one which has had in the past the most stable buying power both at home and abroad, it is naturally the one we all now seek to secure."

2. Adolph C. Miller

Testimony on first Strong price stabilization bill

"I take it that there would be no difference of opinion...that economic stability is a highly desirable condition to constantly bear in mind in the development of credit policies. I say economic stability rather than price stability because my view is that price stability is rather a resultant. It is an expression of economic stability. It is, if you please, one term of a rather complex equation. It is not itself a causal factor. It seems to me that it bears something the same relation, if you please, to the fundamental economic factors that control price movements...that a barometer does to the weather. The barometer does not make the weather, it simply indicates, as well as a mechanical contrivance of that kind can, what the weather, so to speak, is doing or is about to do.... So, while I personally regard the price index as an indispensable item in the equipment of any central banking system, I think it would involve any banking system that undertook to take that as its exclusive guide, or even as its primary guide, in all sorts of fatuous endeavors."

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"The causes of (economic) instability, if all assembled, would make a catalogue. Most of them lie entirely outside of the credit system, and therefore lie beyond the range of action or influence of a central banking system...."

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"If you are to have competent control of credit you cannot wait until inflationary developments register themselves in the price index. By that time the thing will have already gotten considerable momentum... the price index looks backward."

3. W.P.G. Harding

Speech on "Price Levels and the Discount Rate" delivered at a dinner of the Stable Money Association

"As to the effectiveness of falls in central-bank rates in promoting a rise in prices and a recovery in trade, it must surely be evident that in certain moods of the business world, when everyone is taking a gloomy view concerning the probable demand for goods, it would be impossible to stimulate optimism even by bringing down the money rate to nothing—in fact, such a movement would only be marked as one more symptom of the hopelessness of the situation.

"The price of money is a factor undoubtedly, but it is not the only factor in the trade position, as seems to be believed by those enthusiasts who credit the central banks with overwhelming power over prices.

"I appreciate the importance of avoiding sudden and violent fluctuations in the price level and of promoting as far as possible a stable price level for commodities in general, but I do not believe that these results can be accomplished by legislation. We can not ignore the world level of prices, and it seems to me that as a first step toward stabilization our efforts should be directed toward promoting the restoration of the gold standard in those countries which, because of the war, were forced to abandon it. ...

"Do not understand me as being out of sympathy with the objects of the bill which Representative Strong has introduced in the House. I have merely attempted to give some of my reasons for believing that the object desired can not be accomplished by the means proposed... it would be better to amend the preamble or caption of the Federal reserve act by stating the purposes of the act to be, 'To furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, to maintain the gold standard, and to promote business and monetary stability.'

"If those phrases were inserted in the preamble, they would be a ratification of the reserve practice of the past few years and would make it clear beyond dispute that the Federal Reserve Board and the banks are authorized to use all of their powers, direct and indirect, for the purposes outlined without being obliged by a mandate to employ a single expedient which in the opinion of many authorities on economics and banking would not be effective in bringing about the results desired and which indeed would always be a very disturbing influence. Being regarded as a price-fixing body, the Federal Reserve Board would be confronted with an impossible task and would be continually distracted by the conflicting appeals and demands of the producers and consumers of several hundred different commodities. In such circumstances the board would have little time to devote to the discharge of its present important duties."

4. <u>Walter W. Stewart</u>

Testimony on first Strong bill

"I feel that any worth-while discussion of Federal reserve policy that undertakes to be broad has to begin with recognizing that there must be some goal or some general aim which the system has in mind to accomplish. There seems to be in this proposal the suggestion that the aim should be to stabilize the general level of commodity prices. I would be inclined to state the aim and responsibility of the Federal reserve system somewhat differently. I would say that the responsibility that rests upon central banks abroad and the Federal reserve system in this country is primarily one of maintenance of sound credit conditions. I realize that the term 'sound credit conditions' is a vague one, and so I feel some necessity of defining what I mean and of raising the question whether or not the movement of prices is a satisfactory test in itself as to whether credit conditions are sound. What is meant by sound credit conditions depends on what one regards the sound functions of credit to be. The function of commercial uses of credit is simply to facilitate the production and the marketing of commodities with the maintenance of adequate stocks of commodities in order that the marketing may be orderly."

5. <u>President Harrison</u>

Testimony on Goldsborough price stabilization bill of 1932

Mr. Goldsborough: "What is your objection, if you have one, to a legislative direction to the Federal reserve system to raise the price level as is contemplated by section 1 of this bill?

Mr. Harrison: "Well, I think my real objection to it is this: That I am not at all certain that we could accomplish it, even if you direct us to do it, first; and, secondly, I do not know that it would be wise for Congress to say to all of the people in the country: 'The commodity price level will be raised to the level of 1926,' unless it is in the power of Congress, or the reserve system, or somebody, to keep it there. What would happen? Supposing we announced a policy like that and people had faith in it, both legitimate investors and the speculators, and supposing they invest in some commodity which immediately has the effect of putting it up; the minute those commodities get to or approach the limits which you have fixed, all of those people, speculators and others, will say: 'Well, I guess now is the time for me to get out,' and you immediately have a tremendous pressure of selling on the price level, which will force us to begin all over again with much smaller resources to work with."

6. Chairman Eccles

Testimony on Banking Act of 1935

"It seems to me that we are far more interested in full employment than we are in stable prices. If stable prices at some given index figure would leave an army of unemployed, it does not seem to me that this is the objective that would satisfy this country."

Testimony on Patman bill to nationalize the Federal Reserve banks

"...The Board is in full agreement with the ultimate objective of proposals to promote economic stability, which means the maintenance of a volume of business activity and of national income adequate to assure as full employment of labor and of the productive capacity of the country as can be continuously sustained. The Board is aware that commodity prices are an important element in the Nation's economic life and that violent fluctuations of prices have disastrous effects. It believes, however, that price stability does not necessarily lead to economic stability and, therefore, should not be the principal objective of public policy. In its opinion the objective of economic stability cannot be achieved by monetary means alone, but rather should be sought through coordination of monetary and other major policies of the Government which influence business activity."

III. Statements by other U. S. Government officials

1. President Roosevelt

From message to London Economic Conference of 1933

"...the United States seeks the kind of a dollar which a generation hence will have the same purchasing and debt-paying power as the dollar value we hope to attain in the near future."

2. Secretary Morgenthau

From statement presented in round table discussion at Harvard-Yale-Princeton conference on public affairs at Cambridge, February 27, 1937

"What are the goals of monetary policy?

"A. In the domestic field our goals are:

"(1) To attain and, once attained, to maintain reasonably equitable and stable income relationships among the different groups: workers, farmers, business men, investors, etc.

"(2) To prevent marked fluctuations or sharp trends in wholesale price levels.

"(3) To maintain a moderately stable cost of living.

"(4) To foster steadily increasing employment, rising incomes, and an orderly expansion of business activity.

"B. In the international field our goals are:

"(1) To maintain that position of the dollar with reference to other currencies that will encourage an increasing domestic and foreign trade, and thereby help raise the standard of living and promote peace.

"(2) To eliminate broad fluctuations in exchange rates without sacrificing sovereignty over our monetary policy.

"(3) To facilitate the smooth and easy adjustment of international payments and foster stability of foreign monetary systems.

"(4) To avoid competitive depreciation of currencies."

3. Ex-Senator Robert L. Owen

Testimony on Goldsborough price stabilization bill

"....Nothing could be more destructive of the prosperity of the Nation, or of the people, than a dollar fluctuating up and down, and down and up, when that dollar, of necessity, measures the value of every contract and the relationship between every debtor and creditor.

"Therefore, your objective of stabilizing the dollar and bringing it back to what might be called the normal of 1926, is a step of supreme importance, in which the country is deeply concerned."

Testimony on Banking Act of 1935

"The legislative mandate will remove the executive officers from the danger of being diverted from their duty by selfish advice or by political influence of any kind. The honesty of our officials can be depended upon when they have a clear instruction as to what to do. If they fail, the Congress would have the plainest evidence of it and could correct it."

4. Senator Carter Glass

From an article in American Review of Reviews, 1928, "The Federal Reserve System Grossly Misused"

"If any one object could be said to have prevailed from first to last in the shaping of that act it was to provide machinery through which the country's capital could at all times be made quickly applicable to the fostering of its productive enterprise."

5. Senator William G. McAdoo

From Hearings on Banking Act of 1935

"What you are criticizing and what you are proposing should be substituted for it is a futility, anyway, is it not? It is merely declaratory. It has no binding effect. You cannot enforce it. It is not legislation. It is a sort of a speech. I do not think that the incorporation of such matter in legislative enactment is of any value. It may show intent on the part of Congress, but its enforcement rests within the judgment and discretion of the board. There is no way that you can determine whether or not the accomplishment of it has even been attempted by the administrative authority."

IV. Discussion of objectives of Bank of England and Swedish Riksbank

1. The Macmillan report

"Our view is, therefore, that the price level is the outcome of interaction between monetary and non-monetary factors, and that the recent world-wide fall of prices is best described as a monetary phenomenon which has occurred as the result of the monetary system failing to solve successfully a problem of unprecedented difficulty and complexity set it by a conjunction of highly intractable non-monetary phenomena. Whether the international monetary system could have solved its problem is a matter on which we should hesitate to express a dogmatic opinion. It is probable that the difficulty of our national problem was much increased by the relative overvaluation of many other currencies. But the satisfactory handling of the international problem, even if it was theoretically practicable, might have required a degree of knowledge, experience and prescience which no one in fact possessed or could have been expected to possess. ...

"The task of the monetary system, as we see it, is, therefore, to balance, so far as it can, by changes in the quantity and terms of credit, the effect on the price level of certain fluctuating factors, which, whether we prefer to call them or their underlying causes monetary or non-monetary, are largely outside the direct control of the monetary system. The fluctuating factors in question are, principally, the three following:

"(1) The proportion of bank credit which is employed for financial purposes as distinct from the purposes of new current output;
"(2) The degree of preference felt by investors for the employment of their funds in more liquid or in less liquid form;
"(3) The readiness of enterprise to embark on expansion of one kind or another, given the financial terms on which the necessary resources can be raised."

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"Thus our objective should be, so far as it lies within the power of this country to influence the international price level, first of all to raise prices a long way above the present level and then to maintain them at the level thus reached with as much stability as can be managed.

"We recommend that this objective be accepted as the guiding aim of the monetary policy of this country. The acceptance of such an objective will represent in itself a great and notable change. For before the War scarcely anyone considered that the price level could or ought to be the care and preoccupation, far less a main objective of policy, on the part of the Bank of England or any other Central Bank."

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"The endeavour of domestic management should be to promote the stability of output and of employment at a high level by influencing the regular flow of savings into investment at home and abroad so far as is compatible with the international situation...."

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"This completes our outline of the main objectives of our monetary system. If we have raised expectations that we shall be able to propose in our detailed recommendations a sure and certain means of attaining these objectives, we fear that such expectations will be disappointed.

"There is nothing, we believe, intrinsically out of reach in any of these objectives; but this does not mean that they are easy or immediately practicable of achievement. In the first place, the most important of them depend on international agreement and collective action and cannot be reached by a single country, which belongs to an international system, acting alone. In the second place, they cannot be attained by Act of Parliament, but must result from the exercise of a skilled discretion of a somewhat novel character for the full use of which the necessary experience does not yet exist."

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"The main objective of Central Banks acting in co-operation in the management of the international gold standard should be to maintain the stability of international prices both over long periods and over short periods--i.e., they should both keep the average steady over a period of years and avoid fluctuations round this average from year to year. Or alternatively--if this alternative were to receive superior support--they should prevent prices from falling to a greater extent than is justified by the increase in the efficiency of production. Stability over long periods is largely a question of the adequacy of the quantity of gold available for their reserves taken in conjunction with the proportionate volume of credit created on this basis; stability over short periods, or in other words the mitigation so far as possible of the Credit Cycle, is, we believe, largely a question of co-operative monetary management."

2. Swedish monetary policy

Since Swedish monetary policies since 1931 have frequently been singled out as a possible example for this country, it may be useful not only to describe the objectives, but also to indicate the economic situation in which the policy was formulated and to quote some comments on the results that were achieved.

a. The policy and its background

1. From Gustav Cassel, "Sweden's Monetary Policy," in Quarterly Report of Skandinaviska Kreditaktiebolaget for July 1933

"When Sweden in September 1931 abandoned the gold standard,... the Swedish State Authorities clearly realized that a new standard for the management of the Swedish currency must be put in its stead. In view of the universal dread of a coming inflation, it was above all things necessary to make it clear to the public that the abandonment of the gold standard by no means signified the relinquishment of all control over the Swedish currency. It was therefore natural that the maintenance of the existing level of commodity prices should be set up as the immediate programme for Sweden's monetary policy. This was in fact the decision taken by the Swedish Authorities, and the Riksbank most conscientiously complied with these directions.

"It was evident, however, that Sweden, precisely in order to maintain the gold standard, had followed too long the general process of deflation which had been proceeding in the gold countries. The low price level thus attained was decidedly detrimental to the industry and commerce of the country. A moderate rise in this level of prices therefore came to be regarded as desirable. Since it had been shown in practice that the Riksbank still had the fate of the Swedish krona under its control, the Authorities saw no objection to modifying the directions previously given to the Riksbank and setting up a moderate rise in the level of wholesale prices as a desideratum. It was in fact on these lines that the Swedish programme of monetary policy was drawn up in May 1932, the extent of the contemplated rise in wholesale prices being limited by the requirement that there should be no appreciable rise in the actual cost of living.

"This programme, however, was not effectuated. On the contrary, the Swedish level of wholesale prices from the autumn of 1931 showed a falling tendency, and the official index number for wholesale prices sank from 110 in September 1932 to 105 in April 1933. .... In the spring of 1933 the Government accordingly appointed a monetary council composed of representatives of industry, agriculture and banking, as well as of experts on political economy. The remarkable thing occurred that this committee actually succeeded in producing a unanimous report with a truly positive content. ...

"A cardinal point in the committee report is that Sweden's monetary policy, if pursued independently, should aim first and foremost at regulating the <u>internal</u> purchasing power of the currency.

"...it should be borne in mind that the Swedish Riksbank, though a State bank, is nevertheless entirely independent of the Government. It may be regarded as an institution which, so to speak, is owned by the Riksdag. The latter, however, merely gives general instructions for the management of the bank: in regard to credit policy and the meeting of State financial demands the Riksbank has an independent position even as against the Riksdag. The fact that the importance of maintaining this independence has thus been strongly emphasized must be regarded as an adequate guarantee against any inflation entailed by fiscal requirements. The Riksbank, as the committee observe, 'should not be given any instructions in regard to monetary policy beyond those which are involved in defining the aim of that policy'. On the other hand, the Riksbank must be considered to be bound to follow these directions and cannot contend that it has had no means of bringing about the intended rise of prices if it has not availed itself of the opportunity for active intervention by participating in the financing of the expenditure on the relief of unemployment.

"The lines of monetary policy indicated above were embodied in a bill submitted by the Government to the Riksdag on the 26th of May. ....

"The bank committee of the Riksdag entirely approved the programme of monetary policy recommended by the Minister of Finance. ... The Riksdag has now approved the recommendations of its bank committee."

2. Richard A. Lester, "Sweden's Experience with 'Managed Money,'" Index, January 1937, Supplement.

"The Objectives. On the day that Sweden gave up gold, the Finance Minister made a brief address, in which he stated that henceforth the country's monetary policy should aim at maintaining the internal purchasing power of the krona. As has been so frequently observed, this was the first time in history that a country, upon leaving gold, set up another definite standard -- a composite commodity standard -- to replace the old gold standard....

"Practical considerations accounted for the selection of this objective. At the time there was, even amongst most Swedish economists, a widespread fear of inflation. Of course such a fear was unfounded, for all the world's well known inflations have occurred in connection with wars and none of them have happened during a depression when much industrial equipment is lying idle....

"However, as the fear of inflation began to subside, the pronouncements on monetary policy became more and more reflationary. In January 1932 the Finance Minister explained that the program for stabilizing the purchasing power of the krona in the hands of consumers did not preclude certain modifications in wholesale prices. In February the Board of the Riksbank explained that they would strive to keep the price level for domestic goods and services unchanged, but that they would allow such prices to rise in so far as the rise was caused by higher exchange rates or higher prices abroad. By April 1932 the Board of the Bank declared that the program aimed to hinder price declines abroad from depressing the Swedish price level. In May the Banking Committee of Parliament (in Utlatande 40) emphasized the importance of preventing any further fall in the price level and talked vaguely of a restoration of wholesale prices 'so important to producers', explaining that this did not contemplate a return to the price level of any particular month in the past nor an appreciable rise in living costs.

"Since the price level in Sweden had fallen about 5 per cent in the 8 months prior to May 1933, the committee of experts appointed to formulate principles for Sweden's monetary policy emphatically stated in their report, made public and adopted by Parliament during that month, that the objective of Swedish monetary policy 'should be to bring about a moderate rise of the internal wholesale price level.'

"Not only was the Swedish monetary program changed from an anti-inflationary to an anti-deflationary one, but, as time went on, it was altered in other respects. To begin with, it had simply a price-level objective, and a new retail price index for goods and services was constructed by the Riksbank as evidence of that objective. As early as February 1932, however, the Board of the Riksbank stated that they were 'taking into account other factors than mere changes in the price level, especially conditions affecting productivity and stocks of goods in various branches of industry'. The Banking Committee of Parliament (in Utlatande 6) agreed to this broadening of the criteria for monetary management.

"In April, the Board of the Bank added as another goal the maintenance of interest rates at as low a level as possible for the benefit of industry. By May 1932, the Banking Committee of Parliament (in Utlatande 40), after repeating that low interest rates were important, 'emphasized that the monetary policy should not be bound up schematically to any particular index figure' but should be based on 'the internal price level and the needs of Swedish economic life' - 'needs', of course, could be used to justify almost any monetary policy....

"With the fall in the price level, the objective of Sweden's monetary policy again, as at the outset of the program, was confined more closely to prices - this time to wholesale instead of retail prices. The committee of experts, appointed in April 1933 to make a more definite pronouncement on monetary policy, emphasized in their report that 'the first and foremost aim was to check and level up the tendency to a fall in prices that has now been prevailing during the past six months' and 'to bring about a moderate rise of the internal wholesale price level.' The various non-price criteria that had gradually been substituted for the Riksbank's index were not mentioned in the experts' report. In the Parliamentary discussion on the report, however, the Finance Minister repeated that the monetary policy should not be schematically bound to any special index and that the krona should continue to be regulated according to its internal purchasing power and the needs of Swedish industry.

"Swedish economists in general seem to agree with the Board of the Riksbank that price-level stabilization may not be an adequate criterion for monetary management. Until the Krona was pegged to the £ in July 1933, the Board maintained that an index of various prices could not be used as the norm for monetary policy since 'an unchanged general index does not prevent serious changes from coming into the country's economic circumstances' and the effects of various factors influencing industry appear only much later in such an index."

3. Extract from Riksbank's statement to Banking Committee of Riksdag, February 1932

The Riksbank is not aiming at

"...maintaining unchanged the average retail price level for all consumers' goods. Through the rise in the prices of certain import and export goods, which may be expected gradually to be more and more strongly reflected in the retail market, such a monetary policy would necessitate a corresponding forcing down of the prices of home-market goods--a development that would intensify the crisis in Sweden. The aforesaid pronouncement should rather be taken to imply that the Riksbank's intention is to endeavour to maintain more or less unaltered the average level of prices of home-market goods and of the most important services that form an integral part of consumption. A monetary policy along these lines is compatible with a certain rise in the Riksbank's index, viz. insofar as it might be caused by a rise in import and export prices (and prices directly dependent thereon) brought about by a rise in exchange rates and in commodity prices abroad.... It follows that when forming its policy in view of fluctuations in the price level the Riksbank cannot but take into account the causes of such changes in prices. For it is essential to determine whether price movements are caused, e.g., by increased tariffs, altered exchange rates or a tendency to inflation on the domestic market which may be looked upon as primary in relation to exchange rates. In any such analysis of price conditions, naturally other price indices besides the Riksbank's own index of consumers' prices will also be taken into consideration. Obviously, in their endeavour to create as stable economic conditions as possible, the Governors are also taking into account other factors than mere changes in the price level, particularly conditions affecting productivity and stocks in various industries."

4. Memorandum on the present Swedish Monetary Policy, issued by the Swedish Riksbank, June 1937.

"In 1931, after abandoning the gold standard, it was stated that the monetary policy of Sweden should aim at the maintenance of the purchasing power of the Krona in the hands of the consumers. In 1932 and again in 1933 the principles of policy were partly reconsidered. As a further object it was added that the economic policy should aim at bringing about an increase of domestic wholesale prices without allowing this increase appreciably to affect the cost of living.

"In view of the economic development since the middle of 1936 with its strong upward tendency of prices the need of a modification of the monetary program of 1933 was generally recognized in the spring of 1937. In a document addressed to the Government the Riksbank suggested that the policy of the Riksbank as well as the general economic policy should aim at counteracting the tendency towards rising prices and in any case prevent an inflationary price development. As had been stated by Parliament in 1933 the principles to be followed ought to be fixed by the Government and Parliament, whereas the choice of the means for fulfilling the policy must be in the hands of the Riksbank, which in this respect has to bear the full responsibility.

"In the recent Government Bill on the monetary policy the principles laid down by the Riksbank were on the whole confirmed. The Minister of Finance stressed the advantage of stable foreign exchanges. He found, however, that the reflation of wholesale prices had gone further than was aimed at in 1933. In view of the importance of checking a too strong price rise and in accordance with his opinion about the most desirable aim of the monetary policy for the near future, the Minister considered it necessary to regard the stabilizing of the external value of the Krona as a secondary consideration. A policy under all circumstances aiming at holding the present rate for sterling might not be consistent with a policy trying to prevent inflationary price rises. According to the Minister, formulations referring to certain index numbers should be avoided, because they might limit the choice of measures to be taken by the Riksbank.

"The Minister of Finance considered it likely that prices would still to a certain extent move upwards. If prices in England and America should pass the usual limits for good times and taken an inflationary character, an increase of the value of the Krona in relation to Sterling would have to be considered. An appreciation of the Krona and a strong tightening of the money market were both of such a character that they ought to be used only if there were very good reasons for applying them.

"Finally, the Government, too, stressed the necessity of synchronizing economic and monetary measures and agreed that the Riksbank had to choose the monetary means to fulfill the policy, adding, however, that the choice had to be made in cooperation with the Government, as measures wholly outside the sphere of the Riksbank were to be considered as alternatives to the monetary means proper."

"The Sveriges Riksbank is the central bank of Sweden and is owned and guaranteed by the State. The Bank is governed by a Board of seven directors, one of whom, the Chairman, is appointed by the King, while the remainder are elected by Parliament. The Board elect from among the six members appointed by Parliament a Governor and two Managers. In addition, a Deputy Governor is appointed by the Board. The Board of Directors is allowed to take instructions only from Parliament or, in certain cases, from the Banking Committee or Parliament."

B. Comments on the results of the policy

1. Bertil Ohlin, article on "The Inadequacies of Price Stabilization" in Index, November 1933

As regards the success of the Riksbank's policy, Professor Ohlin finds that:

(1) Wholesale prices were fairly stable, the indexes declining by 2-4 per cent between September 1931 and March 1933. But goods produced in Sweden for export and home consumption dropped 7 per cent while import prices rose 15 per cent.

(2) In the same period retail prices, as measured by the Riksbank's index number adjusted for seasonal variation and the effects of increased indirect taxation, dropped $3\frac{1}{2}$ per cent.

(3) Between March and October 1933, when world prices were rising, The Swedish wholesale price index regained its September 1931 level, while retail prices showed no change.

(4) Industrial production has varied far more widely than prices. After a brief post-devaluation rally, production fell in 1932, averaging only 85 in the last four months of the year against 94 in September 1931. By October 1933 the index was back to 93.

Professor Ohlin concludes that in the period September 1931-March 1933, which was "characterized by increasing and stagnating depression abroad, Swedish monetary and financial policy did not succeed in preventing a certain reduction in wholesale and retail price levels, still less in bringing about some rise in prices," and that "during 1932 Sweden was unable to avoid a very considerable intensification of the depression." Sweden made a very favorable showing, however, relative to the countries that remained on gold.

2. Irving Fisher, Stable Money

"Whatever the future holds in store, this achievement of Sweden will always be the most important landmark up to its time in the history of stabilization; and the various efforts which have been made to discredit the importance of Sweden's example can never erase the simple fact that Sweden did stabilize the internal purchasing power of her krona according to the official measure set up for that purpose. ....some of them (the opponents of stabilization) have sought to argue that, while little Sweden could do so, big America could not. But so far as size is concerned, the argument is obviously the other way. Sweden is so small as to be largely at the mercy of conditions in other countries. The United States is a world in itself. Sweden's slowness in restoring wholesale prices was largely due to the difficulty of stemming the downsweeping tide of wholesale prices in other countries. Swedish foreign trade and the dependence of her exporters on foreign prices are far more serious than in the case of America. If little Sweden can become an oasis in the world-wide desert of depression surrounding her, and despite the Kreuger disaster at home, can maintain her chosen index number almost unchanged, the same result is economically feasible almost anywhere.

"On the other hand, as mentioned before, Sweden was particularly favored in her stabilization experiment because of her inherent economic stability, the comparative homogeneous and unified nature of her banking system, and her ability to use the foreign exchange for influencing her domestic situation."

3. Brinley Thomas, Monetary Policy and Crises: A Study of Swedish Experience

"....Professor Fisher has mistaken the shadow for the substance. He attaches far too much importance to the stability of the Riksbank's index of the price level of consumption goods. The experience of Sweden resembles that of England in this respect. The policy was interesting merely because the Central Bank and the Treasury announced officially that they would keep the internal purchasing power of the krona constant. This declaration immediately after the break from gold tended to establish confidence. But it did not prevent a fall in production, real income, and employment. Our review of the monetary measures showed that in 1932 and 1933 the policy was changing its character. The aim was to secure a revival of investment; and this presupposed a rise in wholesale prices. ... The stability of the price level of consumers' goods was not affected by the recovery measures. The course of the index number was not a primary consideration influencing the actions of the Central Bank.

"The monetary theory lying behind the so-called 'Swedish experiment' gives no support to the naive gospel of price stabilization preached by Professor Fisher. Nor is he justified in thinking that a policy which suits a small country is necessarily applicable to the United States. The theory of the international margin must be considerably modified in the case of a large country."

4. Erik T. H. Kjellstrom, Managed Money: The Experience of Sweden

"Because of the hampering influence of the Kreuger crisis, the monetary policies of the Bank of Sweden encountered unusually unfavorable circumstances, which goes a long way towards explaining the failure of the price raising program. ....

"As a whole the program failed to attain the desired results in 1932. Although the purchasing power of the currency in the hands of the consumer was preserved, industrial production declined, and the labor market was disrupted. That the general price level remained relatively stable is no doubt largely to be explained by diverging price movements counteracting one another."

5. Institute of International Finance, Managed Currency in Great Britain and Sweden, Bulletin 104, March 6, 1939.

"The factors responsible for the business revival in the late spring of 1933 are as follows (the order, however, does not indicate the importance of the individual factors): (a) the easy-money market policy of the Riksbank based on the expansion of the Bank's assets through the purchases of foreign exchange, which resulted in the liquidation of the indebtedness of the commercial banks to the Riksbank and in a sharp increase in the banks' balances with the Riksbank; (b) the exchange policy of the Riksbank and specifically the stable krona-sterling rate, facilitated by the export of foreign securities;

the sale abroad of foreign securities in turn was induced by the exchange profit accruing from the depreciation of the gold value of the krona; (c) the reduction of the discount rate and of the deposit rates; (d) the declaration of the Currency Commission that a rise in wholesale prices was imperative; (e) the rise in prices in the non-gold countries, including the United States, in the middle of 1933; (f) the increase in Sweden's exports caused by rearmament in certain countries and the building boom in Great Britain; (g) governmental subsidies to agriculture, which resulted in a demand for manufactured goods; (h) initiation of the public-works program, which caused a demand for building materials in anticipation of a price rise."

V. Discussion of objectives in the writings of economists

A. Writers emphasizing the quality of bank assets

1. H. Parker Willis

Testimony on Banking Act of 1935

"The fundamental idea of title II is that the supply of money is regulated by banking, and that the total of it that is available there affects business directly. That is, if you have more money you have more and better business; if you have less, then you have what is called deflation.

"The idea underlying the Federal Reserve Act is that money is the product of business, and that credit, which is a very different thing from money, is used to supplement the supply of money and to provide that elastic element that is necessary in order to permit a larger volume of business to be transacted...without the necessity of enlarging the legal tender note issue.

"Those two ideas are as wide apart as the poles; and, of course, when one starts with one of them to write a banking bill he gets to a very different result from that which he gets if he starts with the other."

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"Of course that last sentence (of the mandate proposed by Eccles) is a very 'saving clause' -- so far as it is possible. But one might add to that that it is never within the scope of monetary action and credit administration, so that you would use a bank mechanism for doing something for which it was never intended. The function of the bank mechanism is that of keeping banking sound and safe and of keeping it at all times in position to perform its financial functions. It is not its duty to unstabilize or to stabilize production, trade, prices, and employment."

2. Benjamin M. Anderson, Jr.

Address on "Commodity Price Stabilization a False Goal of Central Bank Policy" delivered at Rotterdam in 1929

"In opposition to this new doctrine (or price stabilization) I offer the old-fashioned doctrine, rarely questioned in pre-war days, well understood and tested in experience, that central-bank policy should be guided by the banking position of the country and the state of the money market, with heavy emphasis placed on the domestic banking position and the domestic money market, but with occasional co-operation with other central banks in international emergencies.

"Whereas the new theory asks central banks to stabilize the commodities market, I maintain that they have a great enough task in steadying the money market.

"The traditional pre-war view of the duties of a central bank is definite, clean-cut, and simple.

"(1) It is the business of a central bank to protect the paper money of the country by converting it into gold on demand. This is its first and most essential function, and everything else must be subordinated to this.

"(2) It is the business of a central bank to ease off monetary stringencies and to prevent business crises from degenerating into money panics. In a crisis, the central bank supplies whatever money is necessary to a steep discount rate. It enables solvent men to protect their solvency, but it does not regard it as its duty to validate the unsound assets of really insolvent men, or to help defer the liquidation of stale positions.

"(3) In times of great speculative excesses, whether in commodities or in securities, central banks should act to prevent the extension of unsound credits, to protect the liquidity of the banks of the country, and to check speculative excesses, by tightening the money market.

"(4) It is not the business of a central bank to finance a boom - least of all, a stock-market boom."

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"My purpose is accomplished if I have shown you how fantastic it is to expect central bank policy, operating via the money market and the capital market, to fix the level of commodity prices. The gravest difficulties arise at every link in the chain. First, the central bank cannot control even the money market and the capital market. It can, at best, mitigate and moderate their movements. Second, the money market and the capital market are, at best, only one of many factors affecting the commodity markets. Third, the money and capital markets have a far more decisive influence on the markets for securities, real estate, and foreign exchange than they have on commodities, and their influence on commodities usually works through these channels."

Testimony on Banking Act of 1935

"This passage (the mandate proposed by Eccles) says nothing about the more fundamental function of the Federal Reserve System, which is to protect the soundness of the currency and to protect the quality of credit in the country, to provide additional currency for seasonal needs and for emergencies, and to expand credit as needed for the accommodation of commerce, industry, and agriculture. That is their first job."

B. Advocates of price stabilization

1. Knut Wicksell

Interest and Prices

"....So long as prices remain unaltered the banks' rate of interest is to remain unaltered. If prices rise, the rate of interest is to be raised; and if prices fall, the rate of interest is to be lowered; and the rate of interest is henceforth to be maintained at its new level until a further movement of prices calls for a further change in one direction or the other.

"The more promptly these changes are undertaken the smaller is the possibility of considerable fluctuations of the general level of prices; and the smaller and less frequent will have to be the changes in the rates of interest. If prices are kept fairly stable the rate of interest will merely have to keep step with such rise or fall in the natural rate as is inevitable.

"In my opinion, the main cause of the instability of prices resides in the inability or failure of the banks to follow this rule."

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"....It would then be the simple duty of each credit institution to regulate its rate of interest, both relatively to, and in unison with, other countries, so as both to maintain in equilibrium the international balance of payments and to stabilize the general level of world prices. In short, the regulation of prices would constitute the prime purpose of bank rate, which would no longer be subject to the caprices of the production and consumption of gold or of the demand for the circulation of coins. It would be perfectly free to move, governed only by the deliberate aims of the banks."

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"But it must not be supposed that stabilization of prices would overcome the economic depression which for more than twenty years has provided a constant source of complaint on the part of certain classes of the community; nor would economic progress again resume that very rapid pace to which we have become accustomed since the middle of the century. This depression must be regarded as the cause rather than the effect of the fall in prices."

2. <u>Gustav Cassel</u>

Articles in Quarterly Report of Skandinaviska Kreditaktiebolaget, 1930 and 1931

"When a central bank regulates the internal supply of money, its aim must be to maintain a certain stability in the internal purchasing power of the currency. In regard to the measure of this stabilization opinions may possibly differ, but there are good reasons for taking the wholesale prices on the goods market as a gauge of the desired stability in the purchasing power of the currency."

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"....Whatever relative changes may take place between the prices of different commodities, it must always be possible for the central bank to prevent a fall in the general price level. ....

"It is of paramount importance that the leading countries of the world should emancipate themselves from the traditional over-estimation of the weight to be attached to the gold reserves, and that they should shape their monetary policy with the single aim of attaining the greatest possible stability in the purchasing power of the currency. ....

"In countries possessing a gold standard the central banks must, of course, use their influence on the price-level to maintain the currency on a parity with gold. A small country has, obviously, no appreciable influence on the value of gold. But in the big creditor countries the position is quite different. They have a considerable influence also on the value of gold and therefore can more actively direct their monetary policy towards the maintenance of a constant price-level. This is the case, in a supreme degree, in the United States. That country is sufficiently powerful alone to maintain a stable price-level and to compel the value of gold simply to adjust itself to that of the dollar. .... The realization that a properly managed central bank policy has a decisive influence on the development of the price-level is therefore of by far the greatest importance in practice with reference to the regulation of the United States currency. Before the Federal Reserve system comes to a full realization of its dominant influence on the purchasing power of the dollar and, on this basis frankly recognizes its responsibility for the development of the American price-level, it will not be possible to gain any security for the monetary system of the world nor, of course, for the world economy at large."

C. Advocates of stability of some other economic variable than prices

1. E. F. M. Durbin

The Problem of Credit Policy

"...it has become possible in recent years for the economist to state much more clearly than ever before what can and what should be done in the realm of credit policy to secure and maintain indefinitely full employment and a maximum of productivity."

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"We start from the explicit assumption that full industrial equilibrium exists in a period of technical and capital change.... It the only usable instrument of policy is an expansion or contraction in the volume of producers' credits, and at the same time wages and other primary factor prices are slow to move relatively to prices... stable prices are quite impossible (because an attempt to carry out a) ... policy of stabilizing prices will lead to a cumulative inflation. ... (Under those conditions) the only practicable policy is that of stabilizing money incomes (per capita)."

2. Bertil Ohlin

Article on "The Inadequacy of Price Stabilization"

"...when once a depression has set in, a reduction in the quantities produced and marketed can very easily take place without being materially reflected in the index numbers representing the average wholesale or retail price level. E.g., a fall in the prices of articles of domestic manufacture may be counterbalanced by a rise in the price of imported goods. But, even if the former price level is kept stable, demand and production may decline.

"Does this imply that a price-stabilization policy like the Swedish, initiated in the very middle of a depression, can serve no purpose? Certainly not. As has already been pointed out, the economic situation in Sweden would most undoubtedly have been still worse if prices had been allowed to fall as they did in countries that kept to the old gold parity. ...a Konjunkturpolitik that aims at as full and regular a utilization of the productive forces as possible, i.e., a maximization of the real national income per head of the population over a long period, is bound to take many other factors into account besides the development of prices. That is to say, it cannot be based on the idea of stabilizing any particular price level, especially if the latter has been brought by an immediately preceding depression out of equilibrium with other parts of the price system.

"A long-term policy aiming at an adjustment of economic conditions will probably have to reckon with fluctuations in certain kinds of prices and certain kinds of production as being natural and, in the long run, useful changes in a progressive community. The science of economics is still far from having found a solution to these problems, which I shall not attempt to examine here. In the present article the task has been the more modest one of discussing the possibilities of an individual country's being able, by stabilizing the price level, to mitigate the reactions of a severe international depression. The course of events has shown that even here the difficulties are greater than people who believed in simple formulae for price stabilization ever foresaw. But it has also been demonstrated that even a very incomplete surmounting of these difficulties may yield results of practical importance."

3. F. A. von Hayek

Prices and Production

"....But by a curious irony of fate, Wicksell has become famous, not for his real improvements on the old doctrine, but for the one point in his exposition in which he definitely erred: namely, for his attempt to establish a rigid connection between the rate of interest and the changes in the general price level."

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"But if we have to recognise that, on the one hand, under a stable price level, relative prices may be changed by monetary influences, and, on the other that relative prices may remain undisturbed only when the price level changes, we have to give up the generally received opinion that if the general price level remains the same, the tendencies towards economic equilibrium are not distrubed by monetary influences, and that disturbing influences from the side of money cannot make themselves felt otherwise than by causing a change of the general price level.

"This doctrine, which has been accepted dogmatically by almost all monetary theorists, seems to me to lie at the root of most of the shortcomings of present-day monetary theory and to be a bar to almost all further progress. Its bearing on various proposals for stabilization is obvious."

4. O. M. W. Sprague

Testimony on first Strong stabilization bill

"I am inclined to think that about as much weight is now or is likely to be attached to the matter of price movements as we are warranted in attaching to that factor in the present state of our knowledge and our experience. I believe that the movement of prices means such different things in different situations that it would be unfortunate to adopt in legislation a provision which would seem to compel action in a particular way because of any given amount of change in the level of prices."

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"I think that if you were to adopt in legislation something like the blanket list of factors for determination of valuation that the Supreme Court laid down in the Smythe v. Ames many years ago, that it would do no harm; that is, you might enumerate in the statute all of the factors that you or any member of the reserve system could think of as remotely bearing upon the determination of discount policy, and put them all into the statute, saying that the reserve banks are authorized to consider all these factors; and it would do no harm.

"If, however, you concentrate upon a single one, you are doing something more than saying that 'This is a factor which any reasonable man might bear in mind and give varying degrees of importance to at different times'; you are saying that they are to direct their policies so as to accomplish a certain result."

5. <u>R. G. Hawtrey</u>

Summary of Hawtrey's views in Gottfried Haberler's <u>Prosperity and Depression</u>

"The aim of banking policy should be to keep the consumer's outlay constant, including outlay for new investment. But account should be taken of changes in the factors of production -- not merely the growth of population, but also the growth of capital.... In other words, the aim should be to stabilize, not the price level of commodities, but the price level of the factors of production."

<u>Capital and Employment</u>

"The fixation of the price level...is no doubt a less perfect policy than the stabilization of the consumers' income. Nevertheless it is a reasonable approximation to a sound policy."

D. The limitation of monetary means of achieving stability

1. E. F. M. Durbin

The Problem of Credit Policy

"...this programme clearly abstracts from one essential aspect of the real world. It does not attempt to analyze the problem of short run policy or describe how an industrial equilibrium which does not exist can be created by measures which do not prevent its indefinite continuation. These arguments have, that is to say, abstracted from the existence of Trade Cycle fluctuations. .... It is quite impossible for example to stabilise money incomes at the height of the boom.... On the other hand although it would be very possible to stabilise incomes during the period of depression it would be eminently absurd to do so. ....

"I have abstracted from these problems...just because I believe that they are insoluble by these orthodox means and because I believe that they will only yield to a programme of more radical reform than has been suggested."

2. William T. Foster

Testimony on first Strong bill

"We conclude, therefore, first, that it is highly desirable that the Government should have stability of the price level as an avowed aim; second, that it is highly desirable that the Federal Reserve Board should have that as an avowed aim; but, third, that it would be unfortunate for business in general and for the future of the Federal reserve system, if the idea became widespread that because such a bill as this was passed, therefore the board actually did have the power, under all conditions, to bring about stability in the price level; because the time is sure to come when the board with its present powers could not achieve the end; and if it were then blamed, it would be unjustly blamed, and the result would be unfortunate."

3. J. M. Keynes

Treatise on Money

"...when all is said and done, does it lie within the power of a Central Bank in actual practice to pursue a policy which will have the effect of fixing the value of money at any prescribed level? If, for example, the duty of preserving the stability of the purchasing power of money within narrow limits were to be laid upon a Central Bank by law, would it be possible for the Central Bank to fulfill this obligation in all circumstances?

"I have more sympathy to-day than I had a few years ago with some of the doubts and hesitations such as were expressed in 1927 by Governor Strong and other witnesses before the Committee of the United States Congress on Stabilization...."

After quoting from Governor Strong's and Mr. Stewart's testimony in 1926, Keynes comments:

"These are reasonable doubts expressed by persons of great experience. They cannot be dispelled merely by pointing to the truism of a Quantity Equation. In a sense they can only be dispelled by the prolonged success of an actual attempt at scientific control. But I should like to try to show that the prospects of such an attempt are sufficiently promising for it to be worth a trial."

To his original question Keynes supplies no more definite answer than the following:

"...we cannot do more at present than marshal the various means at the disposal of the Banking System. Only the future can show for certain whether the conscious and well-directed use of all these means, confidently employed in the right degree and at the right time, is capable of solving the problem."

4. <u>O. M. W. Sprague</u>

Testimony on first Strong bill

"...statements have been made here to the effect that it is largely due to the Federal reserve banks and their wise credit policies that we have had such a degree of price stability as we have enjoyed during the last four years. I do not believe that that degree of stability is to be in the main attributed to the wisdom of the managers of the Federal reserve banks. I consider it primarily due to the attitude of the business community which continues to recall the losses which it had experienced in 1920-21."

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"I think they (the Federal reserve system) can prevent extreme advances in prices, and thereby avoid sharp, sudden declines. I do not think that they can serviceably attempt to meet sliding oscillations in credit, whether in an upward or downward direction; and I am not certain as to just when they should endeavor to apply the brakes. I do not think that the price index furnishes a definite enough guide - it is one of the factors in the situation which may lead to an endeavor to influence the situation a little by early action, such as the sale of a certain amount of securities that they may hold, or an advance in the discount rate."

5. D. H. Robertson

Essay on Theories of Banking Policy

"....The out-and-out price-stabiliser claims that he can always check a fall in prices and cure unemployment by monetary means, and that there is no need for such fancy palliatives of industrial depression as the deliberate spacing through time of Governmental and other large demands for constructional work. I think the difficulties experienced by the Federal Reserve System even in times of raging prosperity should make us pause before admitting such extreme claims."

E. The following passage by D. H. Robertson aptly sums up the views expressed in groups (C) and (D). After examining and rejecting the claims of the gold standard, of the principle of productive credit, and of price stabilization as objectives of credit policy, Robertson concludes:

"It has been my business to examine existing principles of banking policy, and not to elaborate new ones. But to escape the imputation of cowardice, let me suggest in conclusion that the ideal banking policy might be one which was founded on the principle of price-stabilisation as a norm, but which was ready to see the fruits of a prolonged and general increase in individual productivity shared in the form of lower prices, and perhaps to acquiesce in moderate price-rises in order that advantage might be taken of discontinuous leaps in industrial technique. And it would be a policy that did not claim omnipotence, or feel competent of its ability to cure the evils of uncertainty except in alliance with a much more comprehensive attempt to control and stabilise the desires and activities of the community than most monetary reformers—even, I think, most thorough-going Socialists—have yet visualised."

APPENDIX

Sources of quotations in Legislative Mandates for Central Banks and Objectives of Credit Policy

Part 1

Mandates Actual and Proposed

I. Mandates proposed for Federal Reserve System

A. In drafts of Federal Reserve Act. H. Parker Willis, The Federal Reserve System, pp. 1605, 1626, 1655, 1684.

B. In proposed stabilization bills

1. First Strong bill (H.R.7895). Hearings: Stabilization, 1926, pp. 1, 1042-3, 1066-74.

2. Second Strong bill. Hearings: Stabilization, 1928, pp. 1, 393.

3. Goldsborough bill
   (a) As introduced (H.R.10517). Hearings: Stabilization of Commodity Prices, 1932. Part I, page 1.
   (b) As passed by House (H.R.11499). Hearings: "Restoring and Maintaining the Purchasing Power of the Dollar," 1932, p. 1.

4. Federal Monetary Authority Bill (H.R.7157 and 7216). "A Bill to Establish the Federal Monetary Authority, and to Control the Currency of the United States."

5. Thomas Monetary Authority Bill (S. 1990).

6. Thomas Price Stabilization Resolution (S.Res.216).

7. Patman Bill (H.R.7230). Hearings: Government Ownership of the Twelve Federal Reserve Banks, 1938, pp. 2, 168.

C. Enacted in Banking Act of June 16, 1933. The Federal Reserve Act as amended to October 1, 1935, pp.10, 47.

D. Enacted or proposed in connection with the Banking Act of 1935.

1. Changes in reserve requirements. The Federal Reserve Act, p.114.

2. Mandates proposed by Eccles. Hearings: Banking Act of 1935, before a subcommittee of the Senate Committee on Banking and Currency, p. 319.

3. Revision of Eccles mandate proposed by Senator Fletcher, cf., Mr. Currie's files.

4. Adolph C. Miller's proposal. Senate Hearings: Banking Act of 1935, p. 759.

5. Mandate proposed by ex-Senator Owen, Senate Hearings: Banking Act of 1935, p. 902.

6. Amendment proposed by Representative Goldsborough, cf., Mr. Currie's files. (Amendment to be added to Section 11 of Act).

7. Suggested in discussion within the Federal Reserve Board, cf., file in Federal Reserve Board library on "Objectives of Monetary Policy."

II. Objectives of foreign central banks prescribed by statute

For New Zealand, Hungary, Mexico, and the U.S.S.R., see files on central bank statutes of those countries in the Federal Reserve Board library. The remainder of Section II is taken from a memorandum of May 16, 1935, on Legal Objectives of Foreign Central Banks as Stated in Their Charters in the library file on "Objectives of Monetary Policy."

Part 2

Discussion of Objectives

I. Official policy declarations by the Federal Reserve Board and the Federal Reserve Bank of New York

1. Annual Report of Federal Reserve Board for 1923, pp.31-35.

2. Answer of New York Federal Reserve Bank to questionnaire sent by Senate Banking and Currency Committee, 1931. Hearings: Operation of the National and Federal Reserve Banking Systems, 1931, pp. 762, 802.

3. Board of Governors' statement on Objectives of Monetary Policy. Annual Report of the Board of Governors for 1937, p. 223.

4. Board of Governors' statement on Proposals to Maintain Prices at Fixed Levels through Monetary Action." Federal Reserve Bulletin, April 1939, pp. 258-259.

II. Public but not official statements by officials of the Federal Reserve System

1. Benjamin Strong

   (a) Testimony on first Strong bill. Hearings: Stabilization, 1926, pp. 302, 306, 307, 359, 550.

   (b) Paper on "Prices and Price Control." Interpretations of Federal Reserve Policy in the Speeches and Writings of Benjamin Strong, ed. Burgess, p. 233.

   (c) Testimony before the Royal Commission on Indian Currency and Finance. Interpretations of Federal Reserve Policy, p. 295.

2. Adolph C. Miller. Testimony on First Strong bill. Hearings: Stabilization, 1926, pp. 791-792, 794, 838.

3. W. P. G. Harding. Address on "Price Levels and the Discount Rate." Reprinted in Hearings: Stabilization, 1926, pp.1041-1042.

4. Walter W. Stewart. Testimony on first Strong bill. Hearings: Stabilization, 1926, p. 763.

5. George L. Harrison. Testimony on Goldsborough bill. Hearings: Stabilization of Commodity Prices, 1932, p. 481.

6. Marriner S. Eccles

   (a) Testimony on Banking Act of 1935. Senate Hearings: Banking Act of 1935, p. 215.

   (b) Testimony on Patman bill. Hearings: Government Ownership of the Twelve Federal Reserve Banks, 1938, p. 444.

III. Statements by other U. S. Government officials

1. President Roosevelt's message to International Monetary and Economic Conference, London, 1933.

2. Secretary Morgenthau's statement presented in round table discussion at Harvard-Yale-Princeton Conference on Public Affairs at Cambridge, February 27, 1937. Cf., Mr. Currie's files.

3. Ex-Senator Robert L. Owen

   (a) Testimony on Goldsborough bill. Hearings: Stabilization of Commodity Prices, 1932, p. 123.

   (b) Testimony on Banking Act of 1935. House Hearings: Banking Act of 1935, p. 557.

4. Senator Carter Glass. Article on "The Federal Reserve System Grossly Misused," quoted in S. E. Harris, Twenty Years of Federal Reserve Policy, p. 93, footnote 3.

5. Senator William G. McAdoo. Senate Hearings: Banking Act of 1935, p. 438.

IV. Discussion of objectives of Bank of England and Swedish Riksbank

1. Report of the Committee on Finance and Industry (Macmillan Committee), 1931, pp. 93-94, 117-121.

2. Swedish monetary policy.

   (a) The policy and its background.

      1. Gustav Cassel, "Sweden's Monetary Policy," Quarterly Report of Skandinaviska Kreditaktiebolaget, July 1933, pp. 43-45.

      2. Richard A. Lester, "Sweden's Experience with 'Managed Money'". Index, (Svenska Handelsbanken) January 1937, Supplement, pp. 1-5.

      3. Extract from Riksbank's statement to Banking Committee of Riksdag, February 1932. Quoted in Index, September 1932, p. 271.

      4. Memorandum on the Present Swedish Monetary Policy, issued by the Riksbank, June 1937,

   (b) Comments on the results of the policy.

      1. Bertil Ohlin, Article on "The Inadequacy of Price Stabilization," in Index, November 1932, pp. 258-262.

      2. Irving Fisher, Stable Money, pp. 408-409.

      3. Brinley Thomas, Monetary Policy and Crises, pp.232-233.

      4. Erik T. H. Kjellstrom, Managed Money, pp.77-79.

      5. Institute of International Finance, Managed Currency in Great Britain and Sweden, Bulletin 104, March 6, 1939, p. 28.

V. Discussion of objectives in the writings of economists

A. Writers emphasizing the quality of bank assets

1. H. Parker Willis. Senate Hearings: Banking Act of 1935, pp. 864-865, 876-877.

2. Benjamin M. Anderson, Jr. Address on "Commodity Price Stabilization a False Goal of Central Bank Policy," reprinted in Senate Hearings: Banking Act of 1935, pp. 467-469.

3. Testimony on Banking Act of 1935. Senate Hearings, p. 436.

B. Advocates of price stabilization

1. Knut Wicksell. Interest and Prices, pp. 189, 194.

2. Gustav Cassel. Articles in Quarterly Report of Skandinaviska Kreditaktiebolaget.

(a) "'Internal' and 'External' Discount Policy," January 1930, p. 1.

(b) "The Gold Standard in 1929," April 1930, p. 20.

(c) "The Influence of Bank Policy on the Level of Prices," April 1931, p. 30.

C. Advocates of stability of some other economic variable than prices

1. E. F. M. Durbin. The Problem of Credit Policy, pp. xix, 110, 120, 128, 143.

2. Bertil Ohlin. "The Inadequacy of Price Stabilization," Index, December 1933, pp. 264-265.

3. F. A. von Hayek, Prices and Production, pp. 23, 28.

4. O. M. W. Sprague. Testimony on first Strong bill. Hearings: Stabilization, 1926, pp. 411, 418.

5. Gottfried Haberler, Prosperity and Depression and R. G. Hawtrey, Capital and Employment, p. 265.

D. The limitations of monetary means of achieving stability

1. E. F. M. Durbin. The Problem of Credit Policy, pp. 214-215.
2. William T. Foster. Testimony on first Strong bill. Hearings: Stabilization, 1926, p. 193.
3. J. M. Keynes. A Treatise on Money, II, pp. 339, 340, 345, 363.
4. O. M. W. Sprague. Testimony on first Strong bill. Hearings: Stabilization, 1926, pp. 412, 415.
5. D. H. Robertson. "Theories of Banking Policy" in Pigou and Robertson, Economic Essays and Addresses, p. 115.