BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

February 19, 1970

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Holland

Chairman Burns thought each Board member and Reserve Bank President would appreciate having the attached copy of the statement made by Karl Bopp at his final Federal Open Market Committee meeting.

Robert C Holland, Secretary,
Federal Open Market Committee.

Attachment

CONFIDENTIAL (FR)

Remarks by Karl R. Bopp,
President, Federal Reserve Bank of Philadelphia,
at Federal Open Market Committee Meeting of February 10, 1970

Mr. Chairman, I, too, welcome you into the Federal Reserve System. I must also bid you farewell; because, unfortunately, your first meeting with this Committee is my last. Veterans here would agree--or at least I hope they would agree--that I have usually exhibited at least one virtue: brevity. (You may doubt this as you hear me today.) I have never, however, failed to say anything that I thought might influence the result of the current--or any future--meeting.

Since September 21, 1966, as we are all acutely aware, the Board of Governors has been directed by law to "take action to bring about the reduction of interest rates to the maximum extent feasible in the light of prevailing money market and general economic conditions." During the roughly three and one-half years that this directive has been in effect, selected interest rates have moved as follows:

	From (9/21/66)	To (2/6/70)
	(per cent)	
On 20-year Government bonds..........	4.76	6.45
On Aaa Corporate securities..........	5.49	7.97
On Baa Corporate securities..........	6.10	8.79
On Aaa Municipal securities..........	4.17	6.28
On F.H.A. mortgages..................	6.63	8.62
On one-year Treasury bills...........	5.94	7.30
On 90-day Treasury bills.............	5.59	7.42

As I look at these results, I am reminded of a story that Bob Roosa once told me. It concerned a General Order that Ormar Bradley issued to the Third Army after a briefing session early in March 1945. The order read substantially as follows: "Conduct an aggressive defense, maintaining contact with the enemy." Over the first 48 hours that this General Order was in effect, the Third Army advanced 48 miles. Quite a defense! About as great, I should say, as that maximum reduction that has been achieved in interest rates since September 1966.

One of many conclusions that I draw from these experiences is that it is far more important to have our Manager and Special Manager comprehend what it is we are really trying to achieve than it is to give them precise and detailed directions that preclude any judgment on their part. I would like to add, Mr. Chairman, that at a lower level of authority I suffered through the specific directives of the pegs and of bills only. Hold the Managers accountable? Of course! But let us recognize also that, as the Canadian Commission on Banking and Finance pointed out, a central bank must have a dual orientation: toward policy and toward markets. And let us also recognize that if we members of the Open Market Committee--Governors and Presidents alike--are really doing our jobs we will concentrate on policy and on seeing to it that we have Managers and are developing future Managers who will loyally execute our policies in the market. Let us not pretend to have--or be embarrassed to admit that we do not have--market sophistication. My own view is that our Managers have done a better job in executing our directives than we have done in giving them directives.

I believe that the System should allocate significant resources to developing knowledge and comprehension of the linkages among financial and real economic variables. As of today, however, our ignorance of the connections is colossal. So far this year, for example, the money supply has grown, the bank credit proxy has declined, and money market conditions have been about unchanged--except, of course, for the effects of speeches, especially by the Secretary of the Treasury. Incidentally, how should the timing, content, and effects of such a talk be programmed? Until we receive convincing answers to such questions, I would hesitate just a little bit to follow recommendations as to policy that might be provided by a computer.

As to policy during the next four weeks, inflationary psychology remains strong and I would continue the present stance of policy as reflected in Alternative A, with greater weight to money supply. I am, however, Mr. Chairman, early in the go-around this time; and am open to conviction that another course is more appropriate. Alternative B is not greatly different.