

February 2, 1954

Re: Interview with Dr. Williams,
February 2, 1954.

Reading Suggestions:-

1. Bopp, Karl R.: Three Decades of Federal Reserve Policy
2. Burgess, W. R.: The Reserve Banks and the Money Market
3. Kemmerer, E. W. and Donald Kemmerer, The ABC of the Federal Reserve System.
4. Burgess, W. R.: Interpretations of Federal Reserve Policy in the Speeches and Writings of Benjamin Strong.
5. Federal Reserve Board publications:
 - a. Banking Studies;
 - b. Postwar Economic Policy series
6. Goldenweiser, E. A.: American Monetary Policy.
7. Hardy, C. O., Credit Policies of the Federal Reserve System.

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Dr. Williams suggested that we should get hold of major topics:

- (1) Development of the System
- (2) The Federal Reserve Act
- (3) Laying out Districts
- (4) First job to strengthen the System--get banks to come in.

Section I: Amendments of 1917 intended to strengthen and bring in banks.

History of financing World War I:

First problem one of money supply.

Fractional reserve principle

Mistake made--to finance on rising rates of interest: psychology bad. Did not do this in World War II, which was financed on falling rates. Structure of interest rates was frozen--but bankers began "playing the pattern"--Morgenthau.

1920-21 found it all to easy

Section II: Beginning about learning about problem of monetary control.

Boom and bust of 1921. Had to learn and re-learn. Religion on "commercial loan could do no wrong." Banks rediscounted on huge scale. All that credit got frozen. No credit ~~in~~ in any particular kind of loan.

Section III: Development of Open Market Operations

Influx of gold

Reserve banks worried about how they could pay way; began to buy Government securities. Did not know this would offset reserves. Began small committee in Boston -- Governor Strong on it.

Section IV: International, 1922-29, brought us too much of world's gold

Famous conference of 1927 -- Montagu Norman and Charles Rist (note his grandson did book recently on postwar (II) Federal Reserve policy; his son, Leonard is head of Economic Division at World Bank) and Hjalmar Schacht. Put down interest rates under those of other countries; got rid of gold but fanned speculation.

Section V: What to do about speculative boom in stocks and real estate?

Did not want to injure "legitimate business." New tools came out; margin requirements, loans to customers' money. Many people thought System too small, slow, late. Needed more tools. Stock market lilywhite since then. No speculative credit in market, highly liquid. *in comparison.*

now Today's problem: how to recapture the discount rate. Try to bring it back as a weapon. It was important in the 1920's; but skills have been lost, cannot fit it in with open market operations.

Now thinking is that when the banks need short-term help they should "use the discount window." Banks need to be taught.

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Had important chapter^s:

War -- ^{knew} how to supply money, but ^{had} no sense of control.
Boom and bust -- sense of responsibility, but no virtue in any special type of loan.

Act of 1935 -- liberation from commercial bank theory.

1922-1927 International phase

faced with international problems: Dawes Plan, etc.

In 1925, the Bank of England went back on gold. N.Y. Federal Reserve Bank arranged credits for England and for Poland. Central banking was paramount in this decade.

Now central bank is trying to get back dominant role in monetary policy.

Great Depression stripped it of strength. There were really two depressions: in 1931, abroad; ^{by} panic flows of "hot money"; Federal Reserve tried to help, but Britain was forced off gold. The Federal Reserve lost 3/4 billion of gold in five weeks.

1930's: Development of excess reserves. Federal tried to pump gold into banks but banks would not take it.

Banking Act of 1935: increased reserve requirements.

Depression of 1937-38: Sound economic conditions vs. *need to* support Government bond market.

Accord of March 1951 smoothed over Treasury-Federal Reserve differences. Brought understanding; Treasury very careful now not to tell Federal what to do.

(J.H. Williams retired officially July 1952)

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1920's Washington Board's function judicial -- one of review; not enough power. But Banking Act of 1935 cured this.

Strong ^{v.l.s.} dominant figure in System -- both at home and abroad. Went to Washington and wore them out.

First Board was good, but not later. Now back somewhere in the middle. But N.Y. is still the greatly dominant bank in System

Other District banks:
Very good as regional reporters.

Chief contribution -- regional reporting.

Only ^{natural} ~~material~~ N.Y. bank ^{should know} A- national and international problems. Foreigners
^ come in to N.Y. bank, treat it as their home base in this country.