control; but I am also convinced that the soundest monetary policy can be rendered void by a fiscal policy which leads by excessive expenditure to the printing press. And I am not reassured when I hear the author of the "Thomas Amendment" state that there is no danger of greenbacks and in the same breath advocate a continuation of the present program of expenditure. I do not oppose the use of government funds to relieve distress or to stimulate intelligently the natural sources of employment; but when the government sets out to spend more money than can be supported by bearable taxation, it sets out to render void whatever constructive action it may otherwise have taken. I do not share the view of those who think that we have crossed this bridge already, but I do think that we are perilously near the point where retreat will become impossible. It is up to the latent majority, who have been silent so far, to let the President know that the American people is ready to face whatever suffering there may be in a slow, orderly process of recovery, and that it does not side with the vociferous minority, a minority which is clamoring, as all such minorities have always clamored, for an easy way out of present difficulties regardless of cost in the future.

Mr. James P. Warburg is vice-chairman of the Bank of the Manhattan Company, New York City, and has been actively engaged in banking since 1918. During the early months of the present Federal Administration he was one of its financial advisers. He was also Financial Adviser of the American Delegation to the Monetary and Economic Conference held at London, May and June 1933. He is author of "Wool and Wool Manufacture" (1920); "Cotton and Cotton Manufacture" (1921); "Hides and Leather Manufacture" (1921); "Acceptance Financing" (1922); and "Three Textile Raw Materials" (1923).

DISCUSSION BY PROFESSOR IRVING FISHER

It is more than fair of the presiding officer to give me not only the first word, but the last word. I have been intensely interested in the other speakers' statements. With much that Professor James said, I agree. In regard to the last speaker, I agree with him in regard to the great abilities and the foresight of his father, whom I counted as one of my friends.

Besides Reginald McKenna, whom I cited as an exceptional banker, who did rid his mind of the money illusion and take a stand in favor of stable money—not in the superficial sense of stability relative to somebody else's money or to one commodity like gold but to general purchasing power—I might have mentioned many other exceptions. One is Governor Rooth, of the *Riksbank* of Sweden, to whom, together with the Swedish economist Gustav Cassel and his predecessor, Knut Wicksell, we owe the introduction of genuine stable money in Sweden. Professor James has admitted that this was a real achievement. To my mind it constitutes the most important laboratory experiment in money of which we know, and it seems to me it should clear your minds of the accusation that what President Roosevelt is aiming at, which is the selfsame thing, is a new experiment.

In specific answer to Mr. Warburg, this country had a very exceptional banker who understood this subject, and that was

Benjamin Strong, Governor of the Federal Reserve Bank of New York. We have some today, such as Vanderlip and George LeBlanc. In regard to Governor Strong, we owe to him, to a very large extent, the prosperity which this country enjoyed between 1921 and 1929; because he, though without the prerogatives of President Roosevelt and without the specific legislation of Governor Rooth, was really stabilizing our dollar. It was his open market operations to which we owe the stable price level in that period to which Professor James referred.

Since Mr. Warburg has seen fit to speak of certain confidential statements of which he knows, I may refer to Benjamin Strong and my contacts with him. Governor Strong would never publicly admit what he was doing, and he publicly was on record as opposing the legislation in Congress which was aimed to compel him and the Federal Reserve Board and Banks to do exactly what he was doing. In talking with him, he said, "Don't compel me to do what I am doing. Let me alone and I will try to do it. If I am required by law to do it, I don't know whether I can, and I will resign. I will not take the responsibility." I said to him, "I would trust you to do it without a legislative mandate, but you will not live forever, and when you die I fear this will die with you." He said, "No, it will not." It is true that he left a tradition behind him in his own bank, but what I feared came to be true. I did not at the time fear it so much. I took comfort from what he said, and it was on that basis that I believed that the price level which we then had and the prosperity that went with it and the high price of stocks would be continued.

DEPRESSION WAS PREVENTABLE

The quotations from me are not altogether correct. In particular, I did predict that there would be a recession, and I think I was the only man that publicly "called the turn." It is true, however, that I underestimated this fall enormously. I do humbly confess it. But it was partly because I believed that the policy that Governor Strong had initiated and the policy which Governor Rooth is now successfully carrying out would be continued. Governor Strong died in 1928. I thoroughly believe that if he had lived and his policies had been continued, we might have had the stock market crash in a milder form, but after the crash there would not have been the great industrial depression. I believe some of the crash was inevitable because of over-indebtedness, but that the depression was not inevitable. The reason is that the deflation that went with over-indebtedness was not necessary. We can always control the price level.

When Governor Strong was ill at Atlantic City he paced the floor because he found that his colleagues were not raising the rate of rediscount in order to prevent the crash that he saw coming. If his open market operations had been properly continued, I believe the crash would have been greatly reduced, the open market operations would have been reversed in time, and the industrial depression would have been prevented.

I apologize for not having foreseen clearly what was going to happen. But I believe that I was justified, in view of what Governor Strong told me, in thinking that we would continue to have a one-hundred-cent dollar, and that it was not going to be a one-hundred-and-eighty-one-cent dollar.

Incidentally, I hope you will not forget that my opinion in 1929, whether justifiable or not, was then shared by the great majority of observers, from the President and the Secretary of the Treasury down—including the chief bankers of New York City.