1960 Seminar Series of the University of Wisconsin School of Banking at 7:15 p.m., Thursday, August 25, 1960, Union Theatre, Madison, Wisconsin.

I. NATIONAL GOALS OF OUR ECONOMIC SYSTEM.

A. Section 2 of Employment Act of 1946:

". . . Federal Government shall 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.

Edsel -- Rambler.

(a) Profit and loss economy.

3. Earning and Spending Decision.

(a) As individual consumers, household 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. 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. Past relationships.

   (a) Population forecasts.

   (b) Harvard A.B.C. curves.

   Speculation -- business -- banking.

   (c) Leading indicators.

2. Current behavior.

   Inertia -- weather forecast.
   Miss every change!

3. Expressions of current opinion.

4. Expressions of current intentions.

5. No rabbits in the hat.

6. Judgment.

V. <u>OPERATIONAL PROCEDURES</u>.

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.

   Advice from F.A.C. --
   Herb Prochnow
   Bill Korsvik

2. Federal Reserve Banks.

   (a) Boards of Directors.

3. Federal Open Market Committee meets every three weeks.

   (a) Economic memorandum: (New York memo on operations.)

   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.

3. Manager of the account and daily telephone calls and wire reports.

Conduct of an operation.

(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.

RECENT POLICY:

Last overt move to greater restraint --

September 11, 1959 -- Rate: $3\frac{1}{2}$ to 4%.

Despite steel strike.
Inflationary psychology.

1960 Boom assured because of strike.

However, no additional restraint on availability.

Net borrowed reserves in 400-500 will range until end of year.

February-March 1960. Some easing of reserve positions.

1959 -	August	- 535	1960 - January	- 361
	September	- 493	February	- 361
	October	- 459	March	- 219
	November	- 433	April	- 194
	December	- 424	May	- 33
			June	+ 41
			July	+ 120
			August	+ 247
			September	+ 414

1960:

June 3 - 14	Discount rate:	4 to $3\frac{1}{2}$%		
July 28	Margins:	90 to 70%	(70 to 90% - (10/16/58.	
			Effective	
August 8 (Announced)	Vault cash allowance: Country:	4 to $2\frac{1}{2}$%	8/25/60	
	RC and CRC:	2 to 1%	9/1/60	
	Req. CRC:	18 to $17\frac{1}{2}$%	9/1/60	
August 11	Discount rate:	$3\frac{1}{2}$ to 3%		

CRITICISM:

For not moving fast or far enough. (Lowell Harriss letter.)
For moving too fast. (Barron's.)

System moved toward ease or less restraint --

Before the economy over-all turned down because --

1. Inflationary psychosis subsided -- dormant at least.
2. Competitive buyers markets -- unused manpower; unused plant and equipment.

Could have credit for real growth without inflation.

Proportion and Perspective on our International Position.

Flight from the dollar to gold.
Balance of payments position.
Our trade position -- great improvement since second quarter of 1959.
Our businessmen have been adjusting.

If we had --

Inflationary psychology.

Rising prices -- deteriorating trade position.
Full use of resources.

Large fiscal deficit.

Low gold reserves

Then, to compound with easy money would, indeed, be hazardous.

But surely with the reverse, the dangers from easier credit are less than those from tight credit.

What can be done about our unfair balance of payments?

1. Influence behavior of foreigners.

   (a) We helped them -- generously -- reconstruct and successfully!

      (1) Rising international liquidity.
          Therefore, reduce barriers vs. U.S. imports.

          Aid in development, especially Germany!
              The lesson of Germany.

      (2) Review our expenditures abroad.

      (3) Avoid inflation at home.

      (4) Improve competitive position at home/abroad.