FEDERAL RESERVE – TREASURY CONTROVERSY

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before the
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Conclusions:
1. The economics of the particular issue
2. Public Servants in a Democracy
   a. Intellectual grasp
   b. How much can we expect of a public servant?

I. THE ISSUE: Shall we control the supply of money even though it involves changes in interest rates - or shall we maintain interest rates low even though it is necessary to expand supply of money to do it - or shall we ration credit?

A. Why a rise?
   1. Cost to Government is direct
      anti-inflationary results indirect
   2. Mistaken notion of cost
      $1/2\% \times 250 \text{ bill.} = 1\frac{1}{4} \text{ billion}
      but maturity of outstanding debt
   3. Argument isn't over 1/3 or 1/4\% more

B. Interest rate theory
   1. Marginalism versus absolutes
      (a) Idea that both savings + investment are inelastic to rates
         (1) Interest as a cost
         (2) Interest as an inducement to save
      (b) What about very large differences in level?
      (c) What is historical "evidence"?
         (1) Actual vs. virtual movements
         (2) Braking a car going down hill
   2. The level of rates versus changes
      Changes influence liquidity
      Liquidity influences flow of expenditure
C. The structure of rates
   1. Circumstances leading to positively inclined structure
   2. Expectations of change versus certainty
      \[ 2\frac{1}{2}\% \text{ for call money?} \]
      Actual rates depend on maturities made available

D. Summary:
   Authorities can either (1) control volume of reserves and lost control over price, or
   (2) control prices but lost control over volume, or
   (3) ration to do both

II. INSTITUTIONS AND PEOPLE

A. Precedents on governments and central banks
   1. Long run
   2. U.S.A.: 1941-1951

   \begin{tabular}{ll}
   \textbf{1945} & Federal presses to discontinue 1/2 per cent preferential discount rate \\
   & Treasury opposed \\
   & Finally done April 1946 \\
   \textbf{1946} & Federal considers elimination of 3/8 per cent bill rate \\
   & Federal continues to press on 3/8 per cent bill rate \\
   \textbf{1947-July} & Treasury concurs on 3/8 per cent rate \\
   & Toward end of year Board requests added reserve authority \\
   Dec. 24 & Drop in support prices on bonds \\
   \textbf{1948-Jan.} & Increase in discount rates 1 \rightarrow 1-1/4 \\
   Feb. & Reserve requirements \uparrow 2 per cent at central reserve cities \\
   April & Request for further reserve powers \\
   \textbf{The summer interruption} & In view of System actions, market expected further increases in short rates \\
   May 13 & Secretary announces June and July refundings@1-1/8
\end{tabular}
June 11  Reserve requirements ↑ 2 per cent at central reserve cities

Aug.    Discount rates 1-1/4 → 1-1/2

July-Aug. Special Session
    Restore Regulation W  
    Reserve requirements authority increased 4 and 1-1/2 per cent

Sept. 16  Board increases reserve requirements
    2 per cent on demand, 1-1/2 per cent on time

1949
May  Reserve requirements reduced
June 28  Statement
Aug. 22  Douglas questionnaire
Nov. 7 "Materials" volume published

Nov. 16-
Dec. 7  Hearings
    Treasury announcement
    Eccles letter to Committee dated Dec. 1
    Snyder testifies Dec. 2

1950-Jan. 13  Douglas Committee Report
May 5  Secretary announces June and July refundings into 13-month 1-1/4 per cent notes

III. CHRONOLOGY

A. Status on August 18, 1950

1. Reasonable difference of opinion as to economic prospects until June 1950

2. Actions a compromise
   (a) Rates up faster than Treasury desired
   (b) Rates up slower than System desired


4. June 28, 1949, declaration of independence - in recession
    Douglas inquiry as to meaning of statement

5. Statement of positions
   (a) Douglas report
   (b) Council of Economic Advisers
2. Subsequent developments

1. Events on August 18, 1950
   (a) Additional inflation now certain
   (b) Government's formal position on indirect controls
   (c) Open-Market Committee decision
   (d) Treasury action - hoping to forestall?

   (Prospects: Limited (large) expenditures for unlimited time vs. unlimited expenditures for limited period)

2. Snyder press release of Aug. 21, 1950

3. System dual objective
   (a) Make refunding a "success"
   (b) Limit reserves
   (c) Net results (Table p. 5)

4. Snyder Board of Trade talk Jan. 18, 1951

5. Vardaman interview - N. Y. Times, Jan. 21

6. Sproul statement, Jan. 22

7. Joint Committee Report Jan. 24, 1951
   (a) Slanting question to economists
   (b) Statement of 400 economists
   (c) Keyserling pp. 48-49
   (d) Lynch pp. 39-40

8. Eccles testimony Jan. 25

9. McCabe Phila. speech Jan. 26
   Method of Eccles vs. method of McCabe

10. Snyder hits back at money critics

11. Truman calls in Open Market Committee Jan. 31
    (a) White House anticipates action by 
        Open Market Committee? Why? 
        Vardaman? American Banker

12. Truman announces "pledge" of Board Feb. 1
    (a) Snyder "interprets"

13. Truman releases letter to McCabe thanking Committee for agreeing to support Snyder policy Feb. 2

14. Eccles releases memo of conference saying no agreement had been reached Feb. 3

15. Did Open Market write a letter to Truman? Feb. 7

16. Washington's birthday in the Senate
    (a) O'Mahoney introduces Clark testimony
    (b) Paul Douglas' reply
17. White House Conference and memo. Feb. 26
   (a) Creates ad hoc group to decide what
       Open Market Committee should do
       C. E. Wilson    John Snyder
       Leon Keyserling  Tom McCabe
   (b) Content and implications of memo. Who prepared?
   (c) 10 days to 2 weeks to solve - "boxed in?"
   (d) Reaction to memo

18. Joint announcement of full accord March 3
   (a) Treasury announcement of new conversion
   (b) Martin intercession
   (c) Interpretation: Joe Livingston

19. Government securities on their own over
    whole range of maturities March 8
    (a) Long terms break par

20. McCabe resigns

21. Martin appointed as successor