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"The Consumer's Stake in Sound Money"

Radio Speech

of

Marriner S. Eccles

Governor of the Federal Reserve Board

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THE CONSUMER'S STAKE IN SOUND MONEY

You have asked me to speak on the subject of "The Consumer's Stake in Sound Money". Everybody has a stake in sound money, of course, whether he be consumer or producer. But that is only another way of saying that everybody has a stake primarily in the production and distribution of goods.

Stated in the broadest possible terms, the economic well-being, or standard of living of a community, is dependent upon the amount of goods and services it has available for consumption and the proportions in which these goods and services are distributed to the various classes. These are the real and fundamental factors. Money is merely the means by which we are enabled to exchange the things we produce for the things other people produce. But the manner in which the money system functions has a profound bearing on the amount of goods that are produced and even on the distribution of those goods among different classes. Let me indicate to you very briefly how this is possible.

I must, in the first place, remind you that four-fifths of our money consists of checking accounts in banks. These checking accounts, or deposits subject to check, are money in as full a sense as notes and coins, and their spending or hoarding have as much effect on the demand for goods as the spending or hoarding of cash.

Let me remind you of another thing. The incomes of most people are derived from other people's expenditures. Our expenditures in turn furnish income to other people. If we all regularly disbursed our incomes on the products of industry, and industry in turn disbursed this

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money in the making of new goods, and this circular process continued at a steady rate, the community's money income and expenditure would remain unchanged. An increase or decrease in the community's income is but the counterpart of an increase or decrease in community expenditures. An increase in expenditures would come about from spending either existing money or money newly created through the extension of credit by the banking system. Likewise, a decrease in spending may result either from a disinclination to spend existing money, or from a decrease in the amount of money there is to spend.

All this sounds very abstract, and yet what I have been describing in a highly-simplified manner is a process that has a vital bearing on the economic well-being of every citizen. It is estimated that in 1929 our national money income was between 80 and 90 billion dollars, and that the volume of goods and services of all kinds produced in that year was approximately the same. In 1933 our national income had shrunk to between 40 and 50 billion dollars, and our production of goods and services consequently suffered a drastic decline. Our progressive impoverishment during the depression was not the result of a voluntary decision on the part of the people. We needed all the goods we could produce. Nor had our capacity to produce decreased. We had the man power, the materials, the equipment, and the technical knowledge to produce more goods at any time during the depression than we produced in 1929. What was the difficulty? The proximate answer to this question is simple. The effective money demand for goods decreased. The circular stream of money from producer to consumer, and from consumer to producer, was being steadily

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diminished. For various reasons consumers did not disburse all the income they received, and industry in turn did not disburse all the proceeds from the sale of goods. Not only did the rate of spending of money decrease, but the amount of money there was to spend likewise decreased. The decrease in the volume of money available for the purchase of goods was both a contributing cause and one of the effects of this diminished spending. The volume of deposit currency of the country decreased by 7 billion dollars, or by one-third, as a result of credit contraction in the banking system. Commodity prices fell, not because of a growing abundance of goods, but because of the inability to purchase even a greatly reduced supply of goods.

Since 1933 we have been engaged in the slow and difficult task of restoring the effective demand for goods. The burden has been carried largely by the Federal Government, which has borrowed money newly created by the banking system, or money from individuals, which otherwise would have remained idle, and has disbursed it in various ways to increase incomes. Industry, by and large, has continued to disburse less than it received, and consumers have used part of their increased incomes to reduce debt and to increase their savings rather than to purchase goods. In order for recovery to proceed industry must employ its now large but idle balances and the current savings of the community must likewise be put to work. Otherwise these funds would remain stagnant and unproductive.

By this process of recovery incomes will be increased. The effective money demand for goods will be increased. The production of

goods will increase to meet that demand, and hence our standard of living will rise. If this process proceeded in orderly fashion there should be little occasion for a substantial rise in the average price level, since with our present enormous unutilized productive capacity the production of goods could be readily increased to meet the increase in demand.

Manifestly, this process could go too far. That is, a condition might come about in which the volume of money or means of payment continued to expand beyond the point necessary to sustain a maximum of production and employment. Now at this point a sharp rise in prices would ensue. The peak of recovery would be reached and inflation would be underway.

That would be the danger point. It would be dangerous because a further increase in incomes and expenditures would not then be justified by a further increase in the production of goods, but would result in night work and overtime work and increasing inefficiency. Such conditions are not only highly unstable but they also inflict grave hardships on people with fixed incomes, since they are normally accompanied by rapidly rising prices. The war period witnessed such conditions.

How may the danger be obviated? One of the means of combatting such a danger is through an intelligent control and management of the money system in the public interest. There is no automatic mechanism which can be relied upon to keep incomes and expenditures in proper relation to our capacity to produce. In other words, our money system, if left uncontrolled, will behave in a manner calculated to intensify booms and depressions. If we are to make any progress for the attainment of greater stability in business, we must consciously and de-

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liberately prevent our money from increasing to feed a boom or from decreasing to intensify a depression. That is one of the principal aims of the banking legislation now before Congress. I believe that other action by the Government is necessary for the attainment of comparative stability.

That is, I do not want to be understood as believing that monetary policy alone is capable of solving the problem of the business cycle. Monetary policy, wisely conceived and courageously exercised, will help to mitigate the worst evils of deflation and inflation. But, as I have repeatedly sought to emphasize in discussions of the broad subject of stability, I believe that the government's tax policy must be properly integrated with monetary policy in an effort to keep the national income at a maximum, primarily by maintaining employment.

My own view is that while much can be accomplished through the proper operation of the banking system to moderate fluctuations, it is imperative for the Government also to make its contribution to stability by varying its expenditures and by the use of the taxing power in order to insure employment and to maintain a sufficiently equitable distribution of income to keep up production.

I have, I think, indicated my concept of sound money. We have sound money when our system behaves in such a way as to help rather than hinder the full and efficient use of our productive resources. We have sound money when the energy and skill of American workers, the productive capacity of our great industrial plant and equipment, and the fruitfulness of our land and natural resources are used in such a way as to make our

real income of goods and services as large as possible, not merely for a few prosperous years followed by a period of idleness and want, but for year after year of enduring stability. This, it seems to me, should be the true criterion of the soundness of money, and not the amount of gold that is stored in the vaults of the Treasury.

The ideal would be to have the money system functioning so smoothly and so efficiently that we would hardly be aware of its presence. Then we could concentrate on the fundamental problems of production and the distribution of income.

The consumer's stake in sound money would thus be best protected. The paramount interests of everyone, consumer and producer alike, would thus be best served.