

RECENT ECONOMIC DEVELOPMENTS

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before the
American Institute of Banking
6:30 p.m., March 11, 1946

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Introduction

1. The current situation
 - a. Domestic: strong inflationary pressures
 - b. International: rapid deterioration
 2. Origin of our present problems was the war
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I. Domestic developments

A. Real factors

1. Construction

- a. Peak - July 1942, 286; latest, 93
- b. Location

2. Manpower

- a. To armed forces - 12 million
- b. Civilian - 45 to 52 million
- c. Overtime
- d. Peak - March 1943, 132; latest, 116

3. Production

- a. Peak - October 1943, 227; now, 149
- b. About half for war, half for civilians
- c. Freight-car loadings: peak - Jan. 1944,
144; latest, 127

B. Monetary factors

1. General objective: to assure adequate funds with minimum of disturbance - that is, minimum borrowing from banks
2. December 8, 1941 statement of Board of Governors:

"The financial and banking mechanism of the country is today in a stronger position to meet any emergency than ever before. The existing supply of funds and of bank reserves is fully adequate to meet all present and prospective needs of the Government and of private activity. The Federal Reserve System has powers to add to these resources to whatever extent may be required in the future. The System is prepared to use its powers to assure that an ample supply of funds is available at all times for financing the war effort and to exert its influence toward maintaining conditions in the United States Government security market that are satisfactory from the standpoint of the Government's requirements."

3. Implications of statement and procedures employed to make it effective
 - a. Pattern of rates
 - (1) Origin of pattern
 - (2) If you are going to stabilize begin where you are
 - b. Post bill rate and repurchase option
 - c. Reserves eliminated against war loan deposits

- d. Reduction in reserve requirements in central reserve cities
- e. Half per cent preferential rate
- f. Nonbankable issues

4. Government finance

	Amount (Bill. \$)	Per cent
Government expenditures*.	387	100
Government receipts, net	156	40
Borrowings:		
From commercial banks	73	19
From Fed. Res. Banks.	22	6
From others.....	136	35

*Includes \$23 billion increase in Treasury balance.

5. The supply of money

- a. Demand + U.S. deposits and currency increased from \$43 (12/31/40) to \$127 billion (end of 1945)

C. Prices - and distribution

- 1. Kept under control during the war through direct controls
 - a. Rationing and priorities
 - b. Maximum prices and wages

II. International developments

A. The Bretton Woods Agreements

B. The British Loan Agreement

III. Where we stand today