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panel discussion on
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# FEDERAL RESERVE POLICY

It is recognized that a properly designed monetary and credit policy serves the public interest. Hence its inclusion as a topic for discussion by this panel.

The importance of monetary and credit policy lies in the fact that so large a part of the nation's business is conducted through the use of credit. Inasmuch as monetary policy can influence the total volume of credit in use by providing the setting in which credit can expand or contract, the relationship between monetary policy and the level of economic activity is obvious. It also follows logically that monetary policy must be devised in such a way as to contribute within its particular area of influence toward fostering a stable economy at a high level of activity.

In order to understand how the intentions of monetary policy are carried out, it is desirable to recall that the authority for making such policies is vested in the Federal Reserve System which, in turn, effectuates its policies through the vehicle of the commercial banking system. Sought-for policy results are obtained by influencing the volume of bank deposits which are in themselves a reflection of the individual and collective credit-creating activities of the nation's commercial banks. The importance of credit as an energizing factor in the economy has already been touched upon and is now repeated to emphasize the dynamic part that monetary policy plays in the economy by way of encouraging or discouraging the use of credit.

As to the workings of monetary policy, it is fair to say that by and large monetary policy reflects the state of business in a semi-automatic fashion. In other words, monetary policy becomes more vigorous as the tempo of business rises and less vigorous as it ebbs, thereby serving as an automatic governor against an overgrowth of credit having inflationary implications and as an automatic stimulant to the creation of new credit when the economy requires that kind of support. To say, however, that monetary policy automatically reacts to changes in business conditions oversimplifies the actual facts by intimating that it is conducted within only a limited area of discretion. On the contrary, and even though monetary policy reflects the state of business, it is also a determinant of what the state of business shall be as far as credit activities and their consequences are concerned.

Practical examples offer the best illustration of the workings of monetary policy and are to be found in the economic experience of the past twelve months. You will remember that at the time of last year's meeting of the Chamber of Commerce of the United States the economy was approaching the height of a boom which was being fed by a rapid growth of credit which, if unchecked, might have led to a collapse. It thereupon became the part of monetary policy to bring its forces to bear in such a way as would restrain the over-rapid growth of credit and prevent the untoward consequences that might have otherwise occurred. This was done by adopting a monetary policy which restrained the growth of credit and was evident in the tightness of the money markets and in rising rates of interest. In this case monetary policy did more than reflect the state of business and was exerted to consciously obtain certain results. Policy in this instance went beyond an automatic response to the state of business and is illustrative of the broad discretionary authority vested in the Federal Reserve System.

You will also recall that during the summer and into the fall of 1953 evidence accumulated that the threat of inflation had been overcome and that business activity was beginning to subside from boom levels. Federal Reserve policy responded automatically to this situation by allowing money market conditions to become easier with wider elbow room for the commercial banks to create new credit. As more time passed and it appeared that business was losing its earlier vigor, the weight of monetary policy was thrown on the side of stimulating the growth of credit as a measure for helping to maintain a high level of economic activity. In this instance but in the opposite direction from the spring of the year, monetary policy was exerted beyond the mere reflection of business conditions and for the calculated purpose of economic stimulation.

As for monetary policy today and into the foreseeable future, it is enough to take a birds'-eye view of the economy through the eyes of this assemblage. I have no doubt that on your estimate of the state of business, the influence of monetary and credit policy should continue to lie on the side of giving that kind of stimulus to business that is implicit in an easy money policy and which, by promoting constructive credit creation, will give that added impetus to a resurgent business activity, of which existence there is increasing evidence.