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LEANING AGAINST THE WINDS OF CHANGE

By Karl R. Bopp
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Since we last met at this annual meeting the economy and the nation have endured strains ranging all the way from a major stock market break to a tension-filled international crisis over the presence of Soviet offensive capability in Cuba. In past decades, either one of these developments might have had the most severe repercussions on our economy. Yet the effects proved to be quite limited.

At the height of the Cuban crisis, for example, retailers noted little more than an increase in sales of transistor radios. Mass, panic buying, so typical of periods of international tension, was simply not in evidence. And though the stock market break was enough to make businessmen take a second look at our economic underpinnings, it did not precipitate any major decline in business activity.

Perhaps the limited economic effects of the stock market break partially may be explained by public confidence in the safeguards designed to cushion the economy from such shocks. Perhaps the limited impact of the Cuban crisis resulted in part from a general feeling that the course of events in the thermonuclear age is beyond the direct reach of the individual.

But whatever the reasons, the major crises of 1962 had a limited economic impact. Perhaps the most favorable development was the continuation for another year of relative stability in the price level. Yet we still had economic problems. Most important, the economy continued to grow at a rate which was inadequate to absorb an expanding work force; and our balance of payments registered a sizeable deficit.

These continuing problems presented the Federal Reserve System with difficult decisions because action designed to spur domestic economic growth may tend in some instances to aggravate our balance-of-payments problem.

Stimulation of the domestic economy, on the one hand, calls for greater credit availability and lower interest rates. But easy money and low interest rates promote outflows of capital to foreign nations and can thus adversely affect our balance of payments.

You bankers, of course, are thoroughly familiar with this type of situation. You have the continuing problem of combining your desire for profit with your need for liquidity and your desire to serve your communities. In general, the quest for profit and community service tend to pull in the direction of extending credit that is longer term, riskier, and local. The need for liquidity pulls in the direction of shorter term, safer, and marketable securities. This inherent conflict does not frustrate you. On the contrary, it gives real meaning to the profession. The great challenge is to produce the optimum over-all result.

So it is with the Federal Reserve System. Our problem is to produce the best over-all results, within the limits of our powers, with respect to both our balance of payments and our rate of economic growth. Today I should like to discuss with you the developments that have produced our current problems, what the System has done to resolve the issues, and finally how the System reaches decisions as to appropriate policy.

In the years when I received my economic training, prevailing thought indicated that full employment and balance-of-payments equilibrium could be achieved simultaneously. The medicine to provide one was thought to promote the other.

Unemployment, the reasoning went, stemmed from inadequate domestic demand. Inadequate demand in turn, was associated with balance-of-payments surplus, because inadequate demand tended to put downward pressure on wages and prices and thus made the home market a good place to buy for both foreigners and domestic consumers.

Since unemployment and payments surplus occurred simultaneously, there was no conflict in objectives. Monetary ease was the medicine for both maladies. The central bank was supposed to make money and credit more readily available. More money and credit stimulated output, employment, and sales. And it also tended eventually to put upward pressure on wages and prices and thus make domestic goods less attractive so that balance-of-payments equilibrium would be restored.

Our present situation, of course, is a long way from this theoretical framework. Why is this so?

The answer is involved and concerns political as well as economic developments. We must go back a few years -- to the end of World War II in fact -- to see how the present conflict between international payments and domestic growth developed.

At the end of the Second World War the United States faced two political problems of overriding importance. Much of the world lay in ruins and the Soviet Union was taking advantage of the situation to expand its territorial and ideological sphere of influence. By external power and internal subversion, the Soviets swallowed up Poland, Hungary, Rumania, Bulgaria, East Germany, and many of the other satellite nations. Within five years after war's end, the Communist bloc had expanded to include more than half the population and land area of Europe.

Surveying the world scene, the United States realized that something had to be done if liberty and peace were to be preserved. Left to their own misery, the war-ravaged and poverty-stricken nations of Western Europe were almost certain to share the fate of the Eastern European satellites. France, Italy, Greece, Turkey -- all were vulnerable. Thus acting under the dual motive of humanitarianism and a desire to check Soviet imperialism and preserve world peace, the United States began a massive program to aid in reconstruction and to build a network of military bases to deter overt Soviet aggression. And this was not all. In later years, as the underdeveloped nations of Europe, Africa, Latin America, and the East began to emerge into the industrial age, the United States came with aid -- both as brother-to-brother and to prevent further Soviet penetration.

Here, then, was the world scene: two super powers with the technical proficiency to destroy the world -- between them the grey area of the reconstructing and developing nations, plus an intricate network of military installations. The cost to support this elaborate setup? In a word, the costs were enormous. It meant spending vast amounts of dollars all over the world.

Yet the dollars could be spent with little adverse impact on our balance of payments and gold stock so long as dollars were desperately needed to buy United States goods. What nation wants to waste dollars buying our gold when it desperately needs machinery, locomotives, and all the other hardware of reconstruction and development?

Let this need subside, though, let the war-devastated countries rebuild their productive capacity so that they could produce much of the needs of their citizens -- let them even become competitors with freely convertible currencies -- then watch out. Dollars may come home not to buy goods, but to purchase gold, the traditional form in which many nations keep their international reserves.

Indeed, with business booming abroad Americans could add to the current difficulty by investing abroad in productive enterprises and in high-yielding securities. Now, profitable foreign investment obviously adds to the ultimate strength of the dollar, especially when the income from such investment is brought back home. But while the investment is being made it adds to the current supply of dollars demanding foreign currencies.

In fact, this is just what happened to the United States. It became apparent in 1958. For in that year, when great strides were made toward currency convertibility abroad, we found ourselves paying far more to foreigners for imports, investments, military and economic aid than we received for our exports of goods and services. The difference came to a strapping \$3.8 billion. To settle accounts, foreigners took a little over \$1 billion in claims and about \$2.3 billion in gold. We had a serious balance-of-payments problem and a heavy gold outflow to prove it. The same basic situation has continued to the present.

While all this was happening, the groundwork was being laid for our present problem of unemployment and inadequate growth. With wartime priorities directed at producing the tanks and planes needed to bring the enemy to his knees, a large portion of the wages and salaries derived from that production went into savings accounts, war bonds and the like. At war's end the nation had accumulated an enormous volume of liquid purchasing power. Then, when we converted back to peacetime production, this huge accumulation of funds descended upon a limited supply of goods. The result: rising profits, prices, and wages, and a scramble to increase capacity to produce more of the goods long denied.

Of course the highly pitched postwar boom could not last forever. Gradually, through the years, the gaping voids created by war were filled -- voids in durable consumer goods, housing, and other areas. Yet still business expanded its productive capacity. Wages, costs, and prices continued to rise.

Then, in the early 1960's, we found that costs were rigid and that profits were squeezed. We found that our capacity to produce greatly exceeded the demand for goods at existing income levels. We found ourselves with a tax structure designed for war in a period of lax demand.

In short, we found that the groundwork had been laid for the present situation of unemployment and inadequate growth -- and this at a time when we continued to spend more abroad for imports, investments, military and economic aid than we received for our exports of goods and services. This is how the problem of inadequate growth became coupled with balance-of-payments deficit. And this is why the Federal Reserve System finds itself with a situation in which monetary ease needed to stimulate domestic growth can spill over to affect adversely our balance of payments.

This is not the first time that the System has been confronted with conflicting objectives. You all remember the period of the pegs, when maintenance of stability in the prices of Government securities was not consistent with promoting stability in the general level of commodity prices. Again, during the middle 1950's we had a foretaste of current developments. Roughly from the middle of 1953 to the middle of 1954, employment declined by 1 million (and unemployment rose by nearly 2 million) our monetary gold stock fell by \$600 million, and both the consumer and wholesale price levels varied by only one per cent. Thus an employment objective would have called for greater ease, protecting our gold stock would have called for greater tightness, and a stable price level would have called for no change.

We are living through a similar set of developments at the present time. And though the recent loss of gold is more serious than that in 1953-1954, the two periods nevertheless illustrate the need for judgment in arriving at an appropriate balance over time among several objectives, each of which is desirable in its own right.

Combining the Objectives

The next question I want to ask is this: Just what has the System done with respect to money and credit, given the diverse developments that have occurred?

First let me say that there certainly has been no lack of suggestions from outside as to how the System should deal with the dual problem of payments deficit and inadequate growth. System actions have been studied, analyzed, and debated in the press, in the economic journals and elsewhere. Virtually no action of the System goes without comment. Indeed, one feels today much as Walter Bagehot must have felt when reviewing Gibbon's book *THE DECLINE AND FALL OF THE ROMAN EMPIRE*. Bagehot noted that "Perhaps when a Visigoth broke a head, he [the Visigoth] thought that that was all: not so, --" wrote Bagehot, "he was making history; Gibbon has written it down."

The System has been advised by some to concentrate its attention exclusively on the balance of payments deficit -- to raise interest rates to whatever degree is necessary to eliminate the deficit promptly. Yet while flows of volatile short-term capital might indeed be influenced by such action, a significant rise in interest rates would also tend to curtail domestic investment.

The System has been advised by others to concentrate mainly on the rate of economic growth -- to make credit more readily available and interest rates lower so as to stimulate investment, production, and employment. Individuals of this persuasion argue that such action would not only alleviate the domestic problem of unemployment, but also would solve our payments difficulties. Our payments problem would benefit, the reasoning goes, because a faster growth rate would make the United States more attractive to both foreign and domestic investors, hence reduce or even eliminate the large net outflow of investment funds. Unfortunately, there is no certainty that greater monetary ease would

in fact have the stimulating effects envisaged without causing a further outflow of funds. It seems likely that the immediate impact on capital flows would be adverse and the favorable long-term effects would be modified by a likely deterioration in our trade balance.

In short, there are real questions as to whether monetary policy could have its optimum impact if directed at either end of the spectrum of possible action. As a result, the System has avoided the extremes. It has attempted instead to provide sufficient monetary ease to promote orderly economic growth while at the same time avoiding undue pressure on short-term interest rates.

Evidence of the direction of monetary policy may be found in the statistical record books for the year 1962. To stimulate domestic economic activity the System permitted an expansion in bank reserves of about \$700 million after adjustment for changes in reserve requirements. As a result, the banking system increased its loans and investments by a record \$19 billion, providing about 31 per cent of the total net volume of funds raised in the credit and equity markets during the year. And even more indicative of the ease provided by the System, this record increase in earning assets was accomplished with only a slight drop in holdings of Government securities. This is in sharp contrast to other postwar business upswings when banks increased loans only at the expense of liquidating large volumes of Governments.

In response to the record increase in bank credit, long-term interest rates on Government and corporate securities fell noticeably and residential mortgage rates also drifted downward. Yet most short-term rates, those to which international flows of funds are especially sensitive, actually rose on balance.

The System helped keep short-term rates up by supplying reserves in such a manner as to minimize direct pressure on the short-term securities markets.

Instead of supplying all reserves by direct purchase of Government securities (which tends to push prices up and yields down) the System created about \$780 million in excess reserves in 1962 by reducing reserve requirements on time deposits from 5 to 4 per cent. In addition, the Open Market Committee continued to concentrate purchases of Government securities outside the short-term Treasury bill market, and thus to avoid downward pressure on Treasury bill rates. Indeed, close to 95 per cent of the net increase in the System's portfolio of Government securities during the year 1962 was in issues maturing in over one year.

The System also took other actions broadly aimed at mitigating temporary developments which might affect adversely our balance-of-payments position. Among these, Regulation Q was modified in an attempt to discourage the outflow of short-term funds held by foreign Governments and official institutions. Effective in October of 1962 for a period of three years, deposits of "foreign Governments, monetary and financial authorities of foreign Governments when acting as such, or international financial institutions of which the United States is a member" are exempt from the provisions of the regulation specifying maximum rates of interest which may be paid on time deposits. This modification enables member banks to set rates which are competitive with those offered abroad and thus to attract foreign-owned dollars which otherwise might flow to foreign countries and thus become a claim on our gold stock.

In addition to the modification of Regulation Q, the System has developed the so-called "swaps" arrangement under which the Federal Reserve and 10 foreign central banks (plus the Bank for International Settlements) have set up reciprocal "lines of credit." The Bank of France, for example, will allow the System to draw up to 500 million francs and the Fed, in turn, will let the Bank of France draw 100 million dollars.

In general, these drawings are made in response to needs for foreign currencies to provide temporary relief from specific developments which might adversely affect our balance-of-payments and gold position. The foreign currencies may be used for direct operations in the exchange markets -- the Federal Reserve, for example, drawing francs and offering them for sale through the exchange markets to dollar holders who desire francs and whose efforts to purchase francs might increase the price of francs in terms of the dollar.

More typically, however, the System would draw foreign currencies under the swap arrangements to buy dollars which a foreign central bank has acquired (as a result of international commercial and financial transactions) and which are in excess of those the central bank would ordinarily hold. These dollars would thus be absorbed and would not be used to purchase gold during the period the swap is in effect. In numerous instances it has worked out that by the time the swap matures, natural forces have operated to absorb the dollars so the transfer of gold has been avoided entirely.

In a sense, the swap arrangements represent a first line of defense against short-term developments which could cause gold drains and speculative movements of funds abroad. Yet it should be noted that such agreements as the swaps are by no means the final solution to our balance-of-payments problem. Instead, they are tools which give us time to work out the more basic difficulties underlying our balance-of-payments deficit.

The United States also participates in informal arrangements with European countries to restrain speculative pressures in the London gold market, which pressures, if allowed free sway, could have unsettling effects on the exchanges.

To summarize what I have said thus far, the System has adapted its operations to meet the conflict inherent in the dual problem of balance-of-payments deficit and inadequate economic growth. It has attempted to provide the monetary ease necessary to promote orderly economic growth, yet provide this ease in such a way as to have a minimum impact on our balance of payments. In addition, it has developed several procedures designed to mitigate temporary developments which might have adverse effects on our balance of payments and on our gold stock.

How Decisions on Policy Are Made

Now I should like to move from the substance of policy to discuss with you for a moment the procedure by which Federal Reserve policy is determined. I do this because of the conflicting reports you may have read about the process. Just a year ago the System was being described as a monolithic organization whose responsible officials were required in some mysterious way to reach unanimous decisions, irrespective of their real convictions. More recently, after publication of the ANNUAL REPORT of the Board of Governors, you may have read about a "deep split" in the System over policy. Obviously, these reports come from opposite ends of the analytical spectrum.

Congress created the Federal Reserve System half a century ago to reflect our heritage of checks and balances, our desire to avoid concentrations of power. It made the System responsible to the Congress rather than to the President. It created a rather complex organization. At the apex is the Board of Governors, consisting of seven members appointed by the President, by and with the advice and consent of the Senate. There are twelve Reserve Banks and twenty-four Branches, each with a board of directors, 260 directors in all. Each Bank has a president, elected by the local board of directors with the approval of the

Board of Governors for a five year term. The seven governors and five of the presidents comprise the Federal Open Market Committee. Finally, there is a Federal Advisory Council with one member from each Reserve District.

This complex organization was created to assure that a variety of points of view would receive expression and consideration in the determination of monetary policy. Obviously, it is not the kind of structure one would create if he were interested in unanimity of view. That could have been assured by creating a single-headed central bank. Congress did assure that in the event of differences in opinion a united Board of Governors would have final authority over all instruments of policy. Its members cast seven of twelve votes on the Open Market Committee; they review and determine discount rates at the Reserve Banks; they determine reserve requirements of member banks, and they establish margin requirements for purchasing or carrying listed securities.

It should not be surprising that votes on policy have been unanimous for considerable periods of time. After all, there is no basic disagreement on the goals: maximum employment and production, domestic and international stability of the currency, and growth that such conditions promote. Not infrequently all of these goals call for essentially the same policy. Furthermore, the responsible officials have access, directly or through interchange, to the same information. Under these circumstances, frequent agreement requires no defense. Differences of opinion which may exist may be too small to merit a record of dissent.

It should be equally clear why differences of opinion do arise from time to time. General agreement on goals does not include specific agreement on the best combination of objectives if all of them cannot be achieved simultaneously and continuously. Furthermore, in our current state of knowledge, central banking is more art than science. Economists have not been able to conduct the controlled experiments that would enable them to predict in all their ramifications the

precise effects of a given action. Finally, every individual's judgment is influenced by his own background and experience. Officials of the Federal Reserve System are human beings, living in the real world not in a vacuum.

The Federal Open Market Committee is a deliberative group. Each member influences and is influenced by every other member. Obviously the amount of influence exerted and received is not equal but is related to the talents of the individual members. After many years of observation and participation, I can say no single member would have done exactly what the Committee did on all occasions had he been in complete authority. No member is always completely satisfied. Yet, looking back and speaking for myself, I can only hope that I may have made some constructive contribution to the results; I know that the actual policies that have been pursued have been better than they would have been had I called all the shots.

Conclusions

In conclusion let me say this. The Federal Reserve System has been faced with difficult problems during the past few years. The serious deficit in our balance of payments and the slowdown in our rate of economic growth have challenged the skill and resourcefulness of all officials within the System.

Differences arise from time to time with regard to the particular emphasis which should be given to each of the forces that comprise our complex economic system. Such differences could be eliminated simply by eliminating dissenting opinion. Yet one of the main sources of Federal Reserve strength is the deliberative process wherein men of good-will, of varied background and experience pool and appraise opinions and ideas and come to a judgment as to the course of action to be followed. It would be of dubious utility to sacrifice this decision-making process merely to appear more unified and monolithic in the public eye.

In my talk with you today I have discussed primarily the role of the Federal Reserve System in promoting sustained growth and balance-of-payments equilibrium. Let me close by emphasizing what must be obvious; the Federal Reserve alone cannot solve these problems. The complexities of the situation demand that we bring all of our tools of public policy to bear, from fiscal policy to foreign relations. Only then can we be assured that this nation has the best possible chance to move forward during the decade of the 1960's.

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At the end of the Second World War the United States faced two political problems of overriding importance. Much of the world lay in ruins and the Soviet Union was taking advantage of the situation to expand its territorial and ideological sphere of influence. By external power and internal subversion, the Soviets swallowed up Poland, Hungary, Rumania, Bulgaria, East Germany, and many of the other satellite nations. Within five years after war's end, the Communist bloc had expanded to include more than half the population and land area of Europe.

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In fact, this is just what happened to the United States. It became apparent in 1958. For in that year, when great strides were made toward currency convertibility abroad, we found ourselves paying far more to foreigners for imports, investments, military and economic aid

than we received for our exports of goods and services. The difference came to a strapping \$3.8 billion. To settle accounts, foreigners took a little over \$1 billion in claims and about \$2.3 billion in gold. We had a serious balance-of-payments problem and a heavy gold outflow to prove it. The same basic situation has continued to the present.

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Of course the highly pitched postwar boom could not last forever. Gradually, through the years, the gaping voids created by war were filled—voids in durable consumer goods, housing, and other areas. Yet still business expanded its productive capacity. Wages, costs, and prices continued to rise. Then, in the early 1960's, we found that costs were rigid and that profits were squeezed. We found that our capacity to produce greatly exceeded the demand for goods at existing income levels. We found ourselves with a tax structure designed for war in a period of lax demand.

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The System helped keep short-term rates up by supplying reserves in such a manner as to

minimize direct pressure on the short-term securities markets. Instead of supplying all reserves by direct purchase of Government securities (which tends to push prices up and yields down) the System created about \$780 million in excess reserves in 1962 by reducing reserve requirements on time deposits from 5 to 4 per cent. In addition, the Open Market Committee continued to concentrate purchases of Government securities outside the short-term Treasury bill market, and thus to avoid downward pressure on Treasury bill rates. Indeed, close to 95 per cent of the net increase in the System's portfolio of Government securities during the year 1962 was in issues maturing in over one year.

The System also took other actions broadly aimed at mitigating temporary developments which might affect adversely our balance-of-payments position. Among these, Regulation Q was modified in an attempt to discourage the outflow of short-term funds held by foreign Governments and official institutions. Effective in October of 1962 for a period of three years, deposits of "foreign Governments, monetary and financial authorities of foreign Governments when acting as such, or international financial institutions of which the United States is a member" are exempt from the provisions of the regulation specifying maximum rates of interest which may be paid on time deposits. This modification enables member banks to set rates which are competitive with those offered abroad and thus to attract foreign-owned dollars which otherwise might flow to foreign countries and thus become a claim on our gold stock.

In addition to the modification of Regulation Q, the System has developed the so-called "swaps" arrangement under which the Federal Reserve and 10 foreign central banks (plus the

Bank for International Settlements) have set up reciprocal "lines of credit." The Bank of France, for example, will allow the System to draw up to 500 million francs and the Fed, in turn, will let the Bank of France draw 100 million dollars.

In general, these drawings are made in response to needs for foreign currencies to provide temporary relief from specific developments which might adversely affect our balance-of-payments and gold position. The foreign currencies may be used for direct operations in the exchange markets—the Federal Reserve, for example, drawing francs and offering them for sale through the exchange markets to dollar holders who desire francs and whose efforts to purchase francs might increase the price of francs in terms of the dollar.

More typically, however, the System would draw foreign currencies under the swap arrangements to buy dollars which a foreign central bank has acquired (as a result of international commercial and financial transactions) and which are in excess of those the central bank would ordinarily hold. These dollars would thus be absorbed and would not be used to purchase gold during the period the swap is in effect. In numerous instances it has worked out that by the time the swap matured natural forces had operated to absorb the dollars so that the transfer of gold was avoided entirely.

In a sense, the swap arrangements represent a first line of defense against short-term developments which could cause gold drains and speculative movements of funds abroad. Yet it should be noted that such agreements as the swaps are by no means the final solution to our balance-of-payments problem. Instead, they are tools which give us time to work out the more basic difficulties underlying our balance-of-payments deficit.

The United States also participates in informal arrangements with European countries to restrain speculative pressures in the London gold market, which pressures if allowed free sway could have unsettling effects on the exchanges.

To summarize what I have said thus far, the System has adapted its operations to meet the conflict inherent in the dual problem of balance-of-payments deficit and inadequate economic growth. It has attempted to provide the monetary ease necessary to promote orderly economic growth, yet provide this ease in such a way as to have a minimum impact on our balance of payments. In addition, it has developed several procedures designed to mitigate temporary developments which might have adverse effects on our balance of payments and on our gold stock.

How decisions on policy are made

Now I should like to move from the substance of policy to discuss with you for a moment the procedure by which Federal Reserve policy is determined. I do this because of the conflicting reports you may have read about the process. Just a year ago the System was being described as a monolithic organization whose responsible officials were required in some mysterious way to reach unanimous decisions, irrespective of their real convictions. More recently, after publication of the Annual Report of the Board of Governors, you may have read about a "deep split" in the System over policy. Obviously, these reports come from opposite ends of the analytical spectrum.

Congress created the Federal Reserve System half a century ago to reflect our heritage of checks and balances, our desire to avoid concentrations of power. It made the System responsible to the Congress rather than to the President. It created a rather complex organization.

At the apex is the Board of Governors, consisting of seven members appointed by the President, by and with the advice and consent of the Senate. There are twelve Reserve Banks and twenty-four Branches, each with a board of directors, 260 directors in all. Each Bank has a president, elected by the local board of directors with the approval of the Board of Governors for a five-year term. The seven governors and five of the presidents comprise the Federal Open Market Committee. Finally, there is a Federal Advisory Council with one member from each Reserve District.

This complex organization was created to assure that a variety of points of view would receive expression and consideration in the determination of monetary policy. Obviously, it is not the kind of structure one would create if he were interested in unanimity of view. That could have been assured by creating a single-headed central bank. Congress did assure that in the event of differences in opinion a united Board of Governors would have final authority over all instruments of policy. Its members cast seven of twelve votes on the Open Market Committee; they review *and determine* discount rates at the Reserve Banks; they determine reserve requirements of member banks, and they establish margin requirements for purchasing or carrying listed securities.

It should not be surprising that votes on policy have been unanimous for considerable periods of time. After all, there is no basic disagreement on the goals: maximum employment and production, domestic and international stability of the currency, and growth that such conditions promote. Not infrequently all of these goals call for essentially the same policy. Furthermore, the responsible officials have access, directly or through interchange, to the same information.

Under these circumstances, frequent agreement requires no defense. Differences of opinion which may exist may be too small to merit a record of dissent.

It should be equally clear why differences of opinion do arise from time to time. General agreement on goals does not include specific agreement on the best combination of objectives if all of them cannot be achieved simultaneously and continuously. Furthermore, in our current state of knowledge, central banking is more art than science. Economists have not been able to conduct the controlled experiments that would enable them to predict in all their ramifications the precise effects of a given action. Finally, every individual's judgment is influenced by his own background and experience. Officials of the Federal Reserve System are human beings, living in the real world not in a vacuum.

The Federal Open Market Committee is a deliberative group. Each member influences and is influenced by every other member. Obviously the amount of influence exerted and received is not equal but is related to the talents of the individual members. After many years of observation and participation, I can say no single member would have done exactly what the Committee did on all occasions had he been in complete authority. No member is always completely satisfied. Yet, looking back and speaking for myself, I can only *hope* that I may have made some constructive contribution to the results; I *know* that the actual policies that have been pursued have been better than they would have been had I called all the shots.

Conclusions

In conclusion let me say this. The Federal Reserve System has been faced with difficult problems during the past few years. The serious

deficit in our balance of payments and the slow-down in our rate of economic growth have challenged the skill and resourcefulness of all officials within the System.

Differences arise from time to time with regard to the particular emphasis which should be given to each of the forces that comprise our complex economic system. Such differences could be eliminated simply by eliminating dissenting opinion. Yet one of the main sources of Federal Reserve strength is the deliberative process wherein men of good-will, of varied background and experience pool and appraise opinions and ideas and come to a judgment as to the course of action to be followed. It would be of dubious

utility to sacrifice this decision-making process merely to appear more unified and monolithic in the public eye.

In my talk with you today I have discussed primarily the role of the Federal Reserve System in promoting sustained growth and balance-of-payments equilibrium. Let me close by emphasizing what must be obvious; the Federal Reserve alone cannot solve these problems. The complexities of the situation demand that we bring *all* of our tools of public policy to bear, from fiscal policy to foreign relations. Only then can we be assured that this nation has the best possible chance to move forward during the decade of the 1960's.
