

The rate of nonfarm housing starts, seasonally adjusted, has steadily declined every month from October 1961.

Consumer purchasing has not expanded at the rate hoped for by Government economists.

While our international payments situation has been improving, the progress made can well be frustrated by our lagging recovery rate. Foreign central bankers are particularly sensitive to an unbalanced budget in the United States—even though they are used to looking the other way when their own budgets do not balance. If we want to keep the confidence of Europe's central bankers, we must do the best job we know how to attain the adequate growth rate which alone can bring about a balanced budget.

What is causing the trouble? What is the reason our recovery is slowing down?

The biggest single reason, Mr. Speaker, is that the Federal Reserve System is up to its old tricks.

Twice before in the last 8 years, the Federal Reserve System has applied the brakes before the economy, emerging from a recession, had a chance to get rolling again. As a result millions of man-hours were lost through unemployment; vast plant capacity went unused; and our growth rate staggered and broke, rather than turned upward.

In the 1954 recession, the Federal Reserve System, very properly, made available to the banking system net free reserves on the order of \$500 million. By 1955, with the country emerging from a recession, the Fed decided to apply the brakes. Net free reserves—the true unused lending capacity of the banking system—were lowered to around \$300 million, and later, in 1956 and 1957, the banking system was actually placed in a net borrowed position.

By 1958 we had another serious recession, and the Fed—locking the stable after the horse was stolen—then raised net free reserves again to \$500 million. But by the autumn of 1958 recovery had started. So the Federal Reserve promptly lowered its net free reserves, so that 1958 saw the banks once again in a net borrowed position.

I do not wish to seem a partisan in my criticism of the Federal Reserve System for choking off recovery from the 1958 recession. Let us take a look at what two prominent Republican economists had to say about the Fed's performance.

W. Allen Wallis, dean of the Graduate School of Business at the University of Chicago, was Vice Chairman of President Eisenhower's Cabinet Committee on Price Stability for Economic Growth. In a speech last May, Mr. Wallis said:

"The Federal Reserve Board tightened up the money supply in 1959 over-vigorously and overpromptly as a move against inflation. But the inflation wasn't there."

Arthur Burns was Chairman of the Council of Economic Advisers under the Eisenhower administration. Last April, Mr. Burns, taking a backward look at the Fed's monetary performance, accused the Federal Reserve of choking off business recovery in 1959 by tightening credit with excessive vigor.

On June 1-2, 1961, the Joint Economic Committee, of which I have the honor to be a member, was conducting its annual review of the Federal Reserve System; Mr. William McChesney Martin, Jr., Chairman of the Board of Governors of the Federal Reserve System, was before the Committee. I congratulated Mr. Martin and the Federal Reserve System for helping to combat the recession of 1960 by maintaining net free reserves, as it had done for the first half of 1961, at the level of \$500 million. And then I said:

"I would like to express the hope that the Federal Reserve from here on out will keep its free net reserves in the banking system at something like the present level of half a billion until we get the unemployment rate down, not to 6 percent, not to 5 percent, but to some lower percentage, call it 4, if you like, which will enable the economy to grow, and us to make a dent in unemployment (hearings, p. 100)."

Chairman Martin replied:

"Well, I appreciate your comments, Mr. Reuss, and I want to say that the Federal Reserve deplores the unemployment situation just as much as you do, and is just as anxious as you are to lower it.

"I cannot forecast what the future policy of the Open Market Committee will be, but I will certainly bear in mind your comments, and I am sure that all the members of the Open Market Committee will be very glad to have your observations. But I am absolutely convinced that, in the overall picture, artificially cheap money would not contribute to reducing the unemployment picture."