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to bank reserves. Moreover, if funds were used to buy scarce goods for export, the result would be to aggravate domestic goods shortages and make the problem of price control all the more difficult.[73] On the other hand, if the release of blocked foreign balances and earmarked gold for domestic expenditure were to occur during a period of demobilization unemployment and business depression, new export demands for the surplus products of overexpanded war industries might follow with beneficial effect. In these circumstances, earmarked gold released by the Federal Reserve Banks would increase member bank reserves, and ease credit conditions without unwanted inflationary effects.

The terms of the peace settlement, the policies likely to be followed by the United States in assisting in the restoration of world trade and reviving foreign investment activity, cannot accurately be foreseen. The disposition of our vast monetary gold resources and the fate of gold as an international medium of exchange likewise present problems of great importance, the solution of which will have to be sought through international agreements.

THE FEDERAL RESERVE SYSTEM IN REVIEW

During the three decades of its life the Federal Reserve System has had to adapt itself to an economy which has undergone rapid changes and wide fluctuations. Consequently, its operations have been exposed to and tempered by a diversity of economic pressures. War broke out in Europe in 1914 before the Federal Reserve Banks had been set up, and less than three years later the United States was drawn into the conflict. During the decade following the Armistice the country experienced two major speculative crises that resulted partly from methods followed in financing the war. The ten years preceding our entry into World War II witnessed an uninterrupted succession of budgetary deficits that brought about a huge expansion of federal security holdings of commercial banks.

In one respect, at least, our participation in World War II has simplified the credit control problems of the Federal Reserve authorities: it has enabled them to state their immediate objective in specific terms. As noted in the introduction to this discussion

73 Sumner H. Slichter, "Foreign Trade and Postwar Stability," *Foreign Affairs* (July 1943).

the major objective of Federal Reserve policy in wartime is to assist the government in mobilizing the country's financial resources in order to obtain the most efficient utilization of the nation's wealth in the war effort. In time of peace the objectives of policy are much harder to define, and official declarations have, generally speaking, been vague and not always consistent.

After the war Federal Reserve objectives will require adjustment to conditions then prevailing. A study prepared by the staff of the Board of Governors in 1939 contains a broad declaration of the aims of policy that should be comprehensive enough to be applicable to postwar as well as prewar conditions. "Federal Reserve policy," according to this statement, "cannot be adequately understood merely in terms of how much the Federal Reserve authorities have the power to do and how much they have not the power to do. It must be understood in the light of its objective—which is to maintain conditions favorable for an active and sound use of the country's productive facilities, full employment, and a rate of consumption reflecting widely diffused well-being."[74]

The objectives of this broad statement of policy are not capable of attainment by the Federal Reserve authorities working in isolation. They are the objectives of general governmental policy calling for a coordinated program of action participated in by all the agencies of government capable of making contributions. For reasons previously indicated, it appears that the Federal Reserve officials may be severely limited in the postwar period in the use of over-all quantitative credit control instrumentalities, and consequently may develop selective credit control measures to a much greater extent than formerly. Furthermore, as the Federal Reserve Board of Governors itself has stated,[75] direct governmental controls over prices and production may be needed after the war for some time to prevent surplus income and surplus cash held by the public from being utilized to promote inflation. Finally, the fiscal (public spending and taxation) policies followed in the postwar period will greatly influence the scope and character of credit control operations, even if fiscal policy is not employed with the deliberate intention of retarding, stimulating, or stabilizing economic activity.

74 Bray Hammond and the staff of the Board of Governors of the Federal Reserve System, *Federal Reserve System: Its Purposes and Functions* (1939) p. 115.

75 Board of Governors of the Federal Reserve System, *Annual Report, 1943*, p. 10.