

To: Files

Subject: Conversation with Mr. Carpenter,
Secretary of the Federal Reserve
Board in Washington on January 26,
1954. Informal Memorandum

From: Miss Adams

The development of the Federal Reserve Board has included a tremendous evolution in the instruments of credit policy. The important work of the Board up to 1933 was that of fixing discount rates. Then open market operations came to the fore.

In 1930 what had been the informal committee of five Governors was made larger and formalized. In 1935 the Board was reconstituted to include Governors and five presidents.^(?) Up to that time, or perhaps it is up to 1933, the Board's influence was mostly that of what is known as "moral suasion". After 1935 the Board gave "instructions". In 1938 the Board was accused of having brought in a recession.

A capital issues committee existed as a pre-world war group for rationing capital. The purpose of this was to see that an undue amount of capital was not siphoned off into private industry when it was needed for buying Liberty Bonds (The National Archives contain the papers of the Capital Issues Committee which would be important in any account of early days.)

Since the beginning there has been a fight between central and regional loyalties. Senator Glass helped set up the system on a basis of regional centers with a high degree of autonomy and with the authority to fix discount rates in their regions after consultation with the Board. In substance, this set up a system of individual money markets. Fortunately this system did not stand in face of the increasing speed of communications. During those early days an extremely complicated schedule of discount rates in the various districts existed. It was necessary to set up an Inter-district Settlement Fund formerly called the gold settlement fund and before that the Gold Pool. Adjustments began to be made as ~~in~~ between the districts in that group.

This process has of course become mostly a matter of bookkeeping now with telegraphic transfer of funds. ^t The customary way of settling.

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(Continued)

Much more information can be gleaned from Mr. Carpenter; these were
rambling observations at the end of a long discussion about personality.