FEDERAL RESERVE POLICY FROM THE INSIDE

address by KARL R. BOPP
Vice President, Federal Reserve Bank of Philadelphia

before the
M.B.A. Club, Wharton School
University of Pennsylvania
November 16, 1948, 12 noon

Off the Record

The Apocrypha of Central Banking

- Non canonical books

Text: "I have been faithful to thee,
Cynara, in my fashion."
- Ernest Dowson

(Some non-finance majors, hence)

I. SCAFFOLD OF THEORY

A. Objective - to influence flow of expenditures

1. Indirectly through volume of money

2. Through reserves and reserve requirements

Federal Reserve System

Gold	$23 bil.	Notes	$24 bil.
Governments	23 "	Deposits	22 "
Discounts			

B. The $64 question is: Should flow of expenditures be restrained or encouraged?

1. Obviously a matter of judgment

2. Memoranda on current and prospective

(a) Economic developments
(b) Monetary developments

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C. What should the Fed do - if anything?

1. Budgetary surplus

2. Do nothing

3. Voluntary restraint

4. Increase in price of reserves

   (a) Short rates
   (b) Long rates

5. Increase reserve requirements

II. FEDERAL RESERVE PROGRAM OF RESTRAINT SINCE JULY 1947

A. Reducing holdings of short-term Governments
July 1947

1. Increase in rate of bills
2. Increase in rate of certificates

B. November 1947 - request for additional authority over reserves

C. November-December - heavy selling of long bonds to the Federal

1. Reluctant purchases on the scale down
2. December 24 - abrupt lowering of pegs

1948

D. January - increase in discount rate from 1 to 1 1/4%

E. February 27 - central reserve city requirements increases 2%

F. April - repeat request for additional powers

G. The summer interruption

1. May 13 - announcement on June and July refundings

H. June 11 - central reserve city requirements increased 2%

I. August - increase in discount rates from 1 1/4 to 1 1/2%

J. Special session of Congress

1. Consumer credit controls
2. Increased authority over reserve requirements
   Inference to use before ↓ support prices

K. September 16-24 - reserve requirements increased by 2% and 1 1/2%

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III. FEDERAL RESERVE SYSTEM

A. Checks and balances vs. centralized authority and responsibility

1. Democracy inherently too little and too late

2. No single person wholly satisfied

3. Institutional inertia not limited to the Federal Reserve System

B. Fear of depression has aggravated hesitancy with respect to putting on the brakes

1. 1920-21 — 1929-33 - 1937-38

2. Present and prospective international commitments

C. On the spot vs. pointing the finger

1. Policy-makers vs. technicians

2. Our experience in field conferences

(a) Discussion only
(b) Voting on issues

D. Never surrender the right to criticize

Nov. 16 a.m.

TREASURY FINANCING

Secretary of the Treasury Snyder announced that holders of Treasury notes and certificates of indebtedness which will mature on January 1, 1949, will be offered a one-year 1-1/4 per cent certificate of indebtedness. The maturing securities are the Series A 1949 notes and the Series A 1949 certificates of indebtedness now outstanding in the aggregate amount of $6,126,729,000.

At the same time the Secretary stated that holders of the 2 per cent Treasury bonds of 1948-50 outstanding in the amount of $571,431,150 which have been called for redemption on December 15, 1948, will be offered a one-year 1-1/4 per cent certificate of indebtedness.

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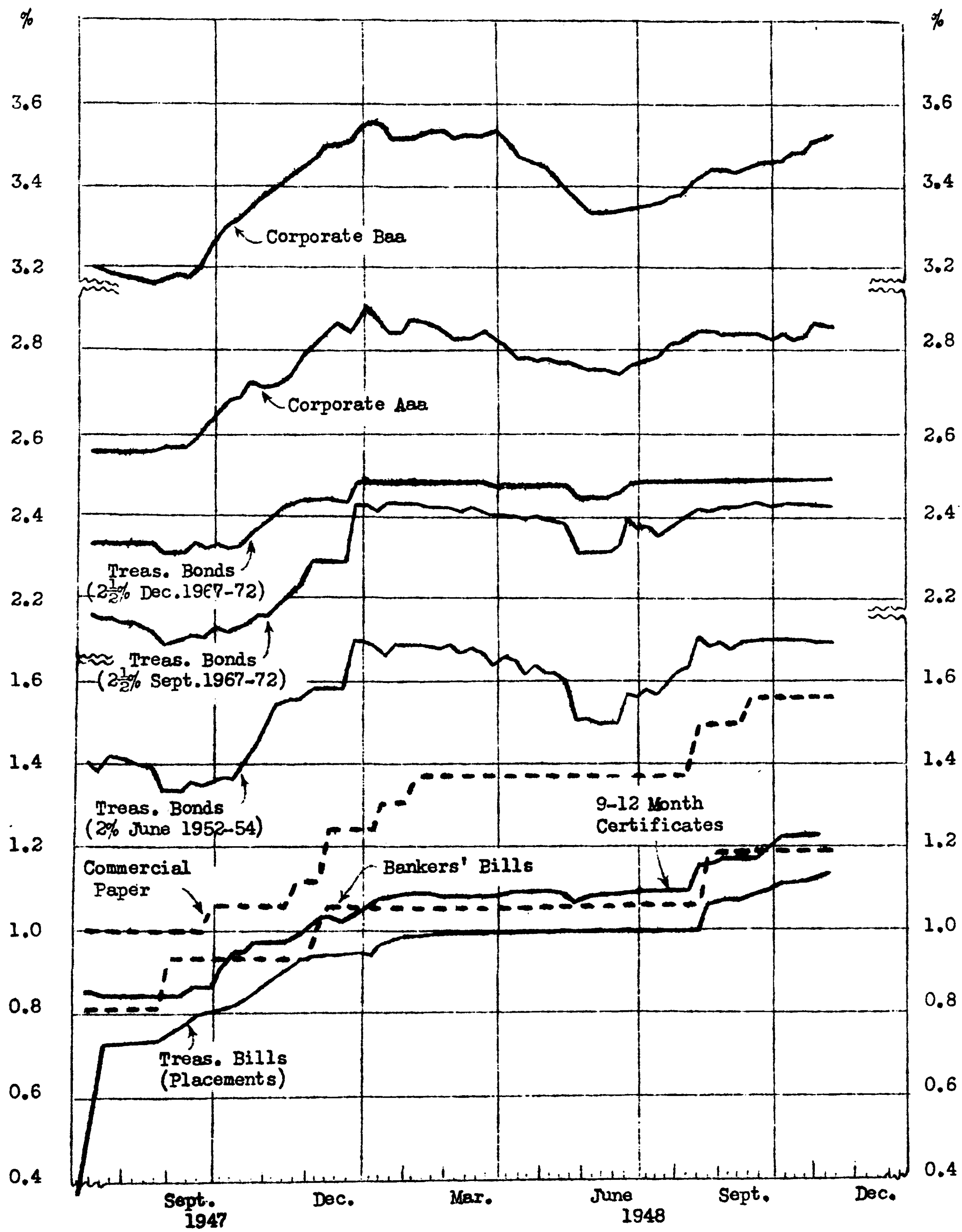
RECENT CHANGES IN MONEY RATES



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