Summary of Talk
by
Wm. McC. Martin, Jr.
Chairman, Board of Governors of the Federal Reserve System
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A new chapter in monetary history was opened by an event whose third anniversary went by only a month ago, the so-called Treasury-Federal Reserve accord of March 1951. In its consequent withdrawal from supporting fixed prices in the Government bond market, the Federal Reserve System regained some of its influence over the volume of money. It ceased to be the residual buyer which, by its purchases of Government securities, however reluctantly those purchases were made, furnished bank reserves indiscriminately and thus abetted inflationary over-expansion of the money supply.

The operations of the Federal Reserve System over these last three years have been directed toward a consistent objective: to see that, so far as Federal Reserve actions are a controlling factor, the supply and flow of credit is neither so large as to induce destructive inflationary forces nor so small as to stifle our great and growing economy. In this short period the System has had occasion to move against both inflationary and deflationary pressures in its efforts to contribute to growth and stability in the economy, and a rising standard of living. The responsibility of the System in this undertaking is very great. By its very nature, it is a trusteeship that must be carried out in the interest of all of the people.

Credit and monetary policy is potent, but not omnipotent. It cannot, alone, keep us on an even keel of forward progress. Yet without it, the goal of stable progress would, I think, elude us entirely. But it must also be consistent with our institutions, including our concept of a market place that reflects the free and independent judgments of countless individuals. For we cannot substitute the judgment of a few--whether that few be the members of the Federal Reserve Board or others--for the composite of free and independent judgments of the community as they are expressed in the market place. We cannot do so, that is, and retain our concept of freedom.

There are some who have said that the money market is not really free because, as is true, the Federal Reserve System through its policy instruments can make credit conditions tight or easy. But even accepting that as a limitation on absolute freedom, I submit that a free or self-reliant market is one in which the allocation of available funds among various uses is effected through competition in the market. That is the kind of market we have today. It is a far cry, as I am sure everyone will agree, from a pegged market.

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