

DEVELOPMENT OF AMERICAN MONETARY POLICY

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INTRODUCTION

A. Feeling

1. Honored
2. Enjoy
3. Embarrassed
4. Inadequacy

B. Shall not discuss responsibility

C. Analytical description - personal

D. Easy to be critical - post hoc, of course
only where now agreed it was wrong

I. WAR FINANCE

A. From July 1940 to June 1946

Government spent	\$400 billion
Taxes	\$175 billion
Borrowed	225 "

II. OPTIONS ON BORROWING FROM THE PUBLIC

A. To determine the amount - then public determines the rate

B. To determine the rate - then public determines the amount

III. THE BASIC DECISION

A. In verbal terms - on amount

B. In operational terms - on the rate

IV. REASONS FOR THE DECISION

- A. Distinction between money and Governments considered unimportant
 - 1. Expenses — taxes = liquid asset increase
- B. Economics
 - 1. Demand for funds unaffected by rate
 - (a) Government
 - (b) Private demands limited by direct controls
 - 2. Supply of funds also unaffected
 - (a) Individuals: direct controls - forced saving
 - (b) Institutions
 - Maturities, new funds
- C. Experience
 - 1. Probable results of financing war with rising rates - as in First World War

V. WHAT RATE?

- A. Higher
- B. Existing

VI. THE RATE STRUCTURE THAT WAS TO BE MAINTAINED

- A. Based on institutional habits
 - Banks and short funds
- B. Uncertainty - expectation of a rise

VII. RESULTS OF MAINTAINING RATES

- A. Injecting certainty into a market whose rates are based on uncertainty.
- B. Overcoming institutional prejudices - Oct. 1942 issues
 - Banks from excess reserves to shorts and from shorts to intermediate eligibles.
- C. Importance of volume of short issues

VIII. SOME TECHNICAL FACTORS (effects on bank holdings)

- ↓ A. Non-eligible securities
- ↓ B. Limiting direct bank subscriptions
- ↑ C. War Loan Account and reserve requirements
- ↑ D. Quantitative measure of success of War Loan Drives

IX. PREPARATION FOR RECONVERSION

- A. The last drive
- B. The notion of economic maturity
 - 1. Model builders versus monetary theorists
- C. Inadequacy of compensatory fiscal theory

Possibility of private sector of the economy operating at a fiscal deficit when profit prospects are high enough and conditions of creating money are easy enough.

X. OUR CURRENT PROBLEM

- A. Excessive money supply
- B. Upward pressure on prices
- C. Profitability of creating more money

XI. ALTERNATIVE SOLUTIONS

- A. Collective self-restraint
 - 1. Our regional meetings
 - 2. Productive versus non-productive credit
 - 3. Inadequacy of this approach
- B. Increasing the price of reserves
 - 1. Federal Reserve policy since July
 - 2. Limitations - Government bond prices
- C. Hardening other terms of creating money and reserves
 - 1. The Board's proposals of 1945
 - 2. The 1946 report

XII. QUERIES

- A. "There ain't no free lunch"
- B. Relative economic costs of XL B and C
 - 1. Tradition: National Bank Notes
 - 2. Pure economics