

I. NATIONAL GOALS OF OUR ECONOMIC SYSTEM.

A. Section 2 of Employment Act of 1946:

" . . . Federal Government to use all practicable means . . .
in a manner calculated to foster and promote free competitive
enterprise and the general welfare . . . to promote maximum
employment, production, and purchasing power."

B. Money as the instrument of economic freedom.

1. Freedom to earn, spend, save, invest.

2. Spending decisions guide production.

(a) Profit and loss economy.

3. Earning and spending decisions.

(a) As individual consumers, home owners, businesses
(proprietorships).

(b) In voluntary collectives -- corporations.

(c) In public capacity -- government.

C. Full use of resources.

1. Private and public demand.

Output at maximum employment and stable price level.

2. Not automatic. Fiscal policy.

II. THE ROLE OF MONETARY POLICY.

A. Adjust flexibly to economic developments.

1. When demand is excessive, make money harder to get and more
expensive.

2. Vice versa.

- B. Efficiency in use of money mitigates effects.
- C. Experience shows it works.

Affects capital values and whole economy.

Wide variety of borrowers/lenders free to choose.

III. TOOLS OF MONETARY POLICY.

- A. Deposits as money: work through the banking system.
 - 1. Commercial banks --
 - Seek loans and investments when they have more to lend.
 - 2. Vice versa.
 - 3. Reserve position as measure of banks' position.
- B. Reserve requirements.
- C. Open Market operations.
- D. Discounting.
 - 1. Rate.
 - 2. Administration.

IV. SPECIFIC OBJECTIVES.

- A. Earlier cyclical behavior of wage rates and prices.
 - 1. Implications for monetary policy:
 - Developments in employment and prices pointed in same direction.
- B. Full employment.
 - 1. How define?
 - (a) Labor force?
 - (b) Employed?
 - (c) Unemployed?

2. Irrespective of wage rates?
3. And of price level? A perpetual sellers' market.

C. Stable price level.

1. Effects of changing price levels.
 - (a) On distribution of real wealth.
 - (1) Borrower/lender.
 - (2) Who will buy bonds?
 - (b) On business decisions and production of wealth.
2. Inflation and foreign trade.

D. What about growth?

Surpluses? Housing beyond our needs?

V. GUIDES TO CURRENT OPERATIONS.

A. Lags.

1. Between an event and knowledge.
2. Between knowledge and decision.
3. Between decision and effects.

B. Methods of determining current policy.

1. Population forecasts.
2. Harvard A.B.C. curves.

Speculation -- business -- banking.
3. Leading indicators.

VI. MEASURES OF RESULTS.

A. Ultimately, of course, whether objectives are achieved.

B. Immediately in money market.

1. Supply.
2. Availability.
3. Cost.

VII. OPERATIONAL PROCEDURES.

A. Organization for policy-making.

1. Relations to the Government.
2. Central vs. decentralized.
 - (a) A Federal System.
 - (b) A National Policy.

B. Reaching a decision.

1. Federal Advisory Council
2. Federal Reserve Banks.
 - (a) Boards of directors.
3. Federal Open Market Committee meets every three weeks.
 - (a) Economic memorandum:
 - Staff review of economic developments -- credit developments.
 - 12 Presidents and 7 Governors report.
 - Discussion of past three weeks.
 - (b) Decision as to whether to --
 - (1) Continue as is.
 - (2) Tighten -- and how much.
 - (3) Ease -- and how much.
 - (c) Changes are usually moderate.
 - (1) A little more, a little less.
 - (2) Resolve doubts on one side or the other.
 - (d) The directive.
4. Manager of the account and daily telephone calls and wire reports.
 - (a) Projections of non-controllable factors.
 - Float -- uncollected cash items.
 - Deferred availability cash items.
 - (b) Inevitable errors in projections.
 - (c) How correct for errors --
 - (1) Bring average in line?
 - (2) What happens on subsequent days?

- (d) Regular way transactions.
- (e) Cash transactions.
- (f) Repurchase agreements.

VIII. RECENT POLICY.

(See outline for 1960 Seminar Series of the University of Wisconsin School of Banking, August 25, 1960.)

IX. SUMMARY.