# THE RELATION OF MONETARY POLICIES

# to

# PRICE LEVELS OF BASIC COMMODITIES

Address by
Chester C. Davis,
Member, Board of Governors,
Federal Reserve System,
Washington, D. C.

Before the Fifteenth Annual Session
of the
American Institute of Cooperation
at the
University of Chicago
Chicago, Illinois

Wednesday morning, August 9, 1939.

Release for afternoon papers of
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I am glad that, with the approval of the program officials, the preceding speaker courteously consented to lead off today. It is always best in a symposium of this sort for the opening note to be positive and aggressive. I remember my own embarrassment in this very city thirteen years ago at a meeting during the American Farm Bureau Federation's annual convention. It was a big luncheon - I think practically all of the delegates at the convention were present - and the program committee had arranged to have a number of men arise as their names were called and respond with a short statement on cooperative marketing. The Chairman surprised me by calling on me first instead of toward the last as I had expected, and in response I said:

> "There is danger of over-stressing the power of commodity cooperative associations to influence general price levels through control of supply. Membership in voluntary agricultural associations will always be less than one hundred percent of the growers of a commodity. The association that attempts to adjust supply to demand by withholding unrequired supplies beyond the crop year undertakes certain expenses and risks. As long as these must be borne only by members while the benefits are shared equally with nonmembers, the association that attempts this policy is likely to fail in it."

What I said was probably true as a general statement but still it would have sounded much better if it had come along in the middle of the program or near its end. I do not like to be negative. I would infinitely rather be out supporting a positive program. But in the vitally important field covered by our discussion today it is essential that policy be shaped in the clear light of comprehension of the factors that are involved.

I shall not attempt a point by point analysis of Mr. Sexauer's paper, with much of which I find myself in agreement. The conviction that price levels can be fixed and regulated by monetary action alone is so clear and unqualified in the minds of many people that it is not the easiest thing in the world to discuss with them. If you believe it you can't understand why everyone else cannot see it as you do. I am not optimistic enough to expect that we can emerge from this morning's discussion with unanimous agreement. But we should come out of it with a clearer understanding of the powers as well as the limitations of monetary action. In other words, a frank discussion should provide us with better tools with which to think.

So I want my own contribution to this morning's program to be analytical and explanatory rather than dogmatic. This is a field in which there is a tendency for people to become impatient with others who do not see eye to eye with them. In the last three years I have had the opportunity to study a few of the unlimited number of plans for raising and controlling prices by monetary action. I am convinced that most people who back these plans greatly oversimplify the factors they propose to deal with. Yet in a democracy Congressional action and Government policy in the long run are determined by the people themselves. It is essential, therefore, that the public understand these problems. Programs and discussions such as that scheduled for this morning should make a clearer understanding possible and I should like to see them multiply in every section of the country.

This morning I shall try to organize my presentation along the following lines:

First, I want to discuss the abstract theory that there is a fixed and direct relationship between price levels and currency value of gold so that if the currency value of gold is changed, prices will respond accordingly.

Second, I want to consider a modification of that theory which is really quite independent of it and yet is frequently confused with it in the public mind. That is the idea that changing the currency price of gold in one country influences the domestic currency price of commodities that are dealt with in international commerce, and that indirectly this influence affects other prices.

Third, it is important to discuss the idea so widely and firmly held that the quantity of money determines at any time the existing price level. I think it is advisable to discuss this at some length because the debates in the Senate and House during the session of Congress just closed indicate that it has more articulate and widespread support in both houses than any other plan to raise prices by monetary action.

Fourth, in these connections I want to try to show just how gold is handled in the United States at the present time and how it affects our economy.

Finally, time may permit a brief discussion of the Reserve Board's views on monetary policy, and of some recent developments in this field in Washington.

Dollar Prices and Gold Prices

The first proposition I have marked out for discussion is the contention that the average of dollar prices, particularly those of basic commodities, can be placed at any desired level by adjusting the ratio of the dollar to gold. This theory rests upon the assumption that commodity prices are in reality gold prices and that currency prices can be determined at will by fixing the currency price of gold. According to this view, the dollar and other currency units are merely different names for different weights of gold. Whatever the market values of commodities are as a result of market influences, they are gold prices and can be changed into any dollar prices that are desired through the simple expedient of changing the dollar price of gold.

This theory in its pure form is not in any way concerned with the rates of exchange between currencies of different countries. It holds that since the price of cotton, for example, is a gold price and is not affected by changes in the currency price of gold, raising the currency price of gold will raise the currency price of cotton. If only the dollar price of gold is raised, only Americans will benefit. If foreign prices of gold are raised at the same time foreign cotton growers also will benefit, but the success of the American move is not dependent on foreign action one way or another.

It is important for us to analyze and consider some questions which close study of this proposal raises. It is not the simplest thing in the world to discuss. To many people the principle seems so clear and indisputable that it is difficult for them to comprehend why every honest student does not believe in it too.

In discussing this question at New Orleans last December, I pointed out that the belief that the level of prices can be raised or lowered at will by changing the currency price of gold rests on the assumption that commodity prices are in reality gold prices, not currency prices; that actually you sell your grain and your livestock and your dairy products for units of gold - not for dollars; and that you get the same number of units of gold whether the price of gold is high or low.

If that assumption is correct then it follows as a matter of course that if you double the number of dollars a unit of gold represents you double the number of dollars required to purchase the commodity.

Therefore, that assumption is the crux of the whole matter and it is essential that we examine it with the greatest of care.

A serious doubt as to the validity of this basic assumption arises if we recognize what seems to me to be a fact that the prices in terms of which business is done are currency prices and not gold prices; that basic commodities, as well as manufactured goods, are sold for dollars in the United States, sterling in England, and francs in France. They are not sold for weights of gold. To me this is a simple matter of fact.

It is true that if $35 is equivalent to an ounce of gold, then 100 lb. of butter selling for $35 is also equivalent to an ounce of gold. But it makes all the difference in the world whether transactions in butter are arranged in the market place in terms of dollars, whose gold equivalent is a secondary matter, or whether they are arranged directly in weights of gold, with the number of dollars this gold represents being a matter determined by the authorities. In both cases, raising the price of gold from $35 an ounce to $70 an ounce will effect a corresponding difference between the price of butter in terms of dollars and its price in terms of gold. But if the dollar price of butter is the primary and controlling factor, the gold price of butter will be cut in half. If the gold price of butter is the primary and controlling factor, the dollar price of butter will be double.

This is a greatly oversimplified statement but it serves to bring out the fact that a change in the gold content of the dollar can just as well result in a fall of gold prices as in a rise of dollar prices, and it suggests that where market price is settled in terms of dollars and the gold price is merely a computed equivalent without market importance, the presumption might well be that an arbitrary change in the dollar-gold ratio will cause a change in the computed gold price of commodities rather than a change in the dollar price which reflects a commodity market situation.

If it is gold prices rather than dollar prices that are moved around by changing the dollar price of gold, then the basic assumption to which I have directed your attention falls to the ground.

There is no supreme court of finance before whom questions of this nature can be debated and by whom they can be decided. Personally, I think the group in this room is just as competent to reach a sound conclusion as any other in the country provided they will question all assumptions, taking none for granted, and provided they will take recent world experiences into account in making up their minds.

Foreign Exchange Ratios and Commodity Prices

The moment it is recognized that commodity transactions are done in terms of currency and not of gold - that gold prices are merely a computed equivalent - then the ratios of exchange between the currencies of different nations are seen to be an important factor influencing prices of commodities widely bought and sold in international trade. Changing the currency value of gold in one country may definitely affect the currency price of commodities that are dealt with in international commerce. It is important to recognize that this is something totally different from the principle which I have just been discussing which held that a change in the currency value of gold automatically changes the currency value of basic commodities irrespective of foreign exchange relationships.

It is true that in the world today international trade balances are settled in gold, but when a British firm bids for American cotton it thinks of the price in pounds and shillings, not in gold, just as the German thinks in terms of marks and the Frenchman in terms of the franc. The important thing, therefore, is the relationship that exists between the pound and the mark and the franc on the one hand, and the dollar on the other.

If the United States were to reduce the dollar in relation to the pound or other foreign currency units a given amount of foreign currency would buy more dollars than it bought under the old relationship. This would have a tendency to increase the dollar price to the American producer of export commodities. Lowering the gold content of the dollar might be one way to reduce the dollar in its ratio with foreign currencies.

Recently I have asked a number of men who are trained students of foreign exchange what would happen if the United States set out deliberately to reduce the dollar among the currencies of the world in an attempt to make our currency less valuable in relation to the pound and franc and thereby to raise the domestic price level of export crops. It is their considered judgment that in existing circumstances the currency of other countries would automatically follow the dollar and that approximately the present parity would be preserved. If that is the case then further devaluation would not affect the prices of export crops since the pound, for example, would continue to buy approximately the same number of dollars as it does at the present time.

It is important at this point to take into account the forces that would operate to make it extremely difficult for the United States to lower the dollar in relation to other currencies. On balance, this country since 1934 has had a net surplus of exports over imports of approximately $1,780,000,000, which has been offset by imports of gold and silver. Total net payments of gold and silver to this country, including those due to capital movement and other transactions, have amounted to a total of $9,489,000,000 from 1934 through the first six months of 1939. Stated in another way, this means that since 1934 there has been a fairly continuous demand for dollars as a result of which other countries have sent their gold to the United States in unprecedented volume. A little later on I want to discuss how the gold is handled after it gets here.

Brazil and Australia are two countries most frequently mentioned as having adopted a policy of deliberate currency devaluation as an aid to the producers of export commodities. All the evidence seems to prove conclusively that these countries did not depreciate their currency as a result of official policy but that on the contrary, official policy was directed toward preventing currency declines as long as this was possible, and that the declines were forced upon them by adverse developments in the exchange market.

In 1928 Brazil had gold reserves amounting to approximately $150,000,000. In 1929, Brazil exported $325,000,000 worth of coffee, representing 70 percent of the total exports of the country in that year. In 1930 Brazil's coffee exports fell to $195,000,000. The movement of international capital turned against Brazil at the same time. The exchange rate of milreis fell from 11.8 cents in 1929 to 9.1 cents in January, 1931, and it would have fallen further had the authorities not stepped in and used up the gold reserves of the country, the $150,000,000, in support of the country's currency. It was after the gold reserves had been practically exhausted that the milreis fell most rapidly.

A similar course was followed in Australia. Australian gold reserves, which were approximately $225,000,000 in 1928, were drained down to $5,000,000 in 1934, having been used up in the attempt on the part of Australian authorities to bolster their currency. In 1938 Australian gold reserves were only $3,000,000.

It is impossible within the time limits of this morning's program to cover adequately this subject of international exchange relationships. I think I have said enough to indicate that there is at least some serious question as to the extent to which devaluation can be adopted by the United States as a means to lower the dollar in relation to other currencies and to support and maintain price levels of export commodities. It should be remembered, as key considerations, that there is a strong demand for dollars over and above those created by the sale of commodities to the United States and that no country at present is firmly on a fixed gold basis, so that the currencies of foreign countries are free to follow the dollar up or down.

## Volume of Money and Price Levels

The third point I have outlined for discussion is the widely held belief that price levels may be raised or lowered at the will of a monetary authority by increasing or decreasing the quantity of money.

Let me state as emphatically as I know how my conviction that it is the Government's responsibility to prevent harmful changes in the volume of money. I believe this responsibility should be administered through a central authority backed by coordinated action on the part of all Governmental agencies whose policies affect the money supply. But I do not want to deceive either myself or anyone else into believing that by this means alone economic stability can be had.

The record seems to make it fairly clear that price levels in recent years have not followed changes in the volume of money. The level of commodity prices is low now notwithstanding the fact that the quantity of money, no matter how defined, is larger today than it ever has been in the history of this country. The trouble is that this large volume of money is not being used as actively as money has been used in past periods of greater business activity. The reasons for that slower turnover of money are many and widespread, and they are not strictly monetary in nature. A monetary authority could do little or nothing about them.

The figures on bank deposits and currency in circulation outside of banks, which taken together constitute the readily available supply of money, tell an interesting story when we compare the present totals with those of 1920 when the farm price index stood at its high point of 211 percent of pre-war; 1926, the year whose price level is often mentioned as the ideal one; and 1929, which set a new high in many fields of business activity, including the all-time record national income.

Currency in circulation outside of banks was $5,325,000,000 in 1920, $4,808,000,000 in 1926, $4,578,000,000 in 1929, and $7,047,000,000 in June of 1939.

The round number total of bank deposits excluding inter-bank deposits was 38 billion in 1920, 50 billion in 1926, 55 billion in 1929, and 54 billion on the most recent call date this year.

The combined total of both, in round numbers, was 43 billions in 1920, 55 billions in 1926, 60 billions in 1929, and 61 billions in 1939.

These comparisons speak for themselves. There is more money in existence today than we ever had before in this country's history. Merely adding more volume to the idle reserves in the banking system would add nothing to our economic health or our stability.

Now let us turn to some recent price levels and price behavior to look at another complication in this job of economic control through money supply management.

Looking back on it, 1937 was a pretty good year. The wholesale price of all commodities reached an index of 126, and the average of farm prices 121 (United States Department of Agriculture, 1910-14 = 100). The country attained its largest national income since 1929.

The year 1938 was different. The wholesale price index dropped from 126 to 115. The farm price index dropped from 121 to 95; and grain prices, 126 to 74, a 52-point slide.

But the total of currency in circulation plus bank deposits was nearly two billion dollars larger at the end of 1938 than at the end of 1937! Here are the figures: Currency in circulation December 31, 1937, $6,550,000,000; December 31, 1938, $6,856,000,000. Bank deposits December 31, 1937, $52,440,000,000; December 31, 1938, $54,054,000,000.

I have cited the volume of currency and bank deposits. That is only one side of the picture. Money is begging for users at the lowest money market rates in the history of the world. In late July the average yield of long-term United States Government bonds was 2.14 percent; of 3- to 5-year notes, .42 percent. On 90-day bills, the cost of money to the Government for the past year has been practically zero. Moody's average of yields on Aaa corporate bonds has been near 3 percent during most of the year, and was about 2 7/8 percent near the end of July. Federal Reserve discount rates are at their lowest point in history, at 1 and 1½ percent, and yet practically no banks are borrowing from Federal Reserve banks, because they have so great a volume of unused, idle funds themselves.

It is true that the rates charged customers by lending agencies is less responsive to changes in money supply than are the investment rates in the money market, yet even here there has been a noticeable lowering of rates. The average rate on farm mortgages in 1929 was about 6 percent; in 1939, the average rate is about 5 percent.

The Federal Reserve Bulletin publishes monthly the average rates charged customers by banks in the principal United States cities. In 1929, the rate charged by New York City banks was 5.74 percent; in 1939, for the comparable month, the rate was 2.24 percent. In other northern and eastern cities the averages were 5.86 percent for 1929, 3.35 percent for 1939. In 27 southern and western cities, the averages were 5.96 percent for 1929, 4.09 percent for 1939.

Just one more comment on the bank credit situation, and then I want to turn to more general matters. What banks can lend at any time without borrowing from the Reserve Banks is absolutely limited by the amount of reserves they possess in excess of the reserve required by law. An individual bank can lend no more than the amount of reserves it has in excess of required reserves. The banks as a whole, however, can lend several times the aggregate amount of excess reserves held by the banking system.

Under the existing reserve requirements in the United States, the banking system as a whole can extend credit in a volume six to seven times as great as the aggregate volume of excess reserves, assuming a theoretically perfect distribution of customers able and willing to borrow, and bankers willing to lend. On July 28, the volume of excess reserves in the United States stood at $4,442,000,000 - a staggering and record total. On that foundation it would be possible to rear an additional credit structure of over $25,000,000,000, which would add that amount to the existing large volume of bank deposits.

Central bank monetary policy is usually carried out through steps to influence the volume of bank reserves. Reserves are increased when it is sought to provide monetary conditions favorable to credit expansion; they are reduced when a check on further expansion, or an actual curtailment of credit is desired. In view of our already astronomical excess reserves I doubt whether anyone seriously believes we should seek to increase them further.

It is worth while keeping in mind that currency, no matter how much is issued, does not stay in circulation in any amount in excess of that which the public requires for its business. The Government could start paying all its obligations by currency, - Federal Reserve notes or Treasury certificates - but the amount above that which business houses needed in their tills, or Mr. John Citizen wanted to carry in his pocket, would be pushed right back into the windows of the banks. The banks, in turn, would keep only the amount of vault cash required in their business, and ship the balance to the Federal Reserve banks. We would be right back where we started, except that the equivalent of the currency issued for gold and silver purchases would be added to excess reserves. The currency paid out of Treasury funds raised either by taxation or borrowing would not in like manner add to excess reserves, since that transaction would simply be a return of the money to the source from which it was taken - funds in non-Governmental hands available for tax-paying or investing.

## How the Gold is Handled

The discussions that have taken place in Congress during the session just closed indicate very clearly that there is widespread misunderstanding of how gold purchases and imports have been handled in the United States, and of the extent to which the gold has affected our bank deposits and bank reserves.

We have a gold stock of about $16,000,000,000. The gold itself is in Fort Knox, Kentucky. Statements are often made which imply that this gold is being put to no use, that the Government is spending money in acquiring it, which necessitates additional borrowing, and that the gold is available for reduction of the national debt.

It is not correct to say that the Government has spent borrowed money on the gold which after being acquired is buried in the ground unused. And it is not correct to say that the gold is available for reduction of the public debt.

On the contrary, the greater part of the monetary gold in the United States, all of which is in the possession of the Treasury, is represented by bank deposits and bank reserves. The gold itself has been pledged with the Federal Reserve Banks to create expendible funds, and these funds - the money equivalent of the gold itself - have been spent already by the Government. They are not available to be spent again.

The process by which the Treasury acquires and uses gold involves a number of technical steps, partly the result of custom, partly the result of law and regulation. Reduced to simple terms they are as follows:

1. The Treasury takes possession of the gold and issues a check in payment for it.
2. The check is deposited by its recipient at his bank, which gives the seller of the gold credit in his deposit account.

3. The bank deposits the check in the Federal Reserve Bank and receives credit in its reserve account.
4. The Federal Reserve Bank charges the check to the balance which the Treasury maintains with it.
5. The Treasury replenishes this balance by depositing gold certificates in the Federal Reserve Bank.

At the conclusion of these five steps the matter stands as follows: The Treasury has possession of the gold; bank deposits and bank reserves have both been increased by the amount of the gold; and the Treasury's balance, reduced by the purchase of the gold, has been restored by the deposit of certificates issued against the gold.

The purchase of the gold has cost the Treasury nothing, for after the transaction it has the same amount in its checking balance that it had before. It has not borrowed an additional cent. It has acquired the gold and it has used the gold. It has used the gold not by paying it out in the form of coin, not by depositing it in the Federal Reserve Bank, but by issuing certificates against it, and these certificates deposited with the Federal Reserve Bank and representing the monetary equivalent of the gold have given the Treasury the funds it needs to check against. By the issuance of gold certificates the monetary value of the gold is utilized fully. Neither paying it out in gold coin, nor handling it in any other way, would put the gold to one more iota of use than it is now put to.

. The principal qualification to be made to the explanation I have just given is that the Treasury does not match each purchase of gold with a deposit of certificates, dollar for dollar. But its deposits follow its acquisitions rather closely, at such intervals and in such amounts as it finds convenient.

There may still be question in somebody's mind as to how the Treasury's deposit of certificates in the Federal Reserve Bank results in a monetary use of the gold, such as would occur if the gold itself or the gold certificates went into circulation. To clear up this question let us assume that the Treasury tried to follow the latter practice, first obtaining the permission of Congress. Let us assume that you are recipients of Government payments, say for supplies furnished to the Government, or in connection with a soil conservation or adjustment program, or for anything else. At present you would receive your payment by Treasury check, but under the new arrangement you would receive currency. Either the currency would come to you by registered insured mail or you would be asked to call for it at some local Government office. What would you do with it? Most or all of you would deposit the currency in your bank as soon as you could. Or the merchant with whom you spent it would deposit it in his bank. Having put the currency in the bank where you could draw against it, you would be in the same position as you are now when you receive payment by check. As you thought it over you would probably wonder why the payment was made in currency, since it made considerable trouble for both the Government and you and brought no advantage.

Meanwhile, the bank, having received your currency and similar deposits of currency from your neighbors, would have more on hand than it required, and so it would send the excess to the Federal Reserve

Bank for credit in its reserve account. The bank would then be in the same position it is in now when it receives your Government check and sends it to the Federal Reserve Bank for credit in its reserve account.

The recipients of the Government's expenditures, as I have already indicated, are farmers, Government employees, suppliers, bondholders, and others. The funds they receive are deposited in banks all over the country. After being deposited, they are checked out by their new owners and pass on to still others. They become part of the constant stream of payments flowing to person after person through bank after bank. They become part of the constantly shifting, circulating deposits of banks standing in the name of the millions of bank depositors in the United States.

The gold, therefore, has been used. It has been pledged by the Treasury when needed for disbursement. The pledge is evidenced by the gold certificates deposited by the Treasury in the Federal Reserve Banks and held by the Federal Reserve Banks. The Federal Reserve Banks hold the certificates as the assets behind the Federal Reserve notes they issue and the reserve balances they owe their member banks. These reserve balances are maintained with the Federal Reserve Banks as required by law. They are assets which the member banks have behind the deposits they owe their customers. By a direct succession of steps, therefore, the gold is represented by the deposits and reserves of American banks. It is represented by funds expended by the Treasury and now constituting part of the deposits that may stand in your name and your neighbor's name on the books of your local banks.

Recent Monetary Developments

I am as relieved to turn over the last page of figures and technical discussion as you are to have me. You may think it strange that I have burdened you with such a long and detailed paper. But I know you are honestly interested, and I am in dead earnest in my desire to contribute something toward straight thinking in this field.

No one can say that the present situation and outlook of agriculture is a satisfactory one. Notwithstanding all that has been attempted and all that has been done, a lack of balance in purchasing power persists between the farmers and other important groups that is not only unfair to farmers but bad for the health of the nation. Falling agricultural prices and unsatisfactory farm income are a matter of grave concern to the Board of Governors of the Federal Reserve System.

The farmers under the leadership of their splendid organizations and with the aid of their Government have been making supreme efforts to adjust themselves to the terrible complications of the new world of national isolation, of dictatorships and undeclared war abroad, and to the perplexing problem of unemployment and inadequate buying power at home. Monetary policy has an important part to play.

I do not believe that this country in our time will return to the so-called automatic gold standard of currency. At times in the past, waves of extensive liquidation have swept the country, causing shrinkage of bank deposits and thus in effect reducing the volume of means of payment, or money. I do not believe the Government will ever again permit this to develop without taking prompt steps to counteract it.

It seems to me that Congress should take advantage of this period when bank deposits and reserves are large, and when the bank's chief problem is how to find investments that will yield earnings, to re-examine the country's monetary and credit and banking structure, and in so far as the Federal field now extends, work out a more rational and effective set-up than now exists.

Before further action is taken, however, we must see clearly and understand the forces with which we have to deal. I am convinced that monetary policy is inextricably interwoven with questions of taxation, investment, Government borrowing or deficit financing, policy governing foreign trade, labor and agriculture, and many other problems to which you may not think it related. The Board of the Federal Reserve System has urged Congress to undertake at this time a thorough study of monetary, credit and banking policy and mechanics. On April 8 of this year the Board concluded a statement addressed to the chairmen of the Banking and Currency Committees of the Senate and House with these words:

> "*** The Board urges that Congress through appropriate committees or a joint committee take steps to determine the objectives by which monetary and banking authorities shall be guided, the validity of different plans and views on monetary and credit matters proposed or held by agencies within or outside the Government, including the Board's own positions, and the character of Governmental machinery that would be best calculated to carry out the purposes of Congress in this important field. Such a broad approach would enable Congress to consider all the proposals in relation to each other, and to other important problems of our economic system. Piecemeal consideration of various proposals is a slow, cumbersome, and unsatisfactory process."

I am glad to report that the Senate of the United States in its closing hours adopted a resolution authorizing the Senate Banking and Currency Committee to undertake that study. I know many of you supported the Wagner resolution which provides in part that the Committee "shall consider and recommend a national monetary and banking policy by which the monetary and banking authorities of the Federal Government shall be guided and governed, and to consider and recommend the character of Governmental machinery best calculated to carry out such policy".

Now in conclusion: We have scarcely done more than scratch the surface of the subject here today. Regardless of whether we agree or disagree on many questions, a forum of this nature cannot fail to stimulate interest in matters that vitally concern every one of us. I wish more of them could be held.

There isn't a one of us who does not want to see every policy of Government directed toward a more stable, more prosperous and more satisfactory economy. I believe that the monetary power of Government should be used in every practical way to promote a constantly expanding national income and that the aim of the Government and its citizens should be to see that a fair share of this increasing income reaches its primary producers.

I hope you will not think that I am wholly negative in my view when I warn you that monetary action alone cannot accomplish these things, even though monetary powers should be fully employed to that end. I ask you to consider carefully the concluding paragraphs in the statement on objectives of monetary policy which the Board of Governors of the Federal Reserve System issued just two years ago:

> "To sum up, the Board believes that economic 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."

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