

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

April 8, 1939.

STATEMENT ON MONETARY MEASURES AND OBJECTIVES

During this session of Congress, as during other recent sessions, the Board of Governors has been asked by Committees of the Senate and House to report on a large number of bills dealing with proposals for overcoming the country's economic difficulties by monetary action.

Among the proposals that are currently before Congress, many are based on the belief that our difficulty is in the lack of an adequate supply and control of money. Some would remedy this situation by the issuance of currency, either directly by the Treasury or through the Federal Reserve banks, some would retire Government bonds by issuing paper money and thus not only increase the supply of currency but also reduce or retire altogether the interest-bearing public debt. Others believe that the remedy lies in monetization of silver at a high price, and the issuance of silver certificates to add to the supply of money. Still others believe that what is needed is a stimulus to the use of money through some system of stamp scrip that would result in a penalty on money that is not promptly spent. Another group of measures aims to correct conditions by changing the ownership and management of the Federal Reserve System and by requiring 100 per cent reserves against demand deposits. Another proposed remedy would establish a new system of banks to supply intermediate and long-time capital, particularly to small business.

Still others think that the monetary system now in existence should be corrected by the elimination of silver purchases, by the establishment of a fixed price for gold and by the reintroduction of gold coins into circulation. They contend that the elimination of currency uncertainties would restore confidence and result in economic revival. There are some who believe that the flow of capital into enterprise is retarded by what they consider as an artificially low level of money rates and others who argue that the Government absorbs too large a part of the country's savings through the sale of its own securities.

These opinions and proposals cover a wide range, and seek legislative action on matters of vital importance to the welfare of the nation.

The Board at different times in response to Committee requests has stated its position on individual proposals. While it has expressed disagreement with some of the measures which in its judgment would not accomplish the purposes for which they are intended, it recognizes the importance of making every effort to achieve the underlying objective, which, broadly speaking, is the fullest practicable utilization of the country's human and material resources. It has been the Board's view that since the money supply, however measured, is larger now than at any previous time, the difficulty must lie not in the scarcity but in the inadequate use of the existing supply. The Board would welcome a reexamination

of its own conclusions and a study of the factors that obstruct the flow of money through the channels of investment, production, and distribution.

In earlier statements the Board has pointed out that there are many phases of economic life that are not susceptible of control through monetary means alone; it has taken the position that stability in production and employment is a more satisfactory objective of public policy than price stability alone, and that concerted action by many agencies within and outside the Government, which have an influence on economic activity, is essential for the achievement of recovery and an adequate national income.

Notwithstanding the inherent limitations upon the influence of monetary and credit action on economic conditions, the Board is convinced of the importance of such action at certain times, and feels strongly the necessity of having the mechanism of monetary and banking control and supervision at all times in condition to function effectively in the public interest. In its Annual Report for 1938 the Board pointed out that our present system of regulation and supervision over money and banking, notwithstanding many improvements made in recent years, is still defective in many respects. The 15,000 banks that exist today are subject to conflicting and overlapping laws and jurisdictions, which result in discriminations against certain groups of banks and in a confusion of duties and responsibilities among different Federal and State authorities.

Federal supervision of banking itself is distributed among several governmental agencies without clear delimitation of the respective powers and responsibilities of these agencies.

On the more strictly monetary side the powers over the supply of currency and bank reserves are divided between the United States Treasury and the Federal Reserve System. While it appears to have been the intent of Congress that the Federal Reserve System have responsibility for regulating the supply and cost of money, including currency and bank deposits, the powers over this supply possessed by the Treasury now outweigh those of the System.

In brief, the effectiveness of our banking and monetary mechanism is weakened by the fact that there is no clear division of responsibility, no definite determination of authority over money and credit within the Federal Government itself, and that there is conflict of jurisdiction and supervision over the banks through which, in the existing system, monetary and credit powers must operate.

In view of these circumstances, 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.

Recognition by Congress of the limits within which monetary and credit action can be effective and determination of the mechanism and policies that would contribute most to its effectiveness will clear the way for consideration of broader aspects of a constructive program for further economic recovery and stability.