

CENTRAL BANKING POLICY

by Karl R. Bopp

The School of Banking of the South
Louisiana State University, Baton Rouge, Louisiana

I. Development of Federal Reserve Policy

A. Our common objectives

1. Growth
2. Stability
3. Freedom of choice

B. The heritage of war financing

1. Large debt
2. Interest rate pattern

C. The "Accord" of March 31, 1951

1. Implications of pattern
approximate cycle

D. Recent Federal Reserve policy

1. In general
2. A few details

2. Why it took so long

II. The Mechanics of Federal Reserve Operations

A. Importance of mechanics

B. Our fractional Reserve System

C. Necessary relationships

D. Non-managed factors

E. Managed factors

F. The reserve position

1. Total reserves
2. Excess reserves
3. Free reserves

G. Practical problems

III. Objectives of Policy

A. Alternative objectives and related programs

Objective	Conditions <u>requiring</u> or permitting an easing of credit	Conditions <u>requiring</u> or permitting a tightening of credit	Inherent Bias
1. Stable price level	<u>Declining prices</u>	<u>Rising prices</u>	
2. Full employment	<u>Less than full employment</u>	Jobs in excess of workers	Expansive
3. Convertibility	High and/or rising primary reserves	<u>Low and/or declining primary reserves</u>	Contractive
4. Productive credit	<u>Increase in monetary volume of output</u>	<u>Decrease in monetary volume of output</u>	Chain-reaction
5. A fixed rate of interest	<u>When savings are inadequate</u>	<u>When savings are excessive</u>	Chain-reaction

B. Eliminating, reconciling and combining conflicting objectives

> C

IV. Guides to Current Operations and Measures of Immediate Results

A. Guides and objectives

B. The factor of time

1. Lag in acquiring knowledge
2. Lag in effects of action

C. Alternative guides

D. Measures of immediate results

V. Instruments of Policy

A. General

1. Discount rate and administration
2. Open market operations *inadequacy to expand*
3. Changes in reserve requirements *inadequacy to contract*
4. Interrelations of general instruments

B. Selective instruments

VI. Organization of the System

- A. Relation to the Government
- B. Centralization vs. decentralization
- C. On differences of opinion within the System
- D. On errors in judgment

VII. Treasury Operations

A. Fiscal policy

1. Factors affecting fiscal operations
2. Effects of fiscal operations
3. Role of fiscal policy

B. Debt management: Alternative principles

1. Lowest interest cost
2. Tailoring interest to investor demand
3. Compensatory policy
4. Balanced debt structure

VIII. Basic Issues of Monetary Policy

- A. What should be its ultimate objectives?
- B. To what extent should it rely on general instruments?
- C. How should the monetary authority be organized?