Needless to say, I agree with the observations you make concerning the adverse effects of restrictive monetary policy on business activity and employment. I, too, am deeply concerned, as I have been over the 15 years the Federal Reserve has been progressively reducing the Nation's supply of money and credit relative to the volume of business transactions requiring money and credit. There have been a few interruptions to the steady reduction in our effective money supply during the past 15 years, but the general trend has been unvarying. Similarly, the Federal Reserve has made numerous changes in margin requirements for purchasing and carrying stocks on the organized stock exchanges, but of course these changes in margin requirements are in no way related to the supply of money, or the supply of other liquid assets, available for carrying on the business of the Nation.

While the United States, among all the principal industrial nations, has made the largest reductions in its effective money supply in the postwar years, and has enjoyed one of the slowest rates of economic growth, those Nations which have maintained or increased their effective money supplies have made the greatest economic gains. To illustrate, Japan's GNP increased 129 percent between 1952 and 1961, and its effective money supply was increased by 13 percent. Germany's GNP increased 104 percent, and its effective money supply increased 6 percent. France's GNP increased 98 percent and its effective money supply increased 17 percent. The U.S. GNP increased by 45 percent, and its effective money supply was reduced by 24 percent.

As to the suggestion that the full committee hold hearings on the recent further tightening of credit, however, it has long seemed to me that the constructive hearings on this subject must necessarily have some relevance to the balance-of-payments problem. This is, of course, the problem which justifies the tight-money high-interest policy, at least in the minds of those responsible for the policy, and our balance-of-payments subcommittee is digging deeply into this problem. I am hopeful, furthermore, that the subcommittee will soon have some constructive suggestions, either as to possible improvements in the money system, or as to a reappraisal of the policies which are leading to a continuous net outflow of dollars.

To me, it would seem to be preferable to find some improvement in the money system which would permit the creation of money claims to wealth in a volume more nearly related to our capacity for wealth production, rather than in a volume limited by our supply of gold. Frankly, I have difficulty seeing the relevance of the "discipline" imposed by a limited supply of gold. True, some of our prices are undoubtedly noncompetitive in world markets, but the fact that we are able to export $4 worth of goods and services for each $3 imported seems to suggest that the gold "discipline" is misplaced.

Assuming that the subcommittee finds no improvements in the international money system to be feasible, however, it would then seem to me that a careful evaluation of the sources of the dollar outflow would be most constructive. Restrictions have, of course, been imposed on our military personnel stationed abroad, and reductions have been made in the duty-free goods which American tourists may bring in.

I know of no steps yet taken to discourage American banks and other financial institutions from freely making loans abroad, to discourage U.S. investors from purchasing foreign stocks and bonds, or to discourage American industrial firms from purchasing foreign competitors and building plants in highly developed nations needing no U.S. assistance. Thus, it would seem that the possibility of some disincentive on these activities—perhaps a tax to equalize differences in interest rates—should not be ruled out. A restrictive monetary policy to equalize interest rates and check the flow of funds seems to me to impose a most unequal sacrifice, namely, one falling on the more than 4 million wage earners who are squeezed out of employment by this kind of policy.

With reference to your expressions of concern over the current proposals for tax reductions, I, too, have serious doubts about these proposals. Indeed, I have serious doubts about some of the assumptions concerning the flow of funds in our economy which underlie the kind of proposals being made, and I have been wondering if one of our subcommittees—perhaps the Subcommittee on Economic Statistics—might wish to develop some proposal for an inquiry into the facts of these matters.