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(12:15 p.m., December 15, 1954.)

Summary of Remarks

by

Wm. McC. Martin, Jr., Chairman,

Board of Governors of the Federal Reserve System,

at a luncheon of

The Bond Club of New York,

The Bankers Club, New York, New York,

December 15, 1954.

In discussing the role of credit and monetary policy in the economy, Chairman Martin said:

"In formulating a program to provide credit and money conditions that will be properly attuned to future economic needs, at least three things are required. The first is a painstaking search for all the relevant facts that may bear upon the economic and financial outlook. Next is all the wisdom and insight that experience and operating contacts can bring to interpretation of those facts. Third, and perhaps most important, is humility with respect to any emerging situation.

"Monetary policy must be tailored to fit the shape of a future visible only in dim outline. Occasions are rare when the meaning of developing events is so clear that those who bear the responsibility can say, 'As of today, our policy should be changed from restraint to ease.' What is true for a change in policy is also true for a shift in policy emphasis: it rarely is decided upon in a single day. More typically, the outline of a shift in policy emphasis, like the outline of the future, emerges gradually from a succession of market developments and administrative decisions. It is a poor subject for the photo-flash camera to capture as a clearly defined still life, or for a news story to etch in spectacular outline. Getting a perfect garment for the future may require several fittings.

"I feel a sympathetic fellowship with those who are impelled to anticipate future monetary policy--and I emphasize the word 'future.' Anticipating it appears to be quite as difficult as developing it, though there may be some differences in responsibility. Perhaps this account of how policy is developed, in practice, will be of some help to diagnosticians. I would be pleased, at any rate, if it were of help to general understanding.

"One of the problems that confronts the developers of policy is the difficulty of forecasting in advance the various factors that will exert an impact on bank reserves. Forecasts or projections of factors absorbing or supplying reserves must be made and considered in planning open market operations, with full recognition that there is bound to be a considerable margin of uncertainty about them. The Open Market Committee clearly recognizes that uncertainty, and consequently gives particular attention to whether it would be better in day-to-day operations to lean in the direction of restraint or of ease.

"However, changing shifts in policy emphasis do not necessarily mean that a change in policy direction is emerging, much less that a new policy has been adopted. They may be useful signals, nevertheless, in thoughtful analysis. For by the time the facts of a developing economic situation are sufficiently clear to lead to the adoption of a changed policy directive, this much usually will be apparent: the day-to-day allowances that have been made for uncertainties in the forecasts of reserve availabilities will have begun to be increasingly resolved in the direction indicated by a changed policy decision."