

BOARD MEETING

January 6, 1955

(Review, refreshing memories of new Directors.)

The Federal Reserve System - of which Federal Reserve Bank of Philadelphia is a part - is a unique institution

E.g. 1. Interested in low unit costs - efficiency - controlling expenses;

enthusiastic staff to produce -
not merely happy - but happy in doing a good job

BUT

Not in earnings or profits - which, however, we have
- well, in abundance

2. We operate in the public interest

BUT

are not a part of Government

Our unique characteristics have been developed out of experience

We live in a money and credit economy

purchases are votes on how we use our resources
allocation of our resources

EITHER A OR B

A profit/loss economy

There are times when we want

BOTH A AND B

only we haven't enough total resources to have both

e.g. Korea → P↑

There are other times when we want

NEITHER A NOR B

e.g. the depression → P↓ Emp.↓

Conclusions:

Money will not manage itself

Free markets can allocate real resources efficiently
only if the money market is managed.

The Government is an interested party - largest borrower -
and is not a good manager

Congress has created the Federal Reserve System to regulate the
supply of money and the terms under which it may be
enlarged or reduced.

Objectives:

General - Martin Detroit speech

The purpose of the Federal Reserve System "is to see that, so far as its policies are a controlling factor, the supply of money is neither so large as to induce destructive inflationary forces nor so small as to stifle our great and growing economy."

Specific

Stable price level
Maximum sustainable employment

Problems:

1. Are they compatible always?
- if not, which should have priority?
 - (a) At what wage rate?
2. Time lags
 - (a) In securing information
E.g. Dept. of Commerce Census estimates of employment and unemployment relate to week including 8th of month - come out on 20th of next month - 6-10 weeks late!
 - (b) Between an act and its effect

Guides to action

Options

Rely on latest information - past
forecasting the future
as to what is happening to P. and E.

Ultimate decision is that the tone of the money market is

- (a) about correct
- (b) too easy
- (c) too tight

Measures of Results

- (a) the amount of funds
Reserves of member banks
Excess reserves
Free reserves
- (b) the rates of interest

Instruments of Policy

- Reserve Requirements
- The Discount Rate
- Open Market operations
- Margin Requirements

The Structure of the System

Not a neat, logical structure - but it makes sense, if we keep a few principles in mind.

- (a) Our traditional abhorrence for concentration of power
- (b) Ad hoc changes to meet particular problems - patch-work
- (c) National policy determined by a group, a majority of whose members live at the center and a minority at the periphery looking to the center
- (d) Wide variety of experience and interest

The Federal Reserve Banks

- (a) The directors
 - Class A bankers - lenders
 - B nonbankers - borrowers
 - C public

Groups - again to prevent concentration of power
- (b) President and 1st Vice President
 - Appointed by directors
 - but subject to approval of Federal Reserve Board

The Board of Governors

- (a) Presidential appointment
 - (b) Senatorial advice and consent
- 7 members - 14 year terms

The Federal Open Market Committee

The Federal Advisory Council