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Statement of

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On behalf of my associates of the Federal Reserve System I want to express our appreciation for these periodic opportunities to appear before committees of the Congress. The Congress has placed a great responsibility upon the Federal Reserve System--a trusteeship, as I conceive of it, over money.

The Reserve System has always benefited from thoughtful inquiry. These hearings are not merely a public forum--and that is all to the good. They provide a means of keeping the monetary machinery of the country abreast of the times. The Federal Reserve Act provides that we shall report directly to Congress and thus, through it, to the country.

The task of the Federal Reserve System, under today's conditions, is to determine the volume of credit that needs to be made available in order to keep the economy running in high gear--but without over-strain. Too much credit would intensify upward pressures on prices. Too little could needlessly starve some activities. We have to rely on human judgments in this determination. There are bound to be differences in judgment--sincere differences. We do not undertake--and I do not see how it could be otherwise, short of some form of dictatorship--to say how a given supply of credit shall be allocated.

Experience would seem to demonstrate that allocations of credit determined through the market process are to be preferred to judgments--or guesses--of public authorities, however well-intentioned. I was told recently of a tongue-in-cheek sign that hung in a Washington office some years ago. It read: "Our guess is always best." It may be that collective judgments expressed through the market process are not always best, but that process is consistent with our heritage and our institutions under which direct governmental intervention in economic affairs is confined largely to broad, general policies necessary to protect and promote the public interest.

At any given time the economy is capable of producing a volume of goods and services limited by currently available resources, human and material. The difficulty throughout this year has been the attempt to crowd too much into a given time period--demand, in brief, has been pressing strongly against the supply of labor and materials.

Creating more money won't produce more things when the economy is running at peak levels. A choice has to be made--and the public in the end has to make the choice of whether we shall have more of this and less of that. We can have, in a given period, just so many houses, automobiles, household appliances, schools, manufacturing plants, and a myriad other things, including ships, planes, submarines, and other essentials of defense. Under present conditions, something has to be given up at least for a time. Throughout this year the combined demand for funds--for credit--coming from virtually all sectors of the economy has been at an all time high. It has outrun the available supply. Contrary to some impressions, the Reserve System has not reduced the money supply; in fact the money supply has continued to increase this year though at a lesser rate than in 1955. Moreover, the turnover--the velocity--of the existing money supply has greatly increased. Although the so-called "tightness" of credit is often attributed to an insufficient supply of money, the fact is that the tightness results from the volume and intensity of demand.

The great bulk of loanable funds represents savings of the community made available to borrowers directly or through financial institutions other than commercial banks, such as mutual savings banks, insurance companies, savings and loan associations, private and public pension funds, finance companies, corporations, and individuals. It is often forgotten that when the commercial banking system expands its loans and investments, it generates new money. When, as has been the case this year, aggregate demands for credit have exceeded savings, the only way to finance them all would be by an even greater expansion of bank credit--that is, by generating still more money. And as I have emphasized, creating more money will not create more goods. It can only intensify demands for the current supply of labor and materials. That is outright inflation.

The Reserve System--and it is a nationwide system of 12 Federal Reserve Banks with 24 branches having all told some 260 directors representing varied walks of life--is united in the conviction that the best course is to do what the System can do, to restrain excesses arising from monetary causes. It has been estimated that a rise of only one point in the consumer price index (BLS) would cost the American public two and a half billion dollars a year.

The Federal Reserve System has been devoting its efforts, through varying times and circumstances, to assuring monetary and credit conditions that would help to foster high levels of business and employment, maintain the stability of the currency, and promote sustainable growth in the economy.

The System has sought to keep constantly alert to changes in economic and financial conditions, and to adapt its operations accordingly--leaning against the breezes of inflation and deflation alike, as I have put it a number of times.

Thus, when the economy had a downturn in 1953, the Reserve System acted promptly to stimulate credit expansion to help halt the decline and foster the recovery that began in 1954 and carried through into 1955. As we moved from recovery to boom in 1955 and on through 1956, and as the economy in general pressed against the limits of immediate capacity, the System took steps to keep expansion of credit within the limits of the growth in resources so as to discourage excesses that would inevitably produce higher prices and severe economic maladjustments.

Focussing more closely on the events of 1956, it was apparent there were positive inflationary dangers inherent in superimposing a massive increase in business investment on an economy already featuring high utilization of resources and upward price pressures. In this situation, to supply on easy terms all of the credit desired by prospective investors would have increased inflationary bidding for available resources, especially in the sectors of capital equipment and construction. It also would have involved a rise in the volume of outstanding credit, and in commercial bank credit and demand deposits in particular, that would compound the threat to economic stability and sustained growth.

Despite the restraint on credit growth and spending capabilities imposed by monetary policy, demands in many sectors have risen more rapidly than was consistent with price stability. The price advances that began in 1955, after several years of stability, continued during 1956, as output in a number of key areas pressed against the limits of capacity. Price increases have been particularly marked in sectors affected by investment expenditures, in machinery and construction lines and, affected in part by them, in metals and metal products. These are the areas in which the restraint imposed upon current expenditures by monetary policy was, quite possibly, the heaviest. It is in these sectors that such additional demand as would have resulted from easier credit would have been concentrated.

Despite the strength of credit demands, growth in total commercial bank credit was limited to a moderate rate, below the average of the postwar period and somewhat lower than in the corresponding period in 1955. Thus, the increase in total loans and investments of commercial banks in the 12 months ending with October was held to 2 per cent, and growth in the privately held money supply--demand deposits and currency--to about 1-1/2 per cent.

Restraint on expansion in bank credit and the money supply this year contrasts with the rapid increase that occurred from mid-1953 through 1954, even though loan demands then were generally less active. During that period, policy was directed toward assuring ready availability of credit in the economy generally, and toward creating liquidity conditions favorable to revival and expansion. In part the developments since 1954 should be interpreted as a transition from a time of ready availability of resources, reduced demands for credit, and a monetary policy of active ease to a time of intense utilization of resources, very strong credit demands, and a monetary policy directed to restraint of inflationary forces.

Just now, the year is coming to a close with demands still out-pacing savings, with personal income at a new high annual rate of over 332 billion dollars in October--21 billion dollars above the rate a year ago--and international disturbances that could add to further overstraining of our resources. It is a situation that calls for alertness, as well as prudence and restraint, on the part of Government, business, finance, labor, and agriculture.

Basically, the problem confronting us now--in contrast to that of the early 1930's--is not one of creating millions of jobs overnight to cure mass unemployment, but one of sustaining the millions of jobs we have today and fostering new job opportunities for an expanding working force tomorrow.

Meeting that problem requires that the efforts of all of us be directed to preserving the stability of the economy, and the stability of the dollar that underlies it, so that we may move steadily along the road to a higher standard of living for all.