

ROLE OF FEDERAL RESERVE SYSTEM IN CURRENT SITUATION

by  
Karl R. Bopp, Vice President  
Federal Reserve Bank of Philadelphia  
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ECONOMICS WORKSHOP  
School District of Philadelphia  
Federal Reserve Bank of Philadelphia  
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Introduction

- A. No gyroscope - no communion with burning bush  
I have personal judgments; but I shall not try to create straw man.
- B. You will hear of Federal Reserve System via Patman Inquiry
- C. The Congressional inquiry as a by-product of our governmental system

	1907-10	National Monetary Commission
	1913	Establishment of Federal Reserve System
	1921	Joint Commission of Agricultural Inquiry
Middle	1920's	Stabilization and brokers' loans
	1930's	Operation of banking systems
	1935	Banking Act of 1935
	1938	Government ownership of F. R. Banks
	1940's	Inflation control - economic stabilization - credit policies
	1949-50	Douglas inquiry and report
	1951-52	Patman inquiry

Perhaps 15-20 lineal feet specifically on F.R. System

Schools study - influence the future

Through all these hearings we have learned

I. Nature of a purposeful monetary policy is well known and easily described

Alternate restraint, neutrality, ease

II. Why then have we had inflation?

A. Financing the war - expand total output and squeeze the private sector

1. Total \$378 billion

a. Taxes 40% - why not all?  $2\frac{1}{2}$  x as high

b. Nonbank 35% - why not entire remainder?

Commercial banks	\$72 billion	
Federal Reserve Banks	22	"
Loans in 1940	20	"
Other securities	8	"

c. Bank 25%

2. Direct controls Price/wage ceilings → rationing/guesses

a. Equitable distribution of available supplies

b. Repress evidences of inflation

B. Removal of direct controls

1. Open inflation

C. Conflicts over monetary policy

- arose over dealing with Government debt of \$250 billion - 60% of all debt

1. Principles

a. Role and functioning of debt - analogy with iron

(1) Cast iron - hard but rigid, fragile

(2) Wrought iron - tough and malleable

b. Role of monetary policy - analogy with brake on car

(1) Pressure would lock brake

(2) Pressure would reduce speed

c. Cost

(1) Cost of debt

(2) Cost of total Government operations, including debt

2. Application of principles

a. Differences in view as to economic prospects

3. Chief principals in the conflict

a. Treasury

b. Federal Reserve

Not a new conflict (see attachment)

4. Results of conflict
  - a. Until Korean invasion
    - (1) Compromise
    - (2) Douglas Report & Washington Birthday speech
    - (3) Conflict breaks into open
  - b. After invasion of Korea
    - (1) Government to rely on indirect controls
    - (2) Inflation clearly the danger
    - (3) Prices no longer pegged along the whole range

### III. The basic issues that arise - The Patman Inquiry

#### Introduction:

1. Not exclusively - not even primarily - economic, but political, social, and cultural as well
2. Perhaps that is the nature of all human problems  
Each problem may be taken as a microscopic  
CORE CURRICULUM or RESOURCE UNIT

#### A. The role of monetary policy; how implement

1. Indirect general instruments supplemented by a few selective instruments

or

2. Basic reliance on selective instruments including direct rationing

or

Direct controls

#### B. Relation of central bank to Government - essentially a political problem

1. Issue is not independence vs. subservience but responsibility to the legislature or to the executive

Banking Act 1933  
1935

#### C. Organization of Federal Reserve System

efficiently accomplishing the wrong thing

1. Centralized, efficient - but dictatorial

or

2. (Present) Decentralized, cumbersome - but democratic

Wave flag a bit  
but you are warned

29)

Except possibly for quaintness of expression the following quotations describe wartime conditions in other countries and at other times as well as those in England during the Restriction period: Parliamentary Papers, 1819, Vol. III. Vansittart usually addressed the Governor and Deputy Governor somewhat as follows: "I beg leave to acquaint you, that it will be an Accommodation to the Public Service, if your Court will consent to exchange the Exchequer Bills dated . . . for a like Amount to be dated . . . I request therefore you will have the goodness to move your Court to consent to such Exchange accordingly." In the case of purchases (as contrasted with exchange) of bills, it was a "great Accommodation to the Public Service" or even a "very great Accommodation." Ordinarily the Court resolved to comply with the Chancellor's letters. Not infrequently, however, they imposed conditions, especially concerning repayment. For example, the Bank became increasingly concerned in 1814. They had agreed to purchase 8 million from May 5 to June 9. They agreed to a further purchase of 2 million on June 16 "on account of the urgent Necessity of Government, under the peculiar Circumstances of the Moment, and also that so large a Portion of the said Advances is settled to be paid off out of the Instalment of the present Loan." Three weeks later they agreed to purchase another 2 million. "But the chairs to acquaint the First Lord of the Treasury and the Chancellor of the Exchequer, that the Court cannot grant any further Advances; and expect such Arrangements may be made as shall tend to a very considerable Reduction of the present enormous Amount of these Advances." Nevertheless, the request of July 28 for yet another 2 million "was Reluctantly complied with, under the Assurance that every Endeavour will be made to bring the Advances of the Court within reasonable Bounds as soon as possible."