January 6, 1956

Dear Elmer:

Thanks so much for your fine letter of the 3rd, which just came in. I will treasure your advice about the Readings problem, and pass it on to the Committee.

Your former pupil, Mona Dingle, was here at the year-end economics meetings, and I had the pleasure of taking her to lunch at the Harvard Club which she'd never seen. She's a very able person, and I'm glad you called her to my attention.

Best greetings for what is left of 1956.

Cordially yours,

Mildred Adams

P.S. Mr. Sproul's speech is a particularly good one. His secretary will see that you get a copy.

Dr. Elmer Wood
School of Business Administration
University of Missouri
Columbia, Missouri

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UNIVERSITY OF MISSOURI
COLUMBIA

SCHOOL OF BUSINESS AND
PUBLIC ADMINISTRATION
DEPARTMENT OF ECONOMICS AND BUSINESS

January 3, 1956

RECEIVED

JAN 6 1956

COMMITTEE ON THE HISTORY
OF THE
FEDERAL RESERVE SYSTEM

Miss Mildred Adams
Executive Director
Committee on the History of the
Federal Reserve System
33 Liberty Street
New York 45, New York

Dear Mildred:

It was awfully nice to have your note last week. I should certainly have enjoyed being at the lunch with you and Karl and Lester, as I am sure you all had a nice and interesting time.

A book of Readings in Federal Reserve History would undoubtedly be of value for courses both in financial history and in monetary policies. Since the material that could be included would be only a small portion of the amount available, the volume would necessarily reflect in high degree the editor's views as to what is important. But I am sure that if an independent person like Lester made the selections they would contain what the great majority of people in the field would consider most relevant.

From here on my thoughts are rather provisional and more of the nature of questions. Should material from books and periodicals be included? I should be inclined to exclude such items except possibly those that are extremely hard to get hold of. There is also the question whether fairly recent official sources should be used, since they are readily available to students where courses in advanced monetary subjects are given. On the other hand, material that has never been published ought to have a certain priority. Of course, a selection dependent on whether the material is rather inaccessible would lack balance. But this difficulty could be handled by including a selective bibliography of material that is readily accessible.

The second project you mention as a possibility -- a volume of material hitherto unpublished but shedding new light -- would presumably be intended primarily for scholars specializing in monetary subjects, or at any rate people doing research for publication. I think you would do well to bring out such a volume, or set of volumes, and perhaps you should give it the priority. One of the problems here is

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to determine what size units should be used. Rather sizeable pieces would perhaps be preferable. If one is using the work for research, he would want to feel that such limited areas as he did cover were covered completely. On the other hand, if he had only relatively small excerpts, he would feel that he would have to cover everything again from the unpublished sources. For instance, if a speech or a letter were given, it ought to be given in full. But I realize it would be hard to follow any simple rule -- a diary would have to be excerpted!

You asked about the book I am working on. I made some progress during the summer -- a chapter on "The Acceleration of Expenditure" and one on "The Quantity Theory of Money". Though I reject the Quantity Theory approach, I think there is real value in analyzing it in some detail and in stating why I reject it. This next semester I am getting a sabbatical with half pay and hope to do some more chapters. The Ford Foundation has asked our Department to make one application for a faculty research fellowship in economics for next year. Whether I can get in on that I don't know. There seem to be a number of difficulties.

I am sorry to have missed the AEA Meeting. I should have liked especially to hear Mr. Sproul's talk. My guess is that he spoke out plainly.

A very Happy New Year to you.

Cordially,

Elmer

Elmer Wood

EW:mgr

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December 20, 1955

Dear Elmer:

Having just lunched in Philadelphia with Karl Bopp and Lester Chandler, I feel that you should know how much you were missed, and how brightly your ears should have burned if the old saying about ears burning when people talk about you holds true, as all old sayings should in this iconoclastic age.

Both men seemed in exceedingly good form. Karl had just spent most of the previous night serving Christmas dinner to the night staff at the Bank; he should have been sleepy, but he seemed remarkably alert and full of wit and wisdom. Les was his usual ebullient self, and the two men played well together. We all three mourned your absence.

The subject of this three-cornered discussion was a proposed volume of "Readings in Federal Reserve History," and I was asking how useful such a thing might be for their students. We talked about bringing to light important material that might now be hard to come by. We also discussed the value of a volume of material hitherto unpublished but shedding new light. If either of these ideas appeal to you as useful (or not), do let me know, as the idea is still being discussed.

Also we asked each other about your book, but no one seemed to know how it was progressing, or whether the summer's work in Estes Park had been fruitful this year. Do send me word on that so that we can know how the opus is going.

Meanwhile, the best of Christmas greetings to you and your good wife, and may the New Year be good to you both.

Cordially yours,

Mildred Adams

Dr. Elmer Wood
School of Business and
Public Administration
University of Missouri
Columbia, Missouri

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Federal Reserve Bank of St. Louis

October 20, 1955

Dear Elmer:

Thanks ever so much for sending me a copy of your paper on "Recent Monetary Policies." I am delighted to have it and exceedingly interested in what you have to say. Sitting in the middle of this Bank does not mean that I know much about what goes on except what I read in the papers or pick up from chance conversation, so that I find your critique very provocative. I shall see that it goes to Mr. Sproul who will also be interested whether or not he agrees with you.

How is the book coming on, and have you set any date when you think you may have it ready for a publisher? The Committee's interest in it keeps being mentioned by one individual or another, and I would like to be able to give them at least a word concerning its progress.

Thanks again and best greetings to your wife.

Cordially yours,

Mildred Adams

Dr. Elmer Wood
603 Rock Hill Road
Columbia, Missouri

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Federal Reserve Bank of St. Louis

June 21, 1955

Dear Elmer:

Your letter of June 14th was waiting for me when I got back from Minneapolis and Kansas City. My geography is so bad that I did not know quite what the distance between Kansas City and Columbia was, but the Bank discouraged any idea that I could hop over for a quick conversation with you.

Under those circumstances, I was doubly glad to hear by letter that all was well. Thanks for the Midwest Economic Association program. It sounds like a good meeting. I had hoped, however, that you made a President's address, and I am still so eager to know what you said that I am hereby making a formal request for a copy of said Presidential address.

Also, I am interested to see that Werner Hochwald of Washington University, who is used as consultant by the St. Louis Bank, talked about his Measurement of Money Flows. I heard a good deal about it when I was in St. Louis last year and am curious to know how it sounded to you in that speech.

Thanks for suggestions of young people. I did not see Charls Walker of the Dallas Bank chiefly, I think, because I kept emphasizing my need of talking with the older men. It was an oversight which I shall hope to remedy at a later time.

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Ross Robertson of the St. Louis Bank has a new "Economic History of the United States" which has just been published by Harcourt Brace as a text-book. I haven't seen it yet, but he was working on it when I was there last year.

As for Mona Dingle, I will certainly keep her in mind. She is a very appealing person, and I hope we may be able to include her.

You will want to know that thus far The Historian has not yet been found. We are in a stage where I think we will try to carve up the big project into monographs and get more of them started. The influence of Lester Chandler as a worker on the Strong papers has been so beneficial for this office that we are eager to get one or two more of his calibre to work quickly. I may have intimated this in my previous letter, but it seems to be more and more of a possibility, and I will use your suggestions of the young in that connection.

I hope by this time that you have set out for Estes Park. We too have had a cool June, but late June is a changeable jade in these parts, and I do not trust her. I should think you would want to drive across those plains while it was still chilly rather than braving them in tropic weather. I shall think of you installed in that charming study with a brook babbling below you and the birds calling from above. Do give my best greetings to your wife, and have a lovely summer.

Cordially yours,

Mildred Adams

Dr. Elmer Wood
603 Rock Hill Road
Columbia, Missouri

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UNIVERSITY OF MISSOURI
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SCHOOL OF BUSINESS AND
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DEPARTMENT OF ECONOMICS AND BUSINESS

June 14, 1955

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JUN 16 195_

COMMITTEE ON THE HISTORY
OF THE
FEDERAL RESERVE SYSTEM

Miss Mildred Adams
Executive Director
Committee on the History of the
Federal Reserve System
33 Liberty Street
New York 45, New York

Dear Mildred:

I am sorry that I got a little behind on my correspondence. We have been moving -- to a house which we bought on the other side of town (603 Rock Hill Road). Also we have been having exams.

Professor Ketchum, editor of the Journal of Finance told me he would publish a revision of "Recent Monetary Policies". That is now in the mail and I hope he does not change his mind. He wanted a shorter version and I felt it ought to be a little more up to date.

I am glad you talked with Mona Dingle. Her mind really clicks. Howard Ellis told me she had read about everything that was worth reading on money. If she should do a piece of work for you it would be awfully well done. You could not do better. Also she would be independent and objective in her analysis.

Did you meet Charls Walker at the Dallas Bank? We have exchanged some letters, and he seems a very nice fellow. Ross Robertson was over here from the St. Louis Bank a few weeks back and spoke to my graduate class. He seemed to me quite an able man.

You spoke of the Midwest Meeting in Omaha. It seemed to be a real nice meeting. I am enclosing a copy of the program. George Mitchell of the Chicago Bank did not speak at the luncheon -- doctor's orders. Ernest Boughman came in his place and made an excellent impression.

I am sure you will do a fine job on your Report. And I hope you can find the right man -- or woman for <u>the</u> job -- before long.

For months I have had no time to work on my book but hope to again in Colorado this summer. Same place. We are not hastening to get out there because we have been having the furnace on here. Why go out to Colorado when we can freeze right here in Columbia?

With best regards.

Sincerely,

Elmer

Elmer Wood

EW:mgr

Enc.

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May 10, 1955

Dear Elmer:

Now that the winter has gone and spring has come to the middle west as to the east, I am beginning to wonder about that Midwest Economic Conference of yours in the first place, and in the second place about your book. How did the spring meeting of the Midwest Economic Association go, and were there papers which we should know about? And perhaps even more important, what has happened to the book since last summer, or is it waiting for another summer amid the beauty of Estes Park?

I know how busy you are and how hard it is to get to sit down to unnecessary letters. At the same time, what you had to say about both the conference and the book interests me enormously, and I should not like to lose track of them.

At the same time, you may like to know that after your account of your former student, Miss Mona Dingle, I looked her up the last time I was in Washington and had a very pleasant lunch with her. She has the reputation there, as with you, of being an extremely able person and is obviously popular in the Board's staff. I still have to find and read studies which she may have made and which are directly credited to her in the Bulletin.

I wish I could tell you that there was interesting news of this project, but since the Princeton meeting we have been mostly absorbed in the daily grind and as yet without any solution

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to the problem of "who." I went to Dallas and San Francisco in April by air, which was a very nice interlude, but even that failed to lift the burden of the problem off shoulders. At present, I am in the midst of drafting an annual report to the Rockefeller Foundation, an occupation full of opportunity to tell the world how good we are. It is a dreadful temptation, and I am not at all sure that I am going to be able to withstand it, or even that it is wise to withstand it. Such, I am afraid, is the morality of the ~~unbowed~~. endowed!

All this is by way of sending you best greetings and hoping that you will keep this distant place informed of things that go on which we should know about. Please give my warm regards to your wife as well as yourself.

Cordially yours,

Mildred Adams

Dr. Elmer Wood
School of Business and
Public Administration
University of Missouri
Columbia, Missouri

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DEPARTMENT OF ECONOMICS AND BUSINESS

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APR 11 1955
COMMITTEE ON THE HISTORY
OF THE
FEDERAL RESERVE SYSTEM

April 6, 1955

Miss Mildred Adams
Executive Director
Committee on the History of the
Federal Reserve System
33 Liberty Street
New York 45, New York

Dear Mildred:

I will try to get any suggested changes for the Record of the Second Meeting of the Committee to you by April 11. I am assuming you do not want substantive changes, but merely clearer statements. Last minute problems of the Midwest Economics Meeting, which comes April 14 - 16, keep me pretty well occupied.

With best regards,

Sincerely,

Elmer

Elmer Wood

EW:mgr

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I hope this version is a little clearer. E.W.

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APR 11 1955
COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

Editorial Changes of Elmer Wood

P. 40

DR. WOOD: I am the one who wrote a good deal of this material, here. Since I believe that the crisis of 1931-33 was essentially due to a progressive decline of liquidity (whatever other objectionable features may have been present), the leading question in my mind in studying the period is "why should a country permit itself to suffer such devestating effects from monetary contraction?" The answer seems to be that some of the basic ideas then dominant were at fault. A. C. Miller, for instance, testified that the Federal Reserve should not buy securities to stop a decline in business. There was quite a little testimony given by various people to the effect that an expansion of credit, or an expansion of money, in an unsound and declining business situation would cause further unsoundness and further decline. Beginning in 1933 there was quite a revolution in ideas, and the change in ideas that were dominant seems to be related to the change in the kind of action that was taken.

P. 41

DR. WOOD: Was there not a general idea in the business and financial world at that time that you did not deal with business depression by monetary expansion -- or, as it was often expressed, by tinkering with the currency?

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P. 55

DR. WOOD: I was thinking of a conversation with James Harvey Rogers about 1936 -- I am not certain of the exact year. Rogers told me the Administration had given up attempting to expand general demand by means of monetary measures but was going to depend more on government spending.

P. 55 (lower on page)

DR. WOOD: But in this period (about 1936) there was a less active effort at monetary expansion than in the period when the Thomas Amendment was passed.

P. 60

DR. WOOD: Following some of the meetings of the two agencies where credit policy decisions were made, there was a public announcement that the decision was arrived at jointly by the Treasury and the Federal Reserve. I think there were two such occasions.

P. 63

DR. WOOD: I wonder whether anyone here could help me to establish a little closer the date when the Treasury decided -- and to what extent it decided independently -- that the two-and-a-half per cent rate would be the maximum? The first point in time I can be sure about is the summer of 1941.

P. 72

DR. WOOD: Karl made a suggestion earlier that you might just take the transcript of comments that were made today. That would give the future historian a pretty good picture of the Committee's ideas.

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March 31, 1955

Dear Dr. Wood:

Miss Adams has asked me to tell you that this office is in the process of revising the transcript of the conference at Princeton on January 29th. We have already received corrections from two participants, and we wish to add any further corrections you may suggest. Will you therefore let us know before Monday, April 11th, of any changes you wish made.

In the event you have no corrections, it would be most helpful for us to receive a note to that effect.

Very sincerely yours,

Ellen Singer
Research Assistant

Dr. Elmer Wood
School of Business and
Public Administration
University of Missouri
Columbia, Missouri

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February 23, 1955

Dear Elmer:

Your letter and your expense account came in this morning. I was delighted to note that the Congressional Committee had transported you from Columbia to Washington and return and that we were being charged only for the Washington to Princeton expenses. Somejow, guarding one's funds becomes a kind of occupational disease, and it is always a pleasure to have them more lightly taxed than one expected.

I'm glad you thought the meeting was interesting. The fact that you did not all agree at all times was one of the things which made it most valuable. We will be sending you the transcript very shortly, and I do hope you will have time to let me know how it seems to you.

I will give your message to Karl and Lester. You saw, of course, that the latter had been formally named Head of the Economics Department at Princeton. News of it with a picture appeared in Tuesday's New York Times.

Also, you may or may not have heard that Randolph Burgess is going to marry a niece of J. P. Morgan named Mrs. Helen Woods. That too was announced in Tuesday's Times, all of which, I suppose, proves that the world does move even if we haven't yet picked an historian.

My warmest greetings to your wife and yourself -

Cordially yours,

Mildred Adams

Dr. Elmer Wood
School of Business and Public
Administration
University of Missouri
Columbia, Missouri

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UNIVERSITY OF MISSOURI
COLUMBIA

SCHOOL OF BUSINESS AND
PUBLIC ADMINISTRATION
DEPARTMENT OF ECONOMICS

February 20, 1955

RECEIVED

FEB 23 1955

COMMITTEE ON THE HISTORY
OF THE
FEDERAL RESERVE SYSTEM

Mr. Donald B. Woodward
Committee on the History of the
Federal Reserve System
33 Liberty Street
New York

Dear Mr. Woodward:

Thank you very much for your recent letter and for the honorarium. Though I should have been glad to do what I could without a money reward, I appreciate the Committee's thoughtfulness.

It was nice to meet the members of the Committee, a majority of whom I had not met before, but whose writings or testimony I had read.

With my best regards,

Very sincerely,

Elmer Wood

Elmer Wood

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UNIVERSITY OF MISSOURI
COLUMBIA

SCHOOL OF BUSINESS AND
PUBLIC ADMINISTRATION
DEPARTMENT OF ECONOMICS

February 20, 1955

RECEIVED

FEB 23 1955

COMMITTEE ON THE HISTORY
OF THE
FEDERAL RESERVE SYSTEM

Miss Mildred Adams
Reasearch Director
Committe on the History of the
Federal Reserve System
33 Liberty Street
New York

Dear Mildred:

I hope the delay in sending my expense account has not been an inconvenience. Some of the details were not immediately available.

It seems to me we had an interesting meeting even though we did not all agree at times.

I had an awfully nice letter from Donald Woodard. It was very thoughtful of the Committee to send me the honorarium.

Tell Karl and Lester I have been intending to write to both of them about a question asked by Congressman Patman.

With very best regards,

Sincerely,

Elmer

Elmer Wood

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February 11, 1955

Dear Dr. Wood:

The members of this Committee have asked me to thank you in their names for the care, the active thought, and the fine scholarship which you and your colleagues put into the memoranda you prepared for them and the discussions held with them. They recognize that the success of the two Princeton conferences held in November and January was solidly based on the work which you three did in advance and the contributions which you made in the course of the discussion.

As a small token of their appreciation, they hope you will accept the enclosed honorarium. This is by no means to be considered as an attempt at compensation, but rather as an earnest of their gratitude and their esteem.

May I add my personal regret that circumstances beyond my control prevented my sharing so interesting and rewarding a session as that of January 29th must have been.

With warm personal regards I am,

Very sincerely yours,

Donald Woodward

Dr. Elmer Wood
School of Business and
Public Administration
University of Missouri
Columbia, Missouri

Enc. Check for $200.00. Letter and check sent to DBW for signing and mailing.

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January 3, 1955

Dear Elmer:

It is fine news that we may expect you in Princeton at the end of January. The last time I talked with Karl, he thought that the three of you might meet at the Inn on the evening of the 28th in preparation for the Saturday meeting with the full Committee, but he may have changed his idea in the meantime. If he sends us any other word, I will let you know.

Thanks for the names of James Rhodes and Cortland Peret. Both are new and sound interesting. As for Mona Dingle, I am hoping to see her next time I go to Washington.

Cordially yours,

Mildred Adams

Dr. Elmer Wood
205 Edgewood Avenue
Columbia, Missouri

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UNIVERSITY OF MISSOURI
COLUMBIA

SCHOOL OF BUSINESS AND
PUBLIC ADMINISTRATION
DEPARTMENT OF ECONOMICS AND BUSINESS

December 28, 1954

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DEC 31 1954

COMMITTEE ON THE HISTORY
OF THE
FEDERAL RESERVE SYSTEM

Miss Mildred Adams
Research Director
Committee on the History of the
Federal Reserve System
33 Liberty Street
New York 45, New York

Dear Mildred

I just received your note of December 22 -- the mail has been moving a little slowly lately.

I think I can arrange to be there at the appointed time. Perhaps I can make my peace with the University Committee on Schedule for holding part of my examinations early. I will check with Karl as to the exact time he would prefer to have me arrive.

I have been making a little check as to possibilities for writers. Though I have not come up with anybody for the Comprehensive History, I have two or three suggestions for some of the work. No doubt you have long ago checked with Arthur Cole on any recommendations he might have; also with Howard Ellis. Would you think Roland Robinson's former connection would disqualify him for writing a monograph? He has been at Northwestern for some time now.

One of our former students, James Rhodes, who went to Harvard and is doing his thesis there in Agricultural Economics might do a good job on the Federal Reserve and Agriculture. He was a major in History who went over to Economics. He is back here writing his thesis under a government grant and is regarded as a very able man.

Another of our former students, Cortland Peret, who one time taught sections of Money and Banking here, is a teaching fellow at Harvard. He is now doing work on the national income accounts for his thesis. He did a very good M. A. thesis for me on the Investment Outlook in the Agricultural Implement Industry. He would do a very careful job.

When it comes to sheer genius in handling great masses of material without getting lost in it, Mona Dingle (of the Board) would be hard to equal. Her talents ought to be used in some capacity if possible.

Professor Williams could probably give you some estimate of the two Harvard men mentioned above. I will be looking some more.

Very sincerely

Elmer

Elmer Wood

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December 29, 1954

Dear Dr. Wood:

By this time you will have received my letter of December 22nd which explains arrangements for the Committee meeting on January 29th. I do hope that this is not too inconvenient for you.

I am looking forward to seeing you again at Princeton.

Sincerely yours,

Mildred Adams

Dr. Elmer Wood
School of Business and Public Administration
University of Missouri
Columbia, Missouri

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DEPARTMENT OF ECONOMICS AND BUSINESS

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DEC 28 1954

COMMITTEE ON THE HISTORY
OF THE
FEDERAL RESERVE SYSTEM

December 26, 1954

Miss Mildred Adams
Research Director
Committee on the History of the Federal Reserve System
33 Liberty Street
New York 45, New York

Dear Mildred:

In answering your letter I wanted to wait until things were in less of a rush. Karl has my suggestions for revising the Outline or Aide Memoire for the Comprehensive History. It may be that some of my suggestions are too detailed, since the real purpose of the Outline is simply to specify the kind of study that ought to be made.

As to the other items you suggest, I am sure we shall be glad to do whatever might help you in your investigations. It will be interesting to see what the various members consider a "key event". As I interpret the meaning intended, it would include both outside events, such as an important bank failure or the suspension of gold payments by the Bank of England, and important developments within the System. In a sense, any major change of policy is a key event unless the change fits into a general pattern already agreed upon. The decision to have cheap money in 1924 would seem to be a key decision. The one in 1927 I should feel less certain about, as it seems to fit into the regular pattern. The decision of the Federal Reserve Bank of New York in 1929 to tighten credit "until the situation was corrected" (until the stock market broke) was not part of a general pattern, but a key decision, since it involved an important change of criteria of action. But one should not expect too much from a list of "key incidents". What one is faced with is a continuous development of pressures and of ideas. The decision, or whole set of decisions, to take issue with the Treasury in 1950 was a key incident, but it was a result of ideas that had been building up for some time.

I expect you got my telegram regarding the time of the next meeting. I hope the matter will not give you too much trouble.

A very happy New Year to you.

Very sincerely,

Elmer

Elmer Wood

cc Karl

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December 22, 1954

Dear Dr. Wood:

I am sorry that we have set that postponed Princeton meeting in the middle of examination week. Unfortunately for you, we have heard from all but one other participant that they can arrange affairs so as to come to Princeton for the 29th. Under these circumstances, I am sure you will understand that we hesitate to make a second change.

In talking with Karl Bopp, I find he seems to think that if the three of you could get together on Friday evening, the 28th, this would give you all the extra time you need in preparation for the meeting of the 29th. Perhaps this, which releases you from any need to come on Thursday, may make things easier for you. Certainly I hope so, and I do hope you will be able to arrange so as to arrive for a Friday night meeting at Princeton or Philadelphia, whichever is the more convenient for the three of you.

Cordially yours,

Mildred Adams

Dr. Elmer Wood
School of Business and
Public Administration
University of Missouri
Columbia, Missouri

c.c. - Dr. Bopp

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W. P. MARSHALL, PRESIDENT

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MISS MILDRED ADAMS=

COMMITTEE ON HISTORY OF FEDERAL RESERVE BANK OF NY

NYK=

THE DATE SUGGESTED IS DURING OUR EXAMINATION WEEK STOP WOULD PREFER TWO WEEKS LATER THAN THAT BUT IF LATTER NOT PRACTIABLE WILL TRY TO ARRANGE FOR JANUARY TWENTY NINTH=

ELMER WOOD=..

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

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FEDERAL RESERVE BANK OF NEW YORK

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COPY OF TELEGRAM

SEND TO FILES

Miss Adams

Committee on History of Fed. Res. System

Dec. 14, 1954

SENT BY

To: Dr. Lester Chandler
Department of Economics
Princeton University
Princeton, New Jersey

2

Dr. Elmer Wood
School of Business and Public Administration
University of Missouri
Columbia, Missouri

Regret we must postpone Princeton meeting. Now trying to arrange it for weekend of January 29th. Letter follows.

Mildred Adams

FEDERAL RESERVE BANK OF NEW YORK
DEC 14 AM 9 43
WIRE TRANSFER DIVISION

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December 14, 1954

Dear Dr. Wood:

This is to verify in greater detail the telegram I sent you this morning saying that the meeting scheduled for Princeton on January 8th had been postponed. What happened was that both Mr. Sproul and Mr. Woodward were incapacitated and unable to attend the Executive meeting scheduled for December 14th. That meant postponement of the Executive Committee meeting until after Christmas, which crowded the January 8th meeting too close for anyone's comfort.

It is now being suggested that the second meeting of the Committee with its consultants be set for Saturday, January 29th, which would mean that you would want to plan to be here a day or so ahead to confer with Karl Bopp and Lester Chandler. Would you let me know at your earliest convenience whether January 29th is possible for you? We do hope so.

The best of the season's greetings to you and your wife. I hope the weather will be kind.

Cordially yours,

Mildred Adams

Dr. Elmer Wood
School of Business and
Public Administration
University of Missouri
Columbia, Missouri

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December 9, 1954

Dear Dr. Wood:

I have been re-reading the verbatim record of Sunday's conference, and the memo of Monday's discussion, in an attempt to see where they seemed to be headed in terms of the thing to do next. In the process, I have been again impressed with the value of the work which you three experts did, not only in building the chronological framework which the Committee has been looking for, but also in helping to persuade the Committee members to so much active and interested discussion. It is of the greatest help in many ways.

We will know more about the next step after the Executive Committee meets on December 14th. Meanwhile, may I make two suggestions -

In view of the importance which "key incidents" have in the minds of the Committee, what would you think of using the chronological pattern in the memorandum of Monday, November 22nd, as a framework into which to throw incidents, any incidents which occur to the minds of any of you as pertinent? Such a list, framed in appropriate periods, could provide a sketchy and provocative basis for Committee discussion (and addition) on January 8th.

Second, may I suggest that the three of you consider, as a basis for your proposed meeting on January 6th, the value of presenting the Committee at the joint meeting on January 8th with three documents:

1. A re-cast "grand design" of history and monographs to replace the one which they tore apart on November 21st;

2. The chronological memo embodying period divisions and topics which Les dictated on the 22nd, with any changes you may want made;

3. A suggestive sketch of key incidents in their chronological framework;

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4. (though this is tentative) A trial questionnaire for interviews on a trial period, as Stewart suggested at Princeton.

This quartet ought to set going discussions that would keep them active and interested far past 3:40 p.m. They would also be of inestimable aid to the research functions of this office.

I'll be eager to know what you think of these suggestions.

Cordially yours,

Mildred Adams

(Dictated by Miss Adams but signed in her absence)

Dr. Elmer Wood
School of Business and
Public Administration
University of Missouri
Columbia, Missouri

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December 1, 1954

Dear Dr. Wood:

I am hastening to forward to you a copy of the stenotype record of the Princeton meeting which came in this morning. There has not been time to do more than leaf through it, but even with such slight scanning it appears both interesting and provocative.

We shall be looking forward to the fruit of your consideration of this and the rough draft which you will have had from Karl Bopp.

Hastily yours,

Mildred Adams

Dr. Elmer Wood
School of Business and Public Administration
University of Missouri
Columbia, Missouri

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UNIVERSITY OF MISSOURI
COLUMBIA

SCHOOL OF BUSINESS AND
PUBLIC ADMINISTRATION
DEPARTMENT OF ECONOMICS AND BUSINESS

November 27, 1954

Miss Mildred Adams
Research Director
Committee on the History of the Federal
Reserve System
33 Liberty Street
New York 45, New York

Dear Mildred:

I feel I should write you a bread and butter letter with capital "B"s. You certainly took care of us royally and it was a most pleasant meeting. I thought our little group worked together amazingly well.

The TWA plane reached St. Louis about midnight and our little Ozark plane got to Columbia about 10:30 the next morning. Lots of letters were waiting for me, not to speak of classes. I wish I had a secretary like Karl's. My list of expenses is inclosed. Tomorrow I will send back the folder you loaned me.

Don Woodward sent me an exceedingly nice note, which I appreciated very much indeed. If I could only show it to our University President!

With very best regards,

Sincerely,

Elmer

Elmer Wood

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DEC 1 1954
COMMITTEE ON THE HISTORY
OF THE
FEDERAL RESERVE SYSTEM

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Expenses of Elmer Wood - Columbia, Mo. to Princeton

Plane tickets, Columbia to Philadelphia and return	$123.53
"Limousine" in St. Louis - evening of Nov. 22 and morning of Nov. 23	3.20
Hotel, night of Nov. 22	6.12
Food and incidentals	3.00
Total	135.85

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DEC 1 1954
COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

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November 24, 1954

Dear Dr. Wood:

I know that I am speaking for the entire Committee when I tell you how very grateful we all are for the skill, knowledge and judgement which you poured so generously into the recent three-day meeting at Princeton. Those of us who enjoyed the benefit of your wisdom on Sunday can only guess at what we missed by not being able to sit in on your expert sessions Saturday and Monday.

In addition to acknowledging the value of the fresh viewpoints which you brought to Committee members, Miss Adams tells me that we also owe you gratitude for the clearer definition and sharper focus which you brought to the research functions in which she is engaged. She would like me to add her thanks to ours.

We will be looking forward with great interest to the second session in January.

Sincerely yours,

Donald Woodward

Dr. Elmer Wood
Professor of Economics
School of Business and Public Administration
University of Missouri
Columbia, Missouri

This letter alsossent to Dr. Karl Bopp
Federal Reserve Bank
Philadelphia

Dr. Lester Chandler
Princeton University
Princeton, N. J.

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October 29, 1954

Dear Dr. Wood:

Just a small note to tell you how delighted I am that you have consented to collaborate with Karl Bopp and Lester Chandler in this special attack-by-conference on the problems with which this Committee is grappling. Quite aside from the pleasure which has been expressed by Committee members, and which I share, I feel as though a load was being lifted off my own shoulders by the fact that you three are willing to have a go at this.

It will be good to see you in Princeton on the 21st of November. I wish we could furnish a fourteen thousand foot peak as background, but at least the town has towers.

My warm regards to your wife.

Cordially yours,

Mildred Adams

Dr. Elmer Wood
Professor of Economics
School of Business and Public Administration
University of Missouri
Columbia, Missouri

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Dup.
Wood, Elmer

Committee on the History of the Federal Reserve System

September 9, 1954

Dear Mr. Stewart:

When we were talking last week about Dr. Elmer Wood of Missouri I promised to send you paragraphs from a recent letter in which he made certain suggestions concerning the history. I am enclosing a page copied from that letter which, as I told you, made me feel that the more we can keep him thinking for us the better off we would be.

I have not been able to see Donald Woodward this week and give him your message but when he emerges from a series of all day conferences I will do so. What either of us can produce in the way of a memorandum of what we mean by talking of a "definite history" is something I will try to get at immediately.

I hope you had no difficulty at Trenton. I realized after you left that I had not even thanked you for a most charming dinner, and hope you took my absorption in our conversation as its own form of thanks.

Most sincerely yours,

Mildred Adams
Research Director

Enclosure

Mr. Walter Stewart
Council of Economic Advice
White House
Washington, D.C.

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COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM
33 Liberty Street, New York 45, New York
Telephone: REctor 2-5700, Extension 286

August 31, 1954

Dear Dr. Wood:

Your suggestions of August 18th have been most gratefully received, and I shall hope to put them to work. If only it were possible to conduct this operation in such a fashion that portions of it could be assigned to eminent scholars, including yourself, the task would be far easier. Unfortunately for us, the eminent and skilled are also the busy ones who do not encourage assignments. All one can hope is that they will be caught by an idea and be moved to think about. The more of this we can encourage, the happier we will be, and the nearer to getting a top level job going.

On the weather front, I note that the mercury out your way dropped close to freezing, which ought to mean that the aspens will begin to turn before you leave. They have always seemed to me to form one of the most attractive gold displays in the country. Here we have just been swept by the skirts of a hurricane named Carol, to the detriment of soft maple trees and electric power lines in Connecticut.

Thanks again, and do continue to think of us even when back in the academic hurry of Missouri.

My warm greetings to your wife.

Cordially yours,

Mildred Adams
Research Director

Dr. Elmer Wood
Box 1041
Estes Park, Colorado

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Federal Reserve Bank of St. Louis

Box 1041
Estes Park, Colorado
August 18, 1954

Dear Miss Adams:

It was nice to get your note and the extra copy of my paper you sent me came in very handy. Roy Harrod's book on The Dollar came in the last mail, and I want to tell you how very much I appreciate your sending it to me. I am enjoying reading it and seeing our System through English eyes.

I have thought a good deal about your project on the History of the Federal Reserve. It seems to me that the mass of material is so great that it would be well to break up the work into several studies before any attempt is made to have a definitive history -- and perhaps histories are never really definitive. In addition to the biographical studies, there might be the following types of books:

The Founding of the Federal Reserve (which might or might not be combined with the Operations during the First World War)

The Development of Federal Reserve Policy during the Nineteen Twenties (into the classic form in which B. Strong left it)

International Monetary Cooperation of the Nineteen Twenties

The Crisis of 1929 to 1933 and the Recovery

The Federal Reserve System and the Treasury, with Special Reference to the Period since 1933

Then there might also be a History of Federal Reserve Procedures and Policies for the period as a whole, which, though not attempting to cover all the source material, would get some of the cream, but in the main would be analytical. Of course

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Karl ought to do this; but if not, he ought to keep in very close touch with it.

I hope New York, or at least Connecticut, is pleasant. Last night we nearly froze here -- it got down to 36! The letter I wrote to Karl at Candlewood Lake was returned.

My wife sends her very best regards.

With best wishes,

Sincerely yours,

Elmer Wood

Elmer Wood

I hate the thought of going back to work about September 9th.

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EXCERPT FROM LETTER TO MISS ADAMS FROM ELMER WOOD, AUGUST 18, 1954

"I have thought a good deal about your project on the History of the Federal Reserve. It seems to me that the mass of material is so great that it would be well to break up the work into several studies before any attempt is made to have a definitive history -- and perhaps histories are never really definitive. In addition to the biographical studies, there might be the following types of books:

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The Federal Reserve System and the Treasury, with Special Reference to the Period since 1933

Then there might also be a History of Federal Reserve Procedures and Policies for the period as a whole, which, though not attempting to cover all the source material, would get some of the cream, but in the main would be analytical. Of course Karl ought to do this; but if not, he ought to keep in very close touch with it.

I hope New York, or at least Connecticut, is pleasant. Last night we nearly froze here -- it got down to 36! The letter I wrote to Karl at Candlewood Lake was returned."

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AIR MAIL

August 3, 1954

Dear Mr. Wood:

It is just a week since you were kind enough to let me invade your summer peace, and already the clear dry beauty of Estes Park has become a lovely dream. We don't have aspens quivering and brooks chuckling in Liberty street, now is the supply of chipmunks really adequate.

I am returning with this note the copy of your paper for the Midwest Economic Association which you so kindly loaned me. Knowing how eager others were to read it, I have taken advantage of your permission to show it to interested friends and have had copies made for several people including Dr. Karl Bopp and Mr. Allan Sproul. (An extra carbon is enclosed for your own files.)

Also I am taking the liberty of sending you under another cover a copy of the Harrod book on The Dollar of which we talked. I hope you will accept it as a very small memento of a very stimulating pair of days.

Please give my warm regards to your wife and your sister. And do let me know how the book progresses, and what ideas you evolve which might be valuable for us.

Gratefully yours,

Mildred Adams
Research Director

Enc.

Dr. Elmer Wood
General Delivery
Estes Park, Colorado

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August 3, 1954

Dear Dr. Bopp:

In terms of interest and stimulus my visit to Dr. Wood at Estes Park was all that could be asked. He has his typewriter set up in a small cabin which looks out on silver aspens, chipmunks and a talkative brook - a setting so charming that only a well disciplined intellectual could be moved to work there. He finds it ideal - the climate is dryer than that in Vermont, and the interruptions fewer.

He does not, however, want to be considered a possible candidate for writing the history of the Federal Reserve System. The book on which he is presently engaged will take at least a solid year of work, and even though he applied for a sabbatical year to begin in the summer of 1955, this would mean 1956 at the very earliest before he could finish it. The amount of new material which the Committee has been turning up seemed to weigh him down rather than to cheer him. He gave me the impression that he thought himself past the age when he would consider undertaking so voluminous a task.

The interview resulted in two suggestions - one from me (which he turned aside) that the book now under way might conceivably belong in the galaxy of books which the Committee hopes to further and that therefore he might want to think about applying for a grant; the other from him, that you yourself were the ideal person to do the definitive history. This second suggestion will come as no shock to you, but it leaves us having come back to a door which we tried to enter earlier in the spring.

I had read with interest a summary of the paper which Dr. Wood presented to the spring meeting of the Midwest Economic Association, and I told him I had been seeking a full copy. He was kind enough to let me bring his own manuscript back, and to say that I might have it copied and show it to interested friends. I am therefore enclosing a carbon, (though you may already have one) and I shall see that it goes to Mr. Sproul, Mr. Roelse and Dr. John Williams, all of whom were interested in the summary.

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Dr. Wood wanted me to give you his warmest greetings. He says you are to spend your own vacation on Candlewood Lake, and he was eager to know more about that section of New England. I only hope that Connecticut will prove as good a vacation spot for you as Colorado seems for him.

I am ever so grateful to you for providing an introduction which opened so pleasant a door. Even though we have not yet found our history writer we have, I hope, made a valuable new friend for the Committee's work. Further suggestions will be most welcome.

Very sincerely yours,

Mildred Adams
Research Director

Enc.

Dr. Karl Bopp
Vice President
Federal Reserve Bank of Philadelphia
Philadelphia 1, Pennsylvania

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Paper presented at the spring 1954 meeting of the Midwest Economic Association.

Copied 7/30/54 from original manuscript by permission of Elmer Wood. Copies sent to Messrs Sproul, Roelse, John Williams, and Karl Bopp.

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Revised copy

Recent Monetary Policies

Elmer Wood

This paper will consider the recent ideas of the Federal Reserve and Treasury officials as well as the monetary policies. A large part of the discussion will center about the current idea of the Free Money Market.

Fashions in economic thinking are rather fickle. There was a time back in the nineteen-twenties when a great deal was expected of central banks in the way of maintaining price stability and economic stability generally. The leading central banks of the world were expected to cooperate under the gold standard to accomplish this aim. But during the nineteen-thirties the belief that general monetary controls were important went out of style. For many economists, perhaps the great majority, the main lesson of the Great Depression was that fluctuations in economic activity were almost entirely of nonmonetary origin, and therefore changes in internal monetary conditions were unimportant in stimulating spending or checking inflation. Fiscal policy measures came to be regarded as far more important for regulating demand. Some economists argued that monetary policy, properly considered, was fiscal policy. (There is no intention here to suggest that fiscal policy is not of great importance in influencing demand.)

The rate of interest, considered as a monetary control device, still had a formal place in the economic analysis of the late thirties, but it was being played down more and more, even as a

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practicable means of checking inflation. By the nineteen-forties it was believed that interest rates might as well be frozen. But since the abiding problem was that of counteracting the deficiency of investment opportunities, rates might as well be frozen at a low level, so that such little influence as they could exert would be in the right direction. "Booms die a natural death" anyhow, and if the economy is troubled temporarily by the dangers of inflation, these can be dealt with more effectively, and with less danger to future prosperity, by direct controls and by fiscal policy measures.

It was in such an intellectual atmosphere that Federal Reserve policy in the forties was reduced to a routine of maintaining government security yields at practically fixed levels.[1] During

1. Long rates, however, were permitted to fall in 1945 and 1946. Such a result was not originally intended and came about in this way: Because the public believed that the price supports on government securities would be maintained for at least a considerable period, the liquidity advantage of the shorter term issues over the longer term issues was reduced. And since the rate pattern being maintained by the authorities gave a higher yield for the longer term issues, there was a shift in portfolio preferences toward the longer end of the market. This shift was accentuated by the fact that a gain in addition to the yield to maturity could normally be expected from buying a longer term issue and selling it after it had partially run off (when it would be capitalized on a lower yield basis). But the authorities, disregarding the change in portfolio preferences and the fact that their support policy removed the logic in the rate differentials which had prevailed at the beginning of the War, continued their offer to monetize short-term securities in accordance with the rate pattern previously agreed upon. Thus the long rate declined <u>both</u> because of a change in portfolio preferences and because of a greater monetary expansion potential. (A greater expansion potential was required in order to maintain the low short rate as the market's preference for short debts was reduced.)

Though originally the Treasury had been concerned mainly to hold down the long-term rate to 21/2 per cent, it nevertheless refused (until 1947) to allow a modification of the short rate as the long-term rate dropped down toward 2 per cent. (Footnote con.)

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the last two or three years there has been a sort of myth, resulting from discussions in the newspapers and in Congress, that the Treasury with Administration backing imposed this policy on a reluctant Federal Reserve System; but at the time the Federal Reserve did not object to the policy except as to minor details. Both the Treasury and the Federal Reserve reasoned that higher rates would have practically no effect on investment during the War, since most real investment would be for War purposes. And other methods, they believed, would have far more effect on the willingness to save from a given income than an increase of interest rates. They gave no real consideration to the fact that a low yield on debts would raise the relative attractiveness of real assets, new and old, and exert a continuous gravitational pull in the direction of inflation.

For some time after the War the Federal Reserve officials did not advocate any important change in monetary policy, though they did ask the Treasury to agree on some minor changes. Like a great many others, they blamed inflation to a large extent on continued heavy government spending and on upward price pressures of a nonmonetary character. They considered that a realistic attack

(Continuation of footnote)

One should add this qualification about the significance of the Treasury bill rate: By 1944 the Federal Reserve was holding a large portion of the bills outstanding, and therefore the 3/8 per cent rate did not represent quite as plentiful money as would have been the case if it had been necessary to induce the market to hold a large volume of bills. The Treasury bill rate ceased to be an accurate criterion of the cheapness of money in the short-term market. A better criterion was the rate on certificates of indebtedness.

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on the problem of inflation would deal with industrial pricing, wage settlements, and farm price supports. (Nor can one deny that this was sound advice as far as it went.) Small advances of interest rates, they argued, would have little effect in checking inflation, and very large increases would endanger prosperity. In view of the necessity of maintaining a high level of production, both for our own needs and to take care of commitments to other friendly countries, they opposed the use of general monetary controls as a practicable means of dealing with inflation.[1]

1. Mr. Eccles in 1947 told the House Banking and Currency Committee (Hearings on Economic Stabilization Aids) that the control of rates on government securities (in a flexible way) was not an effective means of achieving monetary objectives. He said the Board and the Open Market Committee unanimously recommended cheap money in support of the debt. As late as 1949 he stated (to the Douglas Subcommittee) that few buyers would be priced out of the market by rates proposed by the proponents of a flexible rate policy.

It will be remembered that the Board of Governors at that time (but not Mr. Sproul or Mr. Burgess) advocated an increase of reserve requirements as an appropriate anti-inflation device. Their theory was that they could effectively support government security prices and at the same time, by raising reserve requirements, prevent the reserves supplied in the support process from serving as the basis for deposit expansion. They seemed to overlook the fact that essentially they supported government securities by providing the appropriate degree of liquidity to the banks, and indirectly to the public. A further increase of reserve requirements would have required the Federal Reserve to buy a correspondingly greater amount of securities.

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But the boom did not die a natural death, though there was a mild recession in 1949. However, for some months before the outbreak of the Korean War, business was expanding and prices were rising. Mr. Sproul, the President of the Federal Reserve Bank of New York, stated that the Federal Reserve wanted to use some restraint during the latter part of 1949 but that the Treasury objected. Nevertheless credit was gradually tightened somewhat from late 1949.

The panicky demand for goods that came with the Korean War apparently caused a very definite change from the old position at the Federal Reserve. The Reserve authorities feared to enter what might be another great war with rates frozen at the low levels then existing. (The long-term rate, though gradually rising during 1950, was well under 21/2 per cent at the end of that year.) The Treasury, on the other hand, held to the old logic. But the public generally, and Congress, took the side of the Federal Reserve. General monetary controls again became popular. Some Federal Reserve officials still claim that the policy of pegging rates was appropriate for the period when it was used. But there has undoubtedly been a fundamental change in the theoretical approach at the Federal Reserve since the decade of the forties, and the present policy is not simply an adaptation to different circumstances.

As is generally known, the Treasury officials of the present Administration agree with the Federal Reserve that general monetary controls are essential in maintaining economic stability, though not the only means to that end. Also, the Treasury's formal position is that the Federal Reserve has the main responsibility

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in determining monetary policy; although the President has sometimes spoken of monetary policy as an instrument the Administration would use to combat recession if occasion arises. One can scarcely doubt, however, that Treasury influence was exerted in the direction of tighter money during the first few months of 1953.

But though it is now the fashion to say that monetary controls should be used flexibly, so as to combat either inflation or deflation, current ideas as to the nature of monetary controls have taken an odd turn. There is now a popular belief that the main lesson to be learned from the experiences of the forties is not that interest rates should be controlled flexibly, but that it is a mistake to control rates at all. Interest rates, it is said, should reflect the natural forces of supply and demand in the market. The Federal Reserve in controlling the money supply should not interfere with rates, or interfere with them as little as possible; and even then it is not clear whether it is to be for monetary reasons or as a compromise for extraneous considerations. Money markets should be "free".

This idea, that monetary controls should not involve interest rates, seems to run through the official attitude-- or at least the official attitude now dominant-- on various aspects of the actual procedure of monetary control and on the Federal Reserve relation to the management of the public debt.

In criticism of this position, let us distinguish between the more ultimate tests of monetary policy and what we may call the immediate criteria of monetary scarcity. Let us say the ultimate aim of monetary policy is to maintain a high level of employment and, as far as possible, avoid inflation. Without

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stopping at the moment to consider to what extent these aims may conflict and just how they should be compromised, it is evident that the extent to which the monetary authorities succeed in accomplishing them does not give a pointer reading of the influence being exerted by the Federal Reserve at a given moment. The effect of monetary scarcity on price levels and economic activity is not simple and mechanical and immediately measureable, but is slow and cumulative. The direct effect is tenuous indeed and is likely to be greatly amplified or impeded by opinions about the future. For that reason, price changes and changes in the level of employment respond too slowly to be good tests of the immediate influence being exerted by monetary conditions. They are measures of the more ultimate success of monetary policy, but they are not criteria of monetary scarcity at a given moment.

Money rates, on the other hand, are highly sensitive to changes in the degree of liquidity of the economy, and so give the best indication of the immediate influence being exerted by the monetary authorities at a given time.[1] The recorded changes in reserves and the cash balances of the public do not tell us the degree of monetary ease or pressure, because they reflect not merely the monetary supply potential but also the efforts made to attain a given cash position. Those who have their hands on the controls must have an instant pointer reading of the pressure they are applying-- long before it is registered in price levels

1. For an excellent discussion of measures of monetary influence, see the paper on "Central Banking Objectives, Guides and Measures", given by Karl Bopp before the American Finance Association, October 1953.

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and employment-- and they have such an indication in the prices of debts. Regardless of their theories, the authorities do in considerable degree take interest rates as a measure of their influence, but their theories affect their procedure to the extent of allowing rates to vary by accident within certain limits of tolerance.

We should not deplore altogether the experiences of the nineteen-forties. From the standpoint of procedure, real progress was made at that time. Since the immediate objective of the authorities should be to govern conditions in the money market, there is no point in having a complicated procedure for doing it or one that tends to obscure the real nature of monetary management. The simplest procedure is for the Open Market Committee to maintain the prices of government securities at such levels as seem to comply with the general aims of monetary policy. Automatic, or semiautomatic, access to reserves is not a danger in itself. Central banks have always given the commercial banks the means of adjusting reserves at their own initiative, either directly or through market channels, on some terms or other-- except when their procedure has broken down, as it did during panics. What was objectionable about the operations of the nineteen-forties was the refusal of the authorities to revise sufficiently the schedule of rates as a means of resisting inflation.

But some of the Federal Reserve officials now seem to think there was something inherently wrong in the procedure itself which was used during the forties. During the last few years they have stated that the discount mechanism should again become

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an important instrument of policy. The idea seems to be to return to the procedure of the nineteen-twenties.

Such ideas, it seems to the writer, represent a backward step in monetary analysis. In the first place, it is probably impossible to compel the member banks to borrow more than a small margin of their reserves-- certainly for very long-- without bringing on panic. The discount procedure is still only a "convenience" to the member banks who care to use it, and the Federal Reserve can not make it a "necessity"-- to paraphrase their own language of a few years back. The change from a policy of nearly fixed rates to the present policy, where rates are allowed to fluctuate within wider limits, has not changed this fact about procedure in any significant degree. So long as the Federal Reserve has only limited tolerance for a change of market rates and the member banks have a rather small tolerance for indebtedness, the central bank must supply all but a thin margin of reserve through open market purchases. It is true that member bank borrowing frequently exceeded a billion dollars in 1952 and the first few months of 1953, and at one time exceeded two billions, but it was at a time when rates were advancing to new highs for many years back. It seems doubtful whether the banks could have been kept under that range of indebtedness for very long without its causing a drop in government securities that the Federal Reserve would have found

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intolerable.[1]

But whether or not the member banks have a greater tolerance for indebtedness than is here supposed it seems a mistake to allow variations in indebtedness, in combination with the discount rate and a variable reluctance to borrow, to have any effect on the credit situation; because to do so means continual minor changes in rates which are purely fortuitous and serve no purpose whatever from the standpoint of credit regulation. The need to borrow changes from a combination of accidental circumstances, such as changes in the currency in circulation, gold movements, changes in nonreserve deposits at the Federal Reserve Banks and in the "float", and the like. Why should an increase in the Treasury's balance at the Federal Reserve be permitted to cause an increase in market rates of interest? A rise of rates means to that extent an increased difficulty in adjusting cash positions in the economy. Slight as such changes may be at times-- though accidental changes sometimes appear to be as much as a half of a per cent-- they not only register the change in monetary pressure at a given time but serve partly as a basis for estimating what the trend of rates is going to be.

A change of rates should be a signal of the intentions of the

1. The tradition against borrowing is by no means uniform among the banks. Some are unwilling to borrow at all and the great majority are willing to borrow only for very short periods under ordinary circumstances. But there are a few that are willing to borrow larger amounts and for longer periods than the Federal Reserve authorities are willing to permit. The writer is supposing that the official attitude toward this latter group of banks will remain generally the same.

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authorities. The public should be taught to become more sensitive to changes of rates rather than to ignore them. But it is impossible to interpret what the signals mean if the red and green are flashed on in a meaningless way in the pursuit of a policy of deliberate uncertainty of rates.

The Federal Reserve officials have defended fortuitous changes in rates, first, on the ground that uncertainty of future rates reduces the moneyness of debt instruments. However, a flexible rate policy necessarily involves a degree of uncertainty of rates. But the essential point is that a monetary management that is free to govern rates within whatever limits seem necessary does not need to depend on uncertainty. The inflation or spending potential of near-money debts can be reduced by an increase of their yield.

The other defense that has been made for fortuitous changes in interest rates is that they reflect the natural conditions of supply and demand in the market.

In arguing against this latter position, one does not need to assert that interest rates are purely monetary phenomena. Most economists would agree that the volume and structure of debt and the portfolio requirements of the investing public (based partly on institutional arrangements and partly on other factors) have some influence on the prices of debts. Also, the expected earnings on real assets exert an influence on the structure of rates and on the inflation potential of a given set of administered key rates. Yet the important fact remains that the week-to-week changes in rates reflect mainly monetary conditions, current and prospective. And when the changes occur in a fortuitous way it merely means that the authorities have taken their hands off the

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controls.

There may be some temporary public relations value in having the public believe that rates are determined largely by natural causes. It may save the authorities from criticism at times. But in the long run it would be better to admit that the Federal Reserve controls rates, but that it does so in the public interest.

An announced objective of the Federal Reserve is <u>to provide a volume of reserves consistent with the needs of a growing economy</u>. The proponents of this formula contrast their purpose with that of regulating interest rates. They seem to believe that the amount of reserve is not only the proper measure of Federal Reserve influence but that it is also partially a measure of general economic results.

The objection to the formula is that the amount of reserve is not a measure of the ease or pressure applied by the Federal Reserve at a given time, at least not under such conditions as we face today. Neither is it an appropriate measure of general economic results. In the short run it is not possible to control the amount of reserve at some figure decided on in advance. In practice the formula would mean that the general trend of reserves would be taken as a moderately long run measure of economic results, to be weighed along with prices and the volume of employment. But why should a monetary policy justified on grounds of the expected level of employment and prices be modified merely because it is associated with an amount of reserve that is different from some expected historical trend?

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In pursuit of the policy of providing the reserve required for a growing economy, and in practice to prevent rates from going beyond the Federal Reserve margin of tolerance, the Federal Reserve attempts to forecast the need for reserves, and supplies approximately the amount that will be needed through open market operations, leaving only a small margin to be obtained through member bank borrowing. Sometimes, the officials point out, it is difficult to estimate the amount that will be needed. But why attempt to estimate it? If their criterion were explicitly the level of rates, the proper amount of reserve would be supplied automatically at the rates deemed appropriate by the Federal Reserve. Implicitly, the market rate is their criterion to a considerable extent, since they try to avoid undue fluctuations in rates. Their procedure merely allows accidental variations within their margin of tolerance while paying homage to the theory that rates are established by natural forces.

We turn now to a matter on which there has been disagreement within the System itself,-- whether the Open Market Committee should confine security operations to the short end of the market. A closely related question is whether the <u>purpose</u> of security operations (except in the emergency of a "disorderly" market) should be solely for changing the amount of reserves, in contrast to influencing rates.

The rule restricting operations to the short end of the market was adopted in March 1953. The Committee, in explaining

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at that time its reasons for the rule, stated that a more self-reliant market in government securities would develop if open market operations were "solely to effectuate the objectives of monetary and credit policy" and not to support any pattern of rates in the government securities market. A procedure confining operations to short-term securities would allow adequate flexibility in operations with a minimum of disturbance to the prices and yields on longer term securities. (Report of the Board of Governors for 1953, p. 89.) Apparently the Committee considered that operations "to effectuate the objectives of monetary and credit policy" were operations aimed at changing the amount of reserve— in contrast with those aimed at changing rates.

At the June meeting of the Committee there was disagreement as to whether the rule should be continued. On the motion of Mr. Sproul the rule was rescinded, with the understanding that the Executive Committee would be free to determine in what sections of the market to operate (the four members of the Board of Governors present voting to retain the rule and the five Federal Reserve Bank Presidents voting to rescind). The Executive Committee, however, decided by majority vote to confine operations to Treasury bills, and so for practical purposes the rule was not revoked; and in September the full Committee formally restored the March rule— confining operations to the short end of the market.

Those who supported the rule (as they expressed their views at the June meeting) "felt that it was better, as a general policy, to confine System account operations to the nearest thing to

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money, that is, short-term Treasury securities-- preferably bills-- except in the case of correcting a disorderly market. Their concept of the open market operation was that a minimum burden should be put on the open market account or the Open Market Committee for determining what the market should be ..."

On the other hand, Mr. Sproul, and in June the other four Bank Presidents on the Committee, "felt that, in carrying out the Committee's credit policy, the executive committee should have discretion, particularly at times of Treasury financing, to make purchases in whatever areas of the market were under pressure so that there would not be unnecessary erosion of rates, affecting adversely investor and banking psychology and intensifying the restrictive effects of credit policy at the wrong time. Although it was recognized that purchases of Treasury bills would put reserves into the market, it was thought that such purchases might not be as effective as would be desirable in avoiding unwarranted changes in the Government securities market and that, since changes in that market might affect investment conditions generally, they were a factor to be considered in carrying out the aims of monetary policy. It was also believed that, so long as it was the policy of the Committee to put funds into the market, freedom to put them in where the pressures were greatest might minimize the amount the Committee would have to put in and thus help to achieve the purposes of monetary policy most effectively". (Report for 1953, p. 96.)

Later Mr. Sproul stated (in a speech May 6, 1954) that the approach he preferred had "nothing to do with price pegging, nor

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with trying to establish and maintain a particular pattern of interest rates ..." Nevertheless he believed that "the central banking system should retain freedom of action to assist or promote, directly and under appropriate circumstances, changes in the availability and cost of funds throughout the money and capital markets, and freedom of action to assist, directly and under appropriate circumstances, desirable debt management operations of the Treasury."

At their meeting in December 1953, the Open Market Committee confirmed their view that operations should be confined to the short end of the market and in addition passed a resolution stating that operations should be "solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets) ..." (Report for 1953, pp. 102-5.) This statement seems to underscore the predominant view in the Committee that the prices of debts are not to be taken as the direct measure of monetary scarcity; and that a policy of providing reserves in accordance with the needs of economic stability and growth will avoid as far as possible any influence on the level and structure of interest rates, leaving them to be determined by natural forces. In the Committee's view, confining operations to the short end of the market-- preferably bills-- would best accomplish this purpose.

Once it is seen, however, that the prices of debts indicate at any given time current and anticipated monetary scarcity, monetary administration becomes a procedure for governing the prices of certain key debts. Short rates reflect current monetary conditions. Long rates reflect in high degree the market's estimate of the future movement of the complex of rates. By acting on the

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rate pattern directly the Committee can guide the public in interpreting the intentions of the Federal Reserve beyond the immediate future. If, however, they limit operations to the short end of the market, they can give no real assurance that a downturn in rates is not merely a temporary deviation from a rather long-period upward drift. Also, in a period of depression low short rates may cease to be good measures of liquidity, but reflect an increased demand for near-money assets, or a shortage in the supply of such assets. The Federal Reserve may then need to turn to long rates as better measures of liquidity and to act upon long rates directly.

Though the Committee should govern both the level and time pattern of rates-- since these reflect the current and prospective terms on which cash positions for the economy as a whole can be adjusted-- it seems undesirable to fix rates by public notice. For one thing, changes in formal pegs are too dramatic. Gradations of change may need to be small, as the Committee feel their way in the ever changing economic situation. Also, the Manager of the Account must be free to allow for changes in the demand or the supply in particular sectors of the market [1] -- so long, that is, as they do not seem to reflect an estimate of future monetary conditions which is inconsistent with the intentions of the

1. If, for instance, there were a large additional demand for bills, a failure to allow the bill rate to fall would amount to a tightening action. To some extent the Manager of the Account could deal with this sort of problem by shifts in his own portfolio, but he must be free to make rate adjustments also.

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Committee. It should be emphasized, however, that adjustments of rates of this sort are quite different from allowing rates to change because of accidental changes in reserve conditions

It is sometimes objected that it is more difficult to determine what schedule of rates is appropriate to a given economic situation than to estimate the proper amount of reserve to be supplied. Operationally, this latter means buying enough securities to meet reserve requirements except for a small margin of reserve to be obtained through member bank borrowing, and it does not specify at all closely the terms on which the reserve will be supplied. But it is these terms which are crucial, since in any case the requirements will be met. If the monetary administration does not have any reason either for raising or lowering the schedule of rates, which must quite commonly be the case, it should keep them generally where they are. This, however, is quite different from permitting rates to be determined by chance, such as is the case when they are determined by the amount of indebtedness in relation to the reluctance of the banks to borrow and the discount rate.

Some critics of administered rates have claimed that controlling the prices of government securities is analogous to controlling commodity prices by the government. There is no proper analogy between the two. A free enterprise system requires the deliberate regulation of monetary scarcity. In a system where money is issued against debts and where the prices of debts reflect monetary scarcity in high degree, this means determining the prices at which debts may be monetised. This task can not be delegated to natural forces.

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It is possible that some of the Federal Reserve officials fear that entering the long-term market would complicate their relations with the Treasury. Mr. Humphrey has stated that the Federal Reserve has the main responsibility for determining monetary policy. Would the Treasury consider that operating in the long-term market was entering the field of debt management, and that therefore the Treasury should be a party to decisions as to what rates should be? However, the Treasury now presumably gives the Federal Reserve a free hand in influencing the Treasury bill rate. Once it is understood that monetary policy properly includes the direct influencing of long-term rates, the Treasury should have no hesitation in giving the Federal Reserve a free hand throughout all sectors of the government securities market. In any case an adequate policy should not be sacrificed as a means of resolving administrative conflicts.

There is no conflict between monetary control and debt management in the public interest. The government in its total aspect need be concerned only with whether the rate schedule being maintained by the Federal Reserve complies with the general aims of monetary policy. Some people seem to imagine that the maintenance of any rate structure by the monetary authorities places the economy in jeopardy in the sense that at any time the public may reject bonds and force the Federal Reserve and the commercial banks to create vast quantities of cash. They place great emphasis upon the necessity of making the securities sufficiently attractive

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on a yield basis to find holders for them.[1] A careful analysis of

1. Even though the Open Market Committee were willing to maintain flexible supports throughout the rate structure, there would still remain the problem of adjusting the terms of a new issue to conditions in the market. An addition to the supply in a particular sector of the market tends to depress the price in that sector, and to an extent that can not be predicted exactly. Also there may be shifts in the demands for particular maturities after the terms of a new issue are announced. If the government securities market were an auction market, the precise adjustment of the yield on a new issue to market conditions would be made automatically. But, except for bills, the securities are sold on a negotiated basis; and officials in close touch with the problem believe that it would be difficult to get bids that would not result in intolerable yield distortions.

One way of dealing with the problem is to make the rate on the new issue attractive enough in comparison with the existing market structure to allow for changes in the latter during the selling period, which means erring generally on the side of making the issue a bargain compared with old issues. However, as Mr. Roosa suggests, the Treasury can reduce the uncertainty by announcing the amount and description of the new issue in advance of fixing the exact yield, and observing the reaction of the market in the sectors neighboring that of the new issue.

Another solution is for the Federal Reserve to give sufficient support in the area of the new issue (while making offsetting sales in other sectors) to insure the success of the new issue; even though this might mean a slight deviation from the pattern which the Open Market Committee would support if they were not aiding Treasury financing. Such deviations could not be very significant, however, and so long as the rate on new issues must be negotiated, this seems the appropriate procedure-- assuming the Federal Reserve has approved the rate on monetary grounds.

Under present procedure the Federal Reserve gives no support in Treasury financing, and so the Treasury must allow for much greater changes in the market than formerly. With a negotiated market this means placing the yield high in order to play safe.

The general principle which should be aimed at is for the Treasury to pay whatever rate meets the requirements of monetary policy, but <u>no more</u> than that. Perhaps the Treasury could extend the auction method from bills to notes. Also, it might offer an assortment of maturities and give preference to the subscriptions deemed most favorable to the government.

For a comprehensive review of the problem, see "Integrating Debt Management and Open Market Operations", by Robert V. Roosa, <u>Papers and Proceedings of the American Economic Association</u>, issued May 1952.

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of our experience shows that such fears are groundless. Even an inflationary rate structure would produce its effect slowly and cumulatively. The only circumstance that might cause an important rejection of securities in favor of cash would be a general fear that a rise of rates was imminent. Such demands for cash are not likely to be large. But even if they were, cash held from a fear of an advance in rates is not inflationary, at least under such circumstances as we are considering here.

Let us turn to the general objectives of policy as these have been stated by present Federal Reserve and Treasury officials; and then we shall consider briefly the increased restriction of 1953 and the subsequent policy of "active ease".

To begin with, it was an important step for the Federal Reserve to return to the idea that general monetary controls are a practicable means of checking inflation and to reject a policy of almost continuous inflationary pressure. This change of views had already taken place before the new administration of the Treasury came in. The new Treasury officials have an entirely different attitude toward monetary policy from that of former Secretaries, from Mr. Morgenthau to Mr. Snyder. Both Mr. Humphrey and Mr. Burgess have stated that it should be the aim of monetary policy to maintain a stable dollar. They do not mean that this is the Treasury's main responsibility, but that the Treasury will not make demands on the Federal Reserve that will interfere with it. The Federal Reserve officials are more cautious in stating their aims. Without claiming too much for monetary controls,

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they propose to follow a policy that in general is flexible with respect to inflation and deflation and that at the same time will contribute toward a high level of income and employment.

There is good reason to suppose that the economy can function at a fairly high level at an approximately stabilized price level, assuming we do not start from a depression level. But a "fairly high" level of employment may not be politically satisfactory. Upward price pressures by power groups tend to cause either unemployment or inflation— partly directly and partly by specifying monetary and fiscal policies for full employment. We can not expect the Federal Reserve to hold back these pressures merely with monetary restriction. The innocent would very likely suffer more than the guilty. The days of creeping inflation are probably not over; but there may be temporary down-swings of some violence, particularly if the monetary authorities act on the theory that interest rates reflect mainly the forces of nature.

This brings us to the increased restriction of credit and subsequent policy of ease during 1953, and the way the procedures at that time were colored by ideas of the "free money market".

In December 1952 the Open Market Committee considered "that the general outlook was for a high level of income and production over the next few months with no immediate evidence of price inflation". (Report of the Board of Governors for 1952, p. 99.) They were concerned, however, about the accelerated expansion of bank credit. But public spending, they thought, was going to be less than they had earlier expected. At their March meeting they

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again stated that there was no immediate evidence of inflation. Mr. Sproul, in reviewing the situation later, stated that there was some evidence of boom psychology in January 1953, but that there was little confirmation of it in the critical area of prices. Reserve officials were concerned about consumer spending in excess of incomes, the increased investment in inventories, and the consequences of the removal of the remaining wage and price controls. But in the spring, he says, there was a decline in farm prices and in farm income, and there were the unpredictable effects of the cessation of the fighting in Korea. (Speech, January 23, 1954.) The Record of the June meeting of the Open Market Committee states that, though commodity prices had remained fairly stable and output had actually increased since March, financial markets "had been unsettled at times during the spring months, particularly during late May, and throughout the period since March there had been an undertone of concern about potential declines in economic activity". (Report for 1953, p. 93.)

It must be remembered that credit had gradually been getting tighter since late 1949 or early 1950, the cumulative effects of which might be expected to show themselves slowly. When we consider that prices were not rising, and that there had been an undertone of concern "throughout the period since March", it seems difficult to reconcile the further tightening of credit-- and on such a severe scale-- with the goal of price stability and a high level of employment. But what we are interested in as economists is not in criticizing administrative decisions but in ideas.

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What we can criticize in the way of ideas is the explanation of why rates rose and the theory of how to reverse the tendency. The Treasury and the Federal Reserve officials have attributed the tight money to the natural forces of the market. Mr. Burgess stated (in a speech December 3, 1953) that "Early in the year the Reserve System allowed the natural forces of a huge demand for money to tighten money rates." At a later point he said that the 31/4 per cent long-term bond had some influence on the money market but that it was the going rate in the market. In an earlier speech (May 12, 1953) he attributed the higher rates partly to Federal Reserve policy; but his statements as a whole show clearly that he considered the demand for loans mostly responsible. The long-term market, he said, was overloaded because so many people were trying to borrow so much at one time. Mr. Humphrey, in explaining that the Administration and the Federal Reserve had no "hard money" policy, stated that the Federal Reserve "has simply allowed the demand for money to have its normal and natural effect and respond to the law of supply and demand." (Speech of August 4, 1953.)

The Report of the Board of Governors for 1953 states that the "Pressure of credit demand resulted in a moderate increase in interest rates through mid-April and then in a sharp advance". The Report adds that, by May and June, it became apparent that Federal financing would be heavier than had been anticipated, and that borrowers tended to enter the market for financing in advance of their needs. (P. 23.) Some of the Federal Reserve officials, though not denying partial responsibility for the advance of rates,

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thought that the private demand for bank credit plus the Treasury needs for new money caused the restraint at the Federal Reserve to be more severe. The Open Market Committee (in June 1953) admitted that there was a restrictive Federal Reserve policy, but in explaining the drop in government security prices gave main emphasis to the need for new Treasury financing and to heavy private and municipal demands for new capital, "which continued to exceed the supply of new long-term funds in the market". (Report for 1953, pp. 93-94.) Are we now to suppose that deficit financing exerts a contractive effect on the economy? Other officials within the System claimed that the stream of savings, though large, was not adequate to meet the demands for funds at current interest rates.

Early in May the Federal Reserve decided to relax credit conditions and bought Treasury bills with that end in view; but rates went higher. The crucial question is: what is the criterion of monetary ease or pressure, the amount of securities held by the Federal Reserve or the sacrifice necessary to maintain liquidity? If the Committee had used the prices of debts as their criterion, there would have been no delay in easing the crisis, once they had decided that it was time to do so.

The rise in the long-term rate (the price of the 21/2 per cents of 1967-72 went slightly below 90 in June) reflected not only the immediate money shortage as evidenced by short-term rates but the market's estimate of future credit conditions. The statements of the Treasury officials, the offering of the 31/4 per cent long-term

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bond, the actions of the Open Market Committee, and the speeches of the Chairman of the Board of Governors (April 13 and May 6, 1953) gave good reason to believe that rates were likely to be higher. After all, were not the days when the Federal Reserve would interfere with a rise of interest rates over for good? Was not the United States going to return to "hard" money? The Committee could have corrected this estimate of their intentions if they had entered the long term market. But they stayed out on the theory that the bond market should reflect natural forces. What they actually observed was not the forces of nature but what their own actions and statements implied for the future.

A brief comment about debt management as it is related to monetary management. The Treasury officials have said that it would be desirable to lengthen the term of the debt considerably and also to get more of the debt out of the banks.

Though Federal Reserve policy can cope with varying types of debt structure within reason, one must remember that a very great amount of short-term debt is required as secondary reserve, not only by banks, but by general business concerns and others, and that it would be dangerous to reduce the amount of debt available for this purpose on an important scale, particularly during a recession. This problem should be approached simply from the standpoint of the need for liquidity by the economy and not with a fear that the government may be embarrassed in refunding its debt.

As to getting the government securities out of the banks,

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let us bear in mind that our monetary structure is a structure of debts. If the safety of the debts is impaired, the monetary structure is impaired, and this reacts further on the safety of private debts. A vicious circle of mutual destruction is thus set. Our economy is extremely vulnerable in this respect. Did we not learn this lesson in 1931-33? The banks need a large amount of government debt, something which is beyond suspicion.

What main conclusions can we draw from our monetary experiences and discussions of recent years?

General monetary controls are powerful instruments, and a stable and high level economy requires their flexible use.

But since monetary contraction is such a terribly lethal weapon, it should be used with great moderation. Our historical tradition about the order of magnitude of allowable restriction comes from gold standard days, when it was thought to be Nature's wish to have recurrent crises, unemployment, and the liquidation of the economic strength of the weaker elements in the economy. Mystical belief in economic Atonement! The sort of heavy handed restriction such as we used to have must not be revived, under the guise possibly of restoring free enterprise.

Changes in the prices of debts reflect mainly changes in the degree of monetary ease or scarcity, and are therefore excellent criteria of the influence exerted by the monetary authorities at a given time. The idea of a free money market is not a useful analytical device, and if the Federal Reserve proceeds on the theory that interest rates are largely determined

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by natural forces, the chances for economic stability will be greatly reduced.

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August 3, 1954

Dear Mr. Roelse:

You may be interested in seeing the full text of the paper which Dr. Elmer Wood of the University of Missouri delivered at the spring meeting of the Midwest Economic Association. I understand that only a summary has been available here in New York.

Most sincerely yours,

Mildred Adams
Research Director

Enc.

Mr. Harold Roelse
33 Liberty Street
New York 45, New York

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Federal Reserve Bank of St. Louis

THIRTY THREE LIBERTY STREET
NEW YORK 45, N.Y.

August 6, 1954

Dear Miss Adams:

Many thanks for a copy of Elmer Wood's paper, which I am sure others in the Bank as well as myself will want to read.

I hope you enjoyed your visit with him. I have not seen him for years, but I liked him very much when he was at Harvard doing his thesis.

Yours sincerely,

John H. Williams

John H. Williams

Miss Mildred Adams
Room 807

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Mildred Adams
Research Director

Enc.

Dr. John Williams
33 Liberty Street
New York 45, New York

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WOOD, Elmer

July 27, 1954

Dear Don:

Any trip which takes me out of the heat of St. Louis and sends me to Estes Park thereby pays off in my book. This one is, I hope, also profitable for the Committee, even though in a negative sense. It has, I suspect, disposed of the idea that Elmer Wood is the person to write the definitive history. Whatever I may or may not think as to whether he could do it is less important than the double fact that (a) he does not want to, and (b) he has a book of his own under way which could conceivably come within our scope if he and the Committee both chose.

As a third benefit, I am bringing back Dr. Wood's own copy of the much discussed paper which he delivered before the Midwest Economic Association this spring, a paper which in summary attracted attention from both Dr. Williams and Mr. Sproul. This gives the flavor of his thinking, and in its various controversial points of view would certainly have an impact on certain of our Committee members. I have permission to have it copied and to show it to anyone who is interested.

But to go back — before I left St. Louis, I asked William Abbott, head of research in the St. Louis bank, about Wood and found less enthusiasm than I would have expected for a Missouri product. It may have been partly an instance of the "prophet not without honor save in his own country," and partly a reflection of a certain lack of sympathy on Wood's part for the direction St. Louis research is taking. In any event, they think him dry as dust, and not the person to do this job.

I am not prepared to agree that that opinion is justified. I saw Wood for a short time on Friday afternoon, when I arrived from Denver and stopped at his cottage before I went on to my own Inn, and twice for a considerable period of time on Saturday, both morning and afternoon. All in all, I must have spent four or five hours with him, first presenting the project, and then probing (as best I could without making commitments) to see what part, if any, interested him.

Wood is a refreshingly independent person who follows his own line of thinking wherever it leads, and prefers to make his own judgments. He would rather talk plain English than take refuge in economic jargon. He is interested in theory, but he is also interested in fact, and in the relationship which prevails (or fails to prevail) between the two. There may be about him a slight timidity; there is certainly a hint of the handicaps felt by a sensitive provincial who lives far from the centers of power and does not see very much of the

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powerful. But there is nothing stuffy or pretentious about him. His intent is clear and direct, and his mind is keenly analytical. He is perhaps overly aware of what he considers his own limitations.

If we could somehow turn back the clock and telescope the years which have passed since he wrote his book on English theories of central banking, so that he could begin on an American equivalent of that book, I think he might produce something of considerable value. Obviously we can't. The next best thing is to plan some other way of bringing the thing he wants to do into our orbit. Two possibilities have presented themselves: one, an easing of the way so that he can finish the book he has in hand, the other, a monograph.

The book has been in the writing for some time. He works on it in summer vacations, but not during the academic year. He thinks that there is another year's work to be done on it, and it is possible that he could persuade the University of Missouri to give him a sabbatical year on half pay. He approached Chester Davis for a subsidy when the latter was with the Ford Foundation, but never got an answer, which is curious in view of the latter's decade as President of the St. Louis Federal Reserve Bank. When I asked if he would like to have our Committee consider the book for a place in the project, he was doubtful -- he wants it to stand on its own feet, and he wants to be free to exercise his own judgment in regard to Federal Reserve and/or Treasury activities. I assured him no censorship would be exercised, and left the matter open for further thought on both sides.

He has been writing under the title "Monetary Control," but is not content with that. "Monetary Control in American Theory and Practice" is perhaps a better description of what he has in mind.

He has nine or ten chapters written: one on Open Market Operations, one on Discount Rate, one on Reserve Requirements and the changes that have taken place in them, three on Deposit Expansion, two on Interest, one on Adjustment of Cash Positions. He is now working (in a cabin facing a bubbling brook which furnishes a running obligato to the chatter of chipmunks) on the Relation of Monetary Procedures to Expenditures, studying general monetary controls in their relation to expenditures: he expects to come out with a criticism of both the Keynesian theory and the quantity theory of money. He has ahead of him a consideration of International Monetary Relations and Controls, of Federal Reserve Procedure, with or without techniques, of later nineteenth century English practice as it illumines American practice.

I asked Dr. Wood if he had a publisher. He is thinking in terms of one of the more popular publishers such as Doubleday, rather than a strictly academic publisher like Macmillan. No commitment has been made.

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Federal Reserve Bank of St. Louis

The monograph idea came up in conversation, and after reading the paper which was presented to the Midwest Economic Association. Wood is very much interested in the accord of 1951, and he has been thinking of going to talk with Truman about it. He might, I think, be interested in embarking upon a study of what accord -- what conditions it arose from, what made it necessary, what the various parties concerned thought they were doing, what the result has been. I did not ask him whether he would like to do a monograph -- I only suggest it now for consideration.

Wood's own recommendation of the man to do the definitive history is Karl Bopp, but he doesn't think Bopp would do it. So we come full circle again.

I do not, however, think this has been wasted time, energy or travel money. We now know Wood, know what he is about, what he wants to do (or doesn't). We have his interest, and we may in the end get something valuable from him. In any event, he is out of the class of vague but enticing enigmas.

In talking over other possible candidates, he showed interest in Howard Ellis of California, shook his head at Harold Reed of Cornell, wondered whether it might be possible to interest Earl Hamilton, now at the University of Chicago.

I have asked Miss McKinstry to type this and send it on to you before I return. You may think it well to have some part of it sent to the other members of the Executive Committee, but we can talk about that when I return. I also have some interesting data for you from St. Louis.

So glad you urged me to go to Estes Park. A day in those mountains is a whole vacation in itself.

Best, as always,

Mildred Adams

Mr. Donald B. Woodward
Vick Chemical Company
122 East 42nd Street
New York 17, New York

MA:km

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Federal Reserve Bank of St. Louis

Box 1041
Estes Park.

Tuesday, July 20

Dear Miss Adams:

Thank you for your letter of July 16th from New York. Your Office added a note saying you would not be at the Brown Palace in Denver, and I am expecting to find word today at the Post Office as to where you will be. If I should not find where to reach you by letter, I shall try to reach you by telephone Thursday evening or Friday morning at one of the Denver hotels, trying the Olin and Shirley Savoy first.

I shall be free during the week end and can see you either Friday or Saturday. If you have no commitments here we should be glad to show you some of the sights in our car.

We live in Fay Brainard's Cottage on a short winding side road the entrance to which is opposite Perkin's Trading Post. That is eleven miles out from Estes Park on route 7 and (from the other direction) about a mile or so from St. Malo Catholic Church, a very prominent landmark on the main road (route 7). In last resort you could ask the people at the Caldwell Real Estate Agency in Estes Park to help you. Their office is not far from Western Union, before you get fully in to the main business section.

But I would be glad to pick you up in Boulder since you are going there, if you will tell me when and where to meet you . I do not know the names of the hotels there.

As to hotels around here, friends of ours recommend the Aspen Lodge, about 2½ miles toward Estes Park from our cottage. A room American with private bath is $12.50 per day. It seems a very nice place. Another of the same general character is Sprague's Lodge. The big hotels are the Stanley and the Crag or Cragg. These seem unnecessarily expensive. If you don't get a reservation, we will help you find a place after you get here.

I hope this is all clear!

Sincerely,

Elmer Wood

Elmer Wood

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Federal Reserve Bank of St. Louis

Box 1041

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I hope this is all clear!

Sincerely,

Elmer Wood

Elmer Wood

P.S.—

Received Miss McKinstry's note saying you would be at Hotel Olin. This copy of a note I sent to F.R. Bank of St. Louis. Thought that might reach you.

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July 19, 1954

Dear Professor Wood:

I am happy to report that since writing you last Friday we have received a confirmation on our request for a room for Miss Adams at the Olin Hotel in Denver. The address is 1420 Logan Street, and the telephone number is Main 4211. Miss Adams expects to reach there on Thursday night, July 22nd (via Continental-Braniff plane from St. Louis) and will get in touch with you at an early opportunity.

Sincerely yours,

Secretary and Assistant

Dr. Elmer Wood
c/o General Delivery
Estes Park
Colorado

km

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Federal Reserve Bank of St. Louis

July 16, 1954

Dear Professor Wood:

Since Miss Adams dictated the enclosed letter, we have received a telegram from the Brown Palace that they cannot accept her reservation for July 22-24. I have requested as an alternative a room for her at the Olin Hotel and as a second choice the Shirley Savoy.

I do hope we will have an immediate confirmation from either of these, preferably the Olin, and I will let you know what her Denver hotel is as soon as I get the word.

Sincerely yours,

Research Assistant

Professor Elmer Wood
c/o General Delivery
Estes Park, Colorado

km

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Federal Reserve Bank of St. Louis

July 16, 1954

Dear Dr. Wood:

Thank you so much for your return wire indicating that you would be willing to discuss the Federal Reserve System in the midst of a Rocky Mountain vacation. It is exceedingly kind of you, and I shall be looking forward to the conversation with great interest.

My present plan is to arrive in Denver by plane from St. Louis on Thursday evening the 22nd, and to spend that night at the Brown Palace Hotel. From there on a certain vagueness sets in. I would like to go to Boulder to see a friend or two there, but as I have no specific appointment until Sunday, when I must start back to Chicago, I could come to see you either Friday or Saturday to suit your convenience.

Dr. Bopp has given me your locale as "eleven miles out of Estes Park on route 7". The available maps indicate that that means eleven miles south. I would probably come up from Denver in a Drive-R-Self car, and could come direct to you if you can give me more specific directions. Or if there is an inn somewhere near-by I might stay overnight there. The hotel guides at hand in the Bank give us names of inns, but no exact information as to where they are in a large territory, so that I will be grateful for suggestions.

I would therefore be grateful if you would send me word, to be awaiting me at the Brown Palace Hotel on Thursday and covering the two points (a) would Friday or Saturday be more convenient for you, (b) what meeting place will be most convenient, and (c) is there a near-by inn where a mountain-loving New Yorker could spend the night?

Thank you so much for your courtesy in this, as in your willingness to let me invade your vacation peace.

Most sincerely yours,

Mildred Adams

Dr. Elmer Wood
c/o General Delivery
Estes Park, Colorado

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TELEGRAM INCOMING COMMERCIAL WIRE F R B N Y

WU CD047 22 COLLECT

Room 807 ESTES PARK COLO JUL 14 1212PMM

MISS MILDRED ADAMS

FRB OF NY

WILL BE GLAD TO SEE YOU AT TIME STATED IN YOUR WIRE

STOP WRITE ME BOX 1041 WHERE TO MEET YOU

ELMER WOOD

243PME

11 miles out of Estes Park on route 7 -

JUL 15 AM 3 25

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MISC. 34.1 35 M 10-29

FEDERAL RESERVE BANK
OF NEW YORK

SENT BY

Brookings Institution

Miss Mildred Adams

SEND TO FILES

COPY OF TELEGRAM

Code: SRT

FEDERAL RESERVE BANK OF NEW YORK
JUL 13 11 00
WIRE TRANSFER DIVISION

DAY LETTER

July 13, 1954

Professor Elmer Wood
c/o General Delivery
Estes Park, Colorado

Following up Karl Bopp's letter of July 8, am planning Denver trip for July twenty-third weekend. Please ~~write~~ wire collect whether convenient to arrange meeting at Estes Park then.

Mildred Adams

MA

KM

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANK
OF
PHILADELPHIA
POSTAL ZONE 1

July 8, 1954

Mr. Elmer Wood
c/o General Delivery
Estes Park, Colorado

Dear Elmer:

I do not know just how well you are acquainted with the progress being made by the Committee on the History of the Federal Reserve System. The Committee, you may recall, consists of Allan Sproul as Chairman, Randolph Burgess, Bob Calkins, Bill Martin, Walter Stewart, Don Woodward as Secretary, and Mildred Adams as Research Director.

Miss Adams is a trained economist who has had considerable experience in journalism, including serving as American correspondent for the "London Economist". She has been conducting a pilot project to ascertain the availability of materials in the form of papers and conversations with men active in the System, particularly its early days. She has uncovered an amazing amount of materials outside the Reserve System itself.

I understand it is now intended to proceed with the writing of a series of monographs and major works. Among the monographs might be one on "Selective Credit Controls" - possibly by Carl Parry, one on "International Financial Operations of the System in the 1920's", and a biography of Ben Strong. The major work, of course, would be a reasonably definitive history of the System. Other major works might include biographic essays on key figures in the history of the System and another on crises. In addition to appropriate authors for such works, the Committee will probably also wish to have available some crackerjack monetary theorists as consultants.

I am telling you all this by way of preliminary. As you must know, your name has been advanced from a number of places as one who could make a genuine contribution to this history of the Federal Reserve System. Miss Adams would like very much to have an entirely exploratory conversation with you as to the possibilities in this direction. The conversation would be, of course, without any commitment on your part or on the part of the Committee. She has asked me to get in touch with you concerning the possibility of such a meeting. She plans to be in St. Louis late in July and is prepared to visit you in Estes Park later in the month (perhaps the weekend of July 24). Incidentally, her willingness to do this indicates something about your standing.

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I have had a number of conversations with Miss Adams and have found her charming, enthusiastic, and competent. I would like to urge you to have a talk with her.

Since there is not too much time and you probably do not have a phone in your cabin, I told Miss Adams that I would suggest that you call her at the Federal Reserve Bank of New York (reverse the charges!) sometime when you are in Estes Park. This would enable you to get some feel directly from Miss Adams as to what might be involved.

Just before Les Chandler left for Europe this summer he told me that he would be interested in considering the possibility of doing the biography on Ben Strong.

We hope you and Gin are having a pleasant summer. We plan to go to Candlewood Lake, Connecticut, during the month of August.

Sincerely,

Karl R. Bopp
Vice President

KRB/b

CC Miss Mildred Adams

COPY

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WOOD, Elmer

July 8, 1954

Dear Don:

Dr. Bopp, whom I called immediately after talking with you this morning, sounded very cheered at the suggestion that I go out and talk with Professor Wood. He is entirely willing to call the latter by telephone, but he is afraid that there is no phone in an Estes Park cabin. Therefore, he will write Professor Wood "an extended letter" telling him about the Committee, the project, the search for an historian, etc. He seems to think that Professor Wood will see me with pleasure.

I am, therefore, planning to fly from St. Louis to Denver on Thursday, the 22nd, and spend the weekend there rather than in Chicago. I must say the prospect is very much more pleasant than the one which I had had scheduled.

I will let you know as soon as I hear from Professor Wood that this is a firm date.

Best as always,

Mildred Adams

Mr. Donald B. Woodward
Vick Chemical Company
122 East 42nd Street
New York City 17, N. Y.

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UNIVERSITY OF MISSOURI
COLUMBIA

SCHOOL OF BUSINESS AND
PUBLIC ADMINISTRATION
OFFICE OF THE DEAN

July 2, 1954

Miss Mildred Adams
Federal Reserve Bank of New York
33 Liberty Street,
New York 45, New York

Dear Miss Adams:

Mrs. Patta C. Anthony has ask me to send you Dr. Wood's summer address. The addres is as follows:

Dr. Elmer Wood
c/o General Delivery
Estes Park, Colorado during this summer

This address will be Dr. Wood's only address, untill we hear further from him.

Sincerely yours,

Joyce A. Violett

Joyce A. Violett

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WOOD, Elmer

July 7, 1954

Dear Dr. Bopp:

Thanks so much for your note of July 6th giving us the summer address of Professor Elmer Wood. I can imagine no pleasanter place to spend the summer than Estes Park even including the General Delivery.

I wish I thought I could get out to Colorado while he is there. Probably I shall have to postpone talking with him until he gets back to the University. Thanks again for your courtesy in this.

Sincerely yours,

Mildred Adams
Research Director

Dr. Karl Bopp
Vice President
Federal Reserve Bank of Philadelphia
Philadelphia 1, Pennsylvania

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANK
OF
PHILADELPHIA

(ZONE 1)

July 6, 1954

Miss Mildred Adams
Research Director
Committee on the History
of the Federal Reserve System
33 Liberty Street
New York 45, New York

Dear Miss Adams:

I just received a postcard from Professor Elmer Wood in which he gives his summer address as General Delivery, Estes Park, Colorado.

Sincerely,

Karl R. Bopp

Karl R. Bopp
Vice President

KRB/b

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Federal Reserve Bank of St. Louis

WOOD, Elmer

June 23, 1954

Dear Dr. Bopp:

I have been trying to reach you by telephone, but without success, so please consider this letter in lieu of the telephone conversation which might have been an easier way to discuss the question I would like to pose.

When I saw you earlier in the spring you talked with real warmth of Professor Elmer Wood as a man who might possibly be interested in undertaking the history of the Federal Reserve System which we discussed. Since then, Professor Wood's name has also been suggested as an addition to our Committee, and I have been asked to get further information about him.

In view of these two suggestions for quite separate functions on the part of Professor Wood, I would greatly appreciate two kinds of information. In the first place, we seem to have a very small bibliography for Professor Wood. I understand that his best known work is "English Theories of Central Banking Control 1819-1858", but I have not found any considerable list of the periodical material which I am sure he must have written, but of which we have not yet found a record. We would appreciate suggestions on this, or titles if you have them.

The second question is whether you think Professor Wood could play a more useful part in this work if he were sitting on the Committee, or if he were writing on some phase of the project. We both know that writing is, so to speak, a kind of habit and that sometimes those who show a very small production do so because they find writing a difficult rather than a likeable occupation. If this is Professor Wood's frame of mind, I would wonder if he would want to be asked to undertake an extensive history.

Any light you can shed on either of these questions will be most gratefully received. I hate to press you for aid in this, but, if you could, by any chance, call me at the Bank on Thursday, I would be most grateful. If that is impossible, I can be reached on Friday and Monday at Westport, Connecticut where the phone number is CApital 7-5455.

Thanking you most warmly in advance, I am

Very sincerely yours,

Mildred Adams

Dr. Karl Bopp
Federal Reserve Bank of Philadelphia
Philadelphia 1, Pennsylvania

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Federal Reserve Bank of St. Louis

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PRINCETON UNIVERSITY

Princeton, N. J.

Department of Economics and
Social Institutions

June 21, 1954

Dr. Robert D. Calkins
President, The Brookings Institution
722 Jackson Place, N. W.
Washington 6, D. C.

Dear Bob:

I am afraid this will have to be an extremely hurried note owing to the fact that a death in the family has made it almost impossible for us to catch our plane even without answering a number of letters. However, I do want very much to say two things. The first is that the letter outlining the arrangements for the study--Benjamin Strong Central Banker is satisfactory in every respect. I shall be glad to conform to it and to try to justify your faith in making the grant to me.

The other matter relates to Elmer Wood as a possible person to write the history of the Federal Reserve System. I have the highest respect for Wood. He is thorough, a hard worker, and an excellent student of central banking. Moreover, his work on the Bank of England indicates that he has an interest in the historical approach to central banking problems. My one big worry would be whether he could finish such a project in any period of time that would be acceptable to you and the committee. He has written very little indeed, and the publications that he did turn out were in the works for many years. If he could bring himself to work steadily on the history and to bring it to a completion in an acceptable time, he would be an excellent prospect. I think, however, that you had better check very carefully with others who perhaps know him better than I in order to find out whether he is a good prospect for the reasons that I indicated. On the way to England, I shall try to think of someone who might be considered for the job and shall certainly let you know if I have any bright ideas.

I am enclosing a copy of our itinerary in case there is anything urgent about which you would like to communicate.

Thank you again for the faith that you and your committee have shown in me in making the research grant.

Sincerely yours,

(signed) Lester V. Chandler

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