MINUTES OF MEETING

of the

FEDERAL ADVISORY COUNCIL

October 6-8, 1940

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

October 6, 1940

The third statutory meeting of the Federal Advisory Council for 1940 was convened in Room 936 of the Mayflower Hotel, Washington, D. C., on Sunday, October 6, 1940, at 2 P. M., the President, Mr. Brown, in the Chair.

Present:

Mr. Thomas M. Steele	District No. 1
Mr. Leon Fraser	District No. 2
Mr. Howard A. Loeb	District No. 3
Mr. B. G. Huntington	District No. 4
Mr. Robert M. Hanes	District No. 5
Mr. William V. Crowley (Alternate for Mr. Ryburn G. Clay)	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. S. E. Ragland	District No. 8
Mr. John Crosby	District No. 9
Mr. John Evans	District No. 10
Mr. R. Ellison Harding	District No. 11
Mr. Paul S. Dick	District No. 12
Mr. Walter Lichtenstein	Sercetary

On motion duly made and seconded, the minutes of the Council meeting of May 19-21, 1940, copies of which had been previously sent to the members, were approved.

The Secretary stated that Mr. Clay was unavoidably absent and his place was being taken by Mr. William V. Crowley, Vice President of the Fulton National Bank of Atlanta, as alternate.

It was decided that the next meeting should be held on the dates fixed in the by-laws, namely November 17-19, 1940.

A discussion took place regarding the question of the publication of the Council's statement on "easy money" which was made at the last meeting of the Council in answer to a question propounded by the Board of Governors of the Federal Reserve System.

It was finally decided that the President of the Council should inform the Board of Governors that the Council withdraws its request to have its answer on "easy money" published in the *Federal Reserve Bulletin*, but requests publication of the statement in the next Annual Report of the Board of Governors. At the same time the Council wishes to reserve the right to make some slight verbal modifications in the statement.

As the Secretary of the Board of Governors had notified the Secretary of the Council previously to the meeting that neither the Chairman of the Board of Governors nor the Vice Chairman would be available for a Monday morning meeting, it was agreed to hold the preliminary meeting with the Board of Governors on Monday afternoon at 2 P. M., instead of Monday morning.

The President of the Council discussed the matter of the contracts which are being prepared in connection with the national war defense program.

It was agreed that the President of the Council would ask the Board of Governors whether anything was being done in connection with the questionnaire of the Senate Committee on Banking and Currency dealing with the banking system of the country.

Informal statements were made in connection with the various items appearing. on the agenda such as the Federal Deposit Insurance Corporation bill, the Wheeler-Jones bill, etc.

It was stated that the bill dealing with assignments of claims against the Federal Government had been passed by both the Senate and the House of Representatives and was awaiting the President's signature.

There was further discussion of the contracts to be issued in connection with the national war defense program and especially the problem of rates to be charged to prospective borrowers carrying out these contracts.

The various topics presented by Mr. John Evans for discussion at this meeting and embodied in his letter of September 24, 1940, addressed to the Secretary of the Council, were considered.

It was agreed that at the preliminary meeting of the Council with the Board of Governors, the President of the Council would present informally to the Board the following suggestions:

a. The desirability of selling future issues of Government securities directly to private investors, etc.

b. That the system's bond portfolio be further reduced.

c. Treasury balances in commercial banks to be withdrawn.
(This topic does not appear in the letter of Mr. Evans.)

d. An increase of reserve requirements is undesirable at this time. (Eight members of the Council were in favor of this suggestion, while four were opposed.)

The meeting adjourned at 5:50 P. M.

WALTER LICHTENSTEIN,
Secretary

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

October 7, 1940

At 11:00 A. M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Mr. Howard A. Loeb, Vice President; Messrs. Thomas M. Steele, Leon Fraser, B. G. Huntington, William V. Crowley, S. E. Ragland, John Crosby, John Evans, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The Council listened to a discussion of business conditions by Mr. Woodlief Thomas, Assistant Director of the Division of Research and Statistics of the Board of Governors.

At 11:45 A. M. Mr. Robert M. Hanes joined the meeting.

Mr. Thomas left the meeting at 12:35 P. M.

It was agreed to make some minor changes in the statement presented at the last meeting of the Council to the Board of Governors in answer to the question dealing with "easy money". On page one where the phrase "the Federal Reserve Board" is used, change to "the Board of Governors of the Federal Reserve System". On page five at the very top insert "(7) The long standing high tariff policy which has necessitated large movements of funds to this country for the payment of net obligations to it; and also . . .". On page five, third line from the bottom, delete the word "extreme".

The meeting adjourned at 1:00 P. M., and the Council had luncheon with the Chairman of the Board of Governors.

WALTER LICHTENSTEIN,
Secretary

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

October 7, 1940

At 2:10 P. M. a preliminary joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Marriner S. Eccles; Governors M. S. Szymczak, John K. McKee, Chester C. Davis, and Ernest G. Draper; also Messrs. Lawrence Clayton, Assistant to the Chairman of the Board of Governors; Elliott Thurston, Special Assistant to the Chairman of the Board of Governors; Chester Morrill, Secretary of the Board of Governors; S. R. Carpenter, Assistant Secretary of the Board of Governors; Walter Wyatt, General Counsel of the Board of Governors; and Woodlief Thomas, Assistant Director of the Division of Research and Statistics of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. Howard A. Loeb, Vice President; Messrs. Thomas M. Steele, Leon Fraser, B. G. Huntington, Robert M. Hanes, William V. Crowley, S. E. Ragland, John Crosby, John Evans, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The President of the Council thanked the Board of Governors for the assistance it had given to the end that the forms of contracts to be used in connection with the war defense program be fair to manufacturers and bankers alike. A discussion of the rates of interest in connection with these defense contracts took place and it was generally agreed that the rate would have to vary depending on the credit standing of the borrower and other considerations.

Governor Chester Davis offered to have Messrs. Eaton and Palmedo of the National Defense Council meet with the Federal Advisory Council tomorrow in order to discuss the forms of contracts adopted by the Defense Council.

The President of the Council then spoke of the desirability of asking the Board of Governors to influence the Treasury to the end that future issues of Government securities be sold directly to private investors and insurance companies so as to prevent a still further increase of bank deposits. It was intimated that the Board of Governors would be glad to have a recommendation from the Council to this effect.

The President of the Council then spoke of the desirability of having the Treasury balances in commercial banks withdrawn, and also of the desirability of having the bond portfolio of the system gradually reduced.

The President of the Council informed the Board of Governors that four members of the Council would like to see the required reserves increased to the legal maximum at this time while eight members did not believe that such action would be opportune at this time. The Chairman of the Board of Governors stated that he agreed with the majority of the Council and believed it would be better for a while to bring about the same result by letting the bond portfolio gradually run off.

In answer to an inquiry it was stated that the members of the staff of the Board of Governors were working on an answer to the Wagner questionnaire and that about half of the job had been done. No date had been set for filing an answer to the questionnaire and no pressure of any kind was being exerted to have the work finished immediately.

In respect to the Council's memorandum on "easy money", the President of the Council read the minor verbal changes that the Council desired to make and to which reference has been made previously in these minutes.

The President of the Council stated that the Council withdrew its request to have the memorandum published in the forthcoming issue of the *Federal Reserve Bulletin* but desired to have it published in the Annual Report of the Board of Governors, though if the Board of Governors for its part desired to have the statement published in the *Bulletin*, the Council did not have any objections to such procedure.

The Chairman of the Board of Governors stated that the Board felt the report was unduly harsh and it was above all desirable not to let an impression get abroad that there was a conflict between the Board and the Council.

It was suggested that the Council appoint a committee to consult with a committee of the Board on procedure to be adopted and to agree upon the form of publication.

It was suggested by Governor McKee that possibly a solution might be found by having the Board of Governors withdraw the original question which was embodied in a letter dated April 27, 1940, addressed by the Secretary of the Board to the Secretary of the Council. If this question were withdrawn by the Board it might be possible for the Council to withdraw its answer.

The Board and the Council discussed the suggestion made by Governor McKee but the general feeling seemed to be that it would be better for each body to appoint a committee to thresh out the whole problem.

The Board expressed itself as being satisfied with the dates fixed for the next meeting of the Council, namely, November 17-19, 1940.

The meeting adjourned at 4:25 P. M.

WALTER LICHTENSTEIN,
Secretary

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

October 7, 1940

At 4:30 P. M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Mr. Howard A. Loeb, Vice President; Messrs. Thomas M. Steele, Leon Fraser, B. G. Huntington, Robert M. Hanes, William V. Crowley, S. E. Ragland, John Crosby, John Evans, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The President appointed a committee consisting of Messrs. Evans, Chairman; Steele, and Loeb, to draft a recommendation that the Board of Governors should use its influence so that future issues of Government securities be sold as far as possible directly to investors, etc.

A discussion took place dealing with the problem of the publication of the statement of the Council of May 20, 1940, on the subject of "easy money".

It was voted, on motion made by Mr. Crosby and seconded by Mr. Harding, that the Chair be authorized to appoint a committee of four members to confer with a committee of the Board of Governors to report back to the Council at its next meeting. The Chair appointed a committee consisting of Messrs. Fraser, Chairman; Loeb, Hanes, and Evans.

It was agreed that any three members of the committee should have authority to act on behalf of the whole committee.

The meeting adjourned at 5:20 P. M.

WALTER LICHTENSTEIN,
Secretary

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

October 8, 1940

At 10:30 A. M. a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room in the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Marriner S. Eccles; Governors M. S. Szymczak, John K. McKee, Chester C. Davis, and Ernest G. Draper; also Messrs. Lawrence Clayton, Assistant to the Chairman of the Board of Governors; Elliott Thurston, Special Assistant to the Chairman of the Board of Governors; Chester Morrill, Secretary of the Board of Governors; S. R. Carpenter, Assistant Secretary of the Board of Governors, Walter Wyatt, General Counsel of the Board of Governors; J. P. Dreibelbis and G. B. Vest, Assistant General Counsels of the Board of Governors; L. H. Paulger, Chief of the Division of Examinations of the Board of Governors; Woodlief Thomas, Assistant Director of the Division of Research and Statistics of the Board of Governors; E. L. Smead, Chief of the Division of Bank Operations of the Board of Governors; and Carl E. Parry, Chief of the Division of Security Loans of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. Howard A. Loeb, Vice President; Messrs. Thomas M. Steele, B. G. Huntington, William V. Crowley, S. E. Ragland, John Crosby, John Evans, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

Messrs. F. M. Eaton, Roland Palmedo, and Samuel E. Neel, members of the staff of the Advisory Commission to the Council of National Defense, attended the meeting and explained the terms of the forms of contracts which the Advisory Commission to the Council of National Defense had prepared, and answered questions asked by members of the Federal Advisory Council and by members of the Board of Governors dealing with the problems confronting bankers in connection with the financing of the national defense program.

Messrs. Eaton, Palmedo, and Neel left the meeting at 11:35 A.M.

The Secretary of the Council read the recommendation on the financing of the war defense program which is attached to and made a part of these minutes. The recommendation was accepted by the Council and the Board of Governors expressed itself as being in agreement with the views of the Council.

Governor McKee asked whether the Council desired the Board to transmit this recommendation to the Treasury. The President of the Council stated that that would be agreeable to the Council. It was further stated that it would be agreeable to the Council to have the Board of Governors decide whether and when it would publish the recommendation and also whether and when it would send this recommendation to other governmental authorities.

The President of the Council stated that Messrs. Fraser, Chairman; Loeb, Hanes, and Evans, had been appointed a committee to confer with a similar committee of the Board of Governors to discuss the Council's answer of May 20, 1940, to the "easy money" question and to report back to the Council on November 17. It was agreed that the two committees should meet on November 15-16, 1940, unless the Council committee asked for a meeting at an earlier date.

Governor Davis stated that he would seek to arrange to keep the Secretary of the Council informed of developments in connection with the defense financing, and that he in turn should keep the members of the Council up to date.

The Chairman of the Board of Governors stated that it might be possible to appoint one or more persons in each Federal Reserve Bank and Branch who might act as intermediaries in advising especially the small business men with respect to these defense program contracts.

The meeting adjourned at 11:55 A.M.

WALTER LICHTENSTEIN,
Secretary

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

October 8, 1940

At 12:00 noon the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Mr. Howard A. Loeb, Vice President; Messrs. Thomas M. Steele, B. G. Huntington, William V. Crowley, S. E. Ragland, John Crosby, John Evans, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The President of the Council presented a proposal of Governor McKee suggesting that in the future the assessment to be paid by each bank to the Federal Deposit Insurance Corporation be based upon the total assets of such bank less the cash held by the bank and less the amount of the capital accounts of the bank. Furthermore, included in cash are to be the amounts deposited with correspondent banks as well as the amounts deposited with a Federal Reserve Bank.

It is Governor McKee's belief that if such a basis for the assessment were to be adopted, the banks would not be under such pressure as at present to lend money to the Government at the present prevailing low rates, and in his view this would help to cure the "easy money" problem.

The Council did not take any action.

The meeting adjourned at 12:10 P.M.

WALTER LICHTENSTEIN,
Secretary

RECOMMENDATION OF THE FEDERAL ADVISORY COUNCIL TO THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

October 8, 1940

TOPIC No. 1. Financing of war defense program.

RECOMMENDATION: The Federal Advisory Council believes the danger of inflation would be increased by a material addition to the already large holdings of Government securities in the commercial banking system. The Council, therefore, urges the Board of Governors of the Federal Reserve System to use its influence to the end that future issues of Government securities be placed, as far as possible, with individual and corporate investors, including insurance companies, trusts, and savings institutions, rather than with banks of deposit; terms and maturities of future issues should be fixed with a view of encouraging ownership by such investors and discouraging ownership by banks of deposit.

STRICTLY CONFIDENTIAL

FEDERAL ADVISORY COUNCIL

October 8, 1940

Under date of April 27, 1940, the Board of Governors of the Federal Reserve System, through its Secretary, asked the following

QUESTION

> "The Council has urged upon the Board the 'modification of the policy of extreme easy money'. The Board would like to have the opinion of the Council as to the more important causes of the 'easy money' conditions; as to what actions within the power of the Board of Governors would be desirable and effective in the public interest; and as to the probable consequences of such actions."

ANSWER

I - Causes

In the unanimous opinion of the Council, the more important causes of extreme "easy money" are:

1. The adoption by the Board of Governors of the Federal Reserve System of "easy money" as a guiding policy, and its continuous advocacy in annual reports, other publications, at Congressional hearings, in advice to the Executive, and in public addresses and press interviews. The Board should not underestimate the influence it has exercised, or the responsibility it has assumed before the public, the Congress, and other governmental agencies, by repeatedly defining "easy money" as the official monetary objective of the highest responsible monetary authority in the land. The following quotation from its 1939 report to the Congress is one of many which define that objective.

> "In recent years it has been the policy of the Government and of the Federal Reserve System to encourage the expansion of credit. This has constituted the so-called policy of monetary ease, which has been directed at keeping banks supplied with an abundant volume of reserves, so as to encourage them to expand their loans and investments. This policy has been one of the factors in the creation of the existing large volume of deposits in the hands of business enterprises and of individual and corporate investors, and has resulted in reducing interest rates to the lowest level in history.****
>
> "Nor is there any immediate reason for considering a reversal of this policy." (Report submitted January 27, 1939)

As far as the Council is aware, the Board still advocates the doctrine of "easy money" and is taking no steps to set up warning signals against the evil effects of the extreme to which it has been carried and of the dangers of its continuance, nor to evolve any long range plans to eliminate some of its causes or to counteract its consequences. The Council believes that this policy has failed after years of trial to bring about its pre-announced objectives--namely the expansion of private borrowing, the stimulation of business and the reduction of unemployment and that the dangers of the extreme to which it has been carried are now so apparent that the Board should publicly advocate its modification.

2. The expansive open market operations of the System beginning toward the end of 1929, continuing for several years, and never reversed in principle. (Note Annual Report of the Board dated June 18, 1937.)

3. The too long delayed reduction of the portfolio of Government bills thereby forcing interest rates on bills to the vanishing point. The repetition of that process in the case of the Government bonds acquired last autumn and retained (except for some relatively small sales) in the face of a market that rose steadily until a few days ago--despite the fact that so great a volume was not needed for the maintenance of the System. As hitherto stated, when repeatedly advising sales, the Council is of the opinion that it was and is unhealthy for the central monetary authority to retain as a fixed policy a large volume of Government obligations.

4. The unprecedented spending program of the Federal Government, which necessitated borrowing and inevitably induced the authorities to exercise their influence in the direction of keeping interest rates at a minimum. Deficit financing and official pressure for "easy money" go hand in hand. Furthermore, to the extent that the Government has borrowed from commercial banks, and dispersed the funds, an increase in the aggregate of deposits has resulted, intensifying the pressure upon interest rates.

5. A series of other policies of the Federal Government tending to increase the supply of funds or the volume of excess reserves, or both, such as:

(a) The increase in the dollar price of gold, thereby encouraging the production of that metal;

(b) The discontinuance of the practice of sterilizing incoming gold;

(c) The policy of purchasing silver far above its world price and issuing silver certificates therefor on the basis of the artificial valuation;

(d) The creation of scores of lending agencies which, avowedly established for emergency purposes, are apparently perpetuating themselves, and are lending taxpayers' funds at progressively lower rates, often in competition with the taxpayer himself;

(e) The Johnson Act and the "cash-and-carry" provisions of the neutrality laws upon the merits of which the Council does not express an opinion but which, in effect, are impelling most of the leading foreign powers to ship us gold or to go without indispensable supplies.

6. The series of policies of the Federal Government tending to decrease the demand for funds on the part of business enterprise. The Council has no wish to appear to enter into the field of political controversy, and therefore contents itself with stating, purely objectively, that it is its belief that the concept of more and more state interventionism, expounded by many Government officials as a universal remedy, and the growing practice of it, have exercised and are exercising a depressant effect upon new capital demand in many fields, with the result that even at the prevailing low money rates, relatively little new industrial borrowing for other than refunding purposes has taken place.

7. The long standing high tariff policy which has necessitated large movements of funds to this country for the payment of net obligations to it; and also the developments abroad that have led to the repatriation of American capital and have caused huge shipments of gold to this country by foreigners,--both operations that have vastly contributed to our excess reserves, thereby affecting the interest rate structure. The Council believes that we should continue to accept incoming gold, but notes that no steps are being taken to attempt to offset this influence upon our credit structure.

The Council has mentioned this important cause last, not because it does not recognize its dominant influence, but because it feels that this cause should not be permitted to overshadow the many other important causes, enumerated above, or to create any misconception that "easy money" has been thrust upon the responsible monetary authorities against their wills.

II - Action to Be Taken

In the opinion of the Council, there is no more important public service which the Board and its members can perform than to use their influence in every direction possible to bring an end to the period of extreme "easy money". Among the steps to that end that might be taken are:

1. Let the Board publicly announce that in the light of events, it is modifying its former policy of "easy money" and will exercise its powers, particularly those of counsel and persuasion, to reverse the trend. This does not mean credit stringency or high interest rates,

but means only a recognition of the fact that extremely "easy money" is reducing the purchasing power of millions of American citizens, and is creating hardship without compensating advantage in stimulating business or reducing unemployment.

2. Reduce the Government portfolio at the earliest opportunity and adhere consistently to the policy of purchasing Governments only to offset manifestly disorderly or panicky markets and to dispose of such purchases as soon as circumstances permit.

3. Exert the Board's influence with the Treasury, directly and through the Open Market Committee, against the choice of methods of Government financing which would tend to make money rates still lower or to increase excess reserves by the use, for example, of silver seigniorage "profits" or similar "funds" to avoid the debt limit. Indeed there should be public opposition to all such devices that can but create more excess reserves and more extreme low rates.

4. Exert its influence upon the Treasury toward the establishment of a policy in offering Government securities which would encourage their purchase as far as possible by investors--such as individuals, life insurance companies, trusts, etc.--rather than by the commercial banking system.

5. Accept the role customarily exercised by the central monetary authority of "keeper of the Government's financial conscience", and in that capacity actively and openly insist upon the elimination of the several menaces to the financial structure, many of which, among

other things, would still further increase excess reserves, such as the power to issue greenbacks, further to devalue the dollar, etc.

6. Consider plans, on a long range basis, which may at the proper time be recommended for the purpose of coping with the gold and silver problems, such as the question of reestablishing a full gold standard with the resumption of specie payment, readopting sterilization (any such sterilized gold to be released only with the approval of the Open Market Committee), reconsidering the silver program, alteration of the legal reserve requirements, and use of existing legal powers in these respects. With reference to the adoption of any of the foregoing measures the Council recognizes that the prevalence of war conditions may make the matter of timing one of extreme importance.

7. If the Board is unprepared to take any or all of the foregoing steps, we urge that it enter upon the study of the probable long range consequences of the extreme "easy money" policy, which the Council recommended to the Board in February of last year, when it expressed the belief that the probable fundamental consequences of this policy had not been fully appreciated. The Board then replied, in effect, that it considered that such a special independent study was not required. The Council cannot share this view. Last June it detailed what, in its judgment, had been some of the evil consequences of extreme "easy money", and expressed the opinion that present tendencies contained grave threats for the future. It is unnecessary to repeat this lengthy resolution here. No answer has been received by the Council, and the Council is

still unaware as to how far, if at all, the Board shares its views. Such a study is clearly within the power of the Board and the Council believes that it is highly desirable in the public interest.

It seems to the Council that the Board should make the difficult effort of projecting itself five to ten years into the future and reach conjectures, assuming a continuation of the present extreme "easy money" conditions, as to the then probable economic results. For example:

1. What will be the condition of the commercial banks?

2. What will have happened to the mutual savings banks and to the principal and interest of the millions who have entrusted their hard-earned savings to the care of such institutions?

3. What will have happened to the cost of life insurance and the return therefrom, and to the income received, or to be received, by the beneficiaries of the sixty million persons who are paying for life insurance or annuities?

4. What will be the aggregate debt burden of Federal and local governments?

5. What will be the position of the operations, and staff of our great private and semi-public hospital, educational, religious, and charitable institutions throughout the land, dependent in large measure upon income from the generous endowments that private enterprise has contributed in the past?

6. What will have happened to the purchasing power of the army of the hard-working and thrifty who have set something aside for

their old age or a rainy day?

7. What will be the effect on additional unemployment, arising out of the inability of persons whose incomes from investments are reduced, to continue their usual purchases of goods and services? Is not this whole class being subjected to a veiled form of taxation if the rates of interest are artificially forced, say one per cent, below what would otherwise be operative?

8. What are the probable advantages to offset the imperilment of our commercial banks, our savings banks, our assurance funds, our endowment funds, and the hardship to those who live on their savings, to widows and children of those deceased?

This enumeration of questions is merely illustrative of many more.

III - Consequences

The Council believes that in the long run the consequences of action in the direction of a reversal of the policy of extreme "easy money" would be beneficial to our economy and would help toward a partial restoration of confidence in the future of private enterprise, which is the condition precedent to sustained recovery and which represents the only alternative to state socialism or worse. The Council believes that the Board might take a leaf from the book of British experience since the beginning of the depression. While believing in, and practicing, a policy of "easy money", the British authorities were careful to avoid the pitfall of extreme "easy money", because they recognized that "easy money" is a destructive influence if pushed too far. Thus, for example, the authorities collaborated with the market in preventing the ninety day bill rate from falling below one half of one per cent. What relation this sounder administration of the policy of "easy money" had to the British recovery, which was much more rapid and complete than here, is a matter of opinion, but its objective of protecting the banking system, and investment generally, is manifest. The Council maintains no argument for high interest rates, as such. Indeed, in an atmosphere of confidence and given sound underlying conditions, low interest rates often have a beneficial effect upon business and the economy generally. But abnormally low interest rates, due in part to the persistent efforts of Government interventionism, create uncertainty and have a depressing effect upon the economic structure. They are certainly not a natural accompaniment of a situation where enormous Government deficits are piling up and more are frankly predicted, where taxes are steadily mounting, accumulated wealth steadily being consumed, and business confidence fundamentally lacking.

In expressing the view that the consequences of a change of trend would be of a beneficial character, the Council recognizes that existing complexities of the economic and political situation are such that confident prediction as to the consequences of any single remedial step is hardly warranted. The failure of prices to respond, except fleetingly, to the change in the gold content of the dollar, the breakdown of the "pump priming" experiment, the failure of the policy of stimulating spending by taxing undistributed earnings, the failure of the "easy money" policy as a stimulant to new private borrowing, are all illustrations of the dangers of definite prediction in a world where the normal operations of economic laws are frustrated by one artificial device after another. It cannot be expected, therefore, that damage done by a single policy will be instantly remedied by a modification of that policy alone, but the Council does believe that a change in the policy is necessary before a sound economic structure can be restored, and that in the long run the Board will have rendered great service to the country by modifying publicly, definitely, and actively its previous policy, by taking all steps within its power to correct the situation, including therein the potent ones of advice, warning, and popular education, and to oppose all measures of our Government, the natural consequences of which are to maintain extreme "easy money", or to drive rates still lower.