<u>Excerpts from Remarks</u>

by

M. S. Szymczak,
Member, Board of Governors
of the
Federal Reserve System,

before

The Third Member Bank Assembly,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dinner Meeting,
Hotel Nicollet.

April 25, 1955.

FOR RELEASE ON DELIVERY
Expected about 8 p.m. CST

The last half of the 1950's has begun on a note reminiscent of that which ushered in the beginning of the decade five years ago.

Then, as now, we were in the process of recovering from economic recession. The ability of the civilian economy to carry the weight of a recovery movement, however, was not fully tested in 1950. Before that recovery was complete, the sudden outbreak of hostilities in Korea, with the need for greatly enlarged military expenditures, catapulted us into a new economic peril, inflation.

Today, whatever the future may hold, we can find in the broad recovery achieved in 1955 evidence that the civilian economy does have great strength--the strength to carry the burden of national progress. To this strength, I think, "modern" monetary policy has made a substantial contribution.

In speaking of "modern" monetary policy, I am referring to the policy born four years ago in March 1951, out of the anguish of the post-Korean inflation surge--a policy that has since served with some success in the front line of our defenses against the economic dangers of both inflation and deflation.

A notable characteristic of this policy, as administered by the Federal Reserve System, has been flexibility, or prompt adaptation to the sharply changing financial needs of our dynamic economy.

The most dramatic instance of flexible adaptation came in May and June of 1953, about the mid-point of the period we have covered. This was a time of marked deceleration of advance in the major indexes that chart the course of progress in production and employment and national output. The Federal Reserve in these two months shifted its operations in the field of credit from the exertion of restraint to what subsequently became known as the promotion of "active ease."

When business activity subsequently entered a phase of downward adjustment, the Federal Reserve made vigorous, combined use of the policy instruments at its disposal--open market operations, reserve requirements, and discount rates--to provide reserves to the banking system so that funds would be readily available, on favorable terms, to credit-worthy borrowers throughout the nation. That these funds aided in cushioning readjustment and fostering reemployment of resources is now a familiar story.

Nothing in that episode, however, should be allowed to obscure the accomplishment of the preceding policy of restraint from early 1951 to early 1953 in moderating the later downturn and providing a base for the recovery that followed. Restraint, by helping to keep credit expansion in line with productive and consumption activity, contributed to stability of prices and reduced the dangers of over-commitment by businessmen and consumers. In this way, monetary policy cushioned the decline in activity that did come when national defense expenditures and business commitments for inventory and facilities were cut back.

The purpose of the Federal Reserve System, in combating inflation or deflation, is to foster stable economic progress and a rising standard of living for the American people. The test of the policies it pursues to that end is not the direction they take--toward expansion or restraint--but whether they are appropriate to the times in which they are applied.