

INVESTMENTS V MAJOR

Graduate School of Banking
Rutgers University, New Brunswick, N.J.

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Grasshopper - beetle

Don't keep track of details
I'm a policy man myself

Scroll on Archives Building

Past is Prologue
You ain't seen nuthin' yet

One man's opinion

Prejudiced
though not defend always

Purpose of this discussion is only incidentally to give you
information.

It is to show how you can train yourself to analyze develop-
ments of great importance to you - and where to get the
necessary information.

to understand recent developments.

Public Debt Management from the Federal Reserve Standpoint

A. Powers, objectives, and operations of Federal Open Market Committee

1. Why should the investment manager be interested

a. An illustration: Prices of long-term bonds before March 1951

Never below par +

after March 1951

Dec. 27, 1951 95~~28~~

Jan. 11, 1952 95~~20~~

Why?

F.O.M.C. operations

b. Extent of System authority to deal in Governments

(1) Sales = total holdings = \$22½ billion

implications

meaning of "free" market

Balance sheet
must balance

(2) Purchases

until gold reserves = 25% of Notes & Deposits
or roughly 3 x gold - present holdings

Gold = \$22 billion

3 x 22 = 66 billion max.

22 " present

44 " to go

implications

on reserves and currency

2. Development of Open Market operations

Original purposes in granting authority (See quote)

a. Early history: purchases in spring of 1922

to increase earnings

effect on discounts

New York vs. hinterland Res. Banks

b. 1922 - 1933

Integrating open-market and discount policy

Reserve note collateral

*Washley Palace
1872*

c. 1937 - June 1949

Open-market and reserve requirements

Pegged Governments

Balance sheet
again

Relation to bal. sheets
of com. banks

Reconsideration of principles June 1949

d. July 1949 - March 1951

August 1950 statement

Role of Monetary Policy in a Market Economy

Centralized vs. Decentralized Control

Functioning of a market economy in allocating resources

Pegged markets and loss of control over supply of liquidity

Direct controls: Prices, Wages, Allocations, Rationing

Problems of administration
resources allocation

Flexible monetary policy

Korean outbreak

3. Evolution of control over Open Market operations

B. Systematic Interpretation of Open Market Operations

Consistent Policy and flexible program of action

1. Policy Statements

a. Why seldom unconditional

2. System operates in a gold fish bowl

Some basic questions:

- A. Who should control monetary policy?
- B. How can you tell what F.O.M.C. is doing?

Portfolio

Size
Maturity distribution

Interest rates in market

Also discounts

INVESTMENTS — 1952

*Available
for
reference*

3. Public Debt Management from the Federal Reserve Standpoint

A. Powers, objectives and operations of the Federal Open Market Committee

1. Why should an investment manager be interested?

- (a) An illustration: Prices of long-term bonds before and after March 1951
- (b) Extent of System authority to deal in Government securities
- (c) Purposes or objectives of Open Market operations

2. Development of Open Market operations

- (a) Early history
- (b) Lessons of the period 1922-33
- (c) Lessons of the period 1937-June 1949
- (d) The period July 1949-March 1951
- (e) Experience under the Treasury-Federal Reserve System "accord" of March 4, 1951

3. Evolution of control over Open Market operations

B. Systematic interpretation of Open Market operations

1. Policy statements

- (a) Why unconditional statements are rare in a changing, unpredictable world
- (b) Illustrations of policy statements

2. Changes in the System portfolio

- (a) Availability of information
- (b) Changes in maturity distribution
- (c) Changes in total portfolio and related factors
 - (1) Other Federal Reserve accounts
 - (2) Other Money Market factors
 - (3) Other general factors

3. Changes in interest rates

C. An over-all view of monetary policy and investment management

Note: Representative Wright Patman, Chairman of the Congressional Subcommittee on General Credit Control and Debt Management, appropriately included the following paragraph (page IV) in his Foreword to the two volumes of materials prepared for his Subcommittee:

"Two main heads or classes of subject matter stand out clearly as focal points in the variety of issues bearing on general credit control and debt management which the subcommittee has to consider. Many of the other questions may be classified directly or indirectly under these two main heads. These two master classifications are (1) the proper machinery for the formulation of monetary policy, and (2) the proper content of monetary policy under present and various hypothetical conditions."

These are basic issues on which individuals of good will firmly hold differing opinions. The opinions, as developed in written replies, oral evidence, and (if available) the report of the Subcommittee will form the basis of the discussion.

KRB
3/24/52