

C E N T R A L B A N K I N G S E M I N A R

Sponsored by
Federal Reserve Bank of Dallas

March 14-16, 1966

CENTRAL BANKING SEMINAR
 Federal Reserve Bank of Dallas
 March 14, 15, and 16, 1966

Agenda

March 14
First Day

8:45 - 9:15 Registration and Welcome to Group

9:15 - 9:45 Film: Money on the Move - Federal Reserve Bank Today

9:45 - 11:00 Tour of Bank

11:00 - 12:00 Questions and Answers: Operating Functions of the Reserve Banks

Moderator: Watrous H. Irons, President, Federal Reserve Bank of Dallas

12:15 - 1:15 Lunch - Bank dining room

1:30 - 2:15 Research and Formulation of Monetary Policy

Daniel H. Brill, Director, Division of Research and Statistics, Board of Governors of the Federal Reserve System

2:15 - 3:00 Member Bank Reserves and Related Factors

Ralph T. Green, Vice President, Federal Reserve Bank of Dallas

3:00 - 3:15 Recess

3:15 - 4:00 The Discount Window: Policy and Practice

P. E. Coldwell, First Vice President, Federal Reserve Bank of Dallas

6:00 - 7:15 Dinner - Baker Hotel

✓ 7:30 - 9:00 Role of Monetary Policy

Karl R. Bopp, President, Federal Reserve Bank of Philadelphia

March 15
Second Day

9:00 - 10:00

Formulation and Execution of Monetary Policy

Robert C. Holland, Adviser to the Board, Board of Governors of the Federal Reserve System

10:00 - 11:00

Open Market Operations

Alan R. Holmes, Vice President, Federal Reserve Bank of New York, and Manager, System Open Market Account

11:00 - 11:15

Recess

11:15 - 12:15

Treasury Debt Management

R. Duane Saunders, Director, Office of Debt Analysis, United States Treasury Department

12:30 - 1:30

Lunch - Bank dining room

1:45 - 2:45

United States Balance-of-Payments Problems

John W. Reynolds
Ralph A. Young, Senior Adviser to the Board, and Director, Division of International Finance, Board of Governors of the Federal Reserve System

2:45 - 3:00

Recess

3:00 - 4:00

Work of the President's Council of Economic Advisers

Wilfred Lewis, Jr., Senior Staff Economist, Council of Economic Advisers, Executive Office of the President

5:30 - 7:15

Social Hour and Buffet Dinner - Baker Hotel

7:30 - 9:00

✓ Panel Discussion: Current Policy and Problems

(all speakers)

March 16
Third Day

9:30 - 10:45

Foreign Operations

Charles A. Coombs, Vice President, Federal Reserve Bank of New York

10:45 - 11:00

Recess

11:00 - 12:00

Nonbank Financial Institutions: Impact of Monetary and
Debt Management Policies

James J. O'Leary, Vice President and Director of Economic
Research, Life Insurance Association of America

12:00 - 12:15

Concluding Questions and Discussion

12:15 - 1:15

Lunch - Bank dining room

March 1, 1966

THE ROLE OF MONETARY POLICY

Arthur J. Dallas
Feltz

Introduction

A. My career

1. Began study just 40 years ago
 - a. Had answers after my first course!
 - (I) "Premature anxiety to establish fundamental laws" - Bentham
 - (II) Brown & Rogers, favorite students of Fisher
2. Practicing the art has been a sobering experience
 - a. Much less certain of either theory or application
 - b. Still have some convictions - or prejudices - as you will discover -

B. Definition of the Problem

1. You have full courses devoted to it
2. What does one say in an hour? I shall limit myself to
 - a. How does monetary policy fit into economic policies of the government generally?
 - b. Where does the monetary authority fit into the structure of government?

- I. Relation of Monetary Policy to other Economic Policies.
 - A. Concerned primarily (but not exclusively: selective instruments!) with influencing AGGREGATE DEMAND.
 - B. But other governmental policies also influence aggregate demand!
 1. Fiscal policy:
 - a. Origin in the great depression
 - as a supplement to monetary policy
 - b. Soon usurped the whole field (graduate enrollments)
 - c. Neither can do the whole job alone at all times. The large surpluses of 1947 and 1948 did not halt inflation; because with an easy monetary policy, the private economy went into debt faster than the government came out (also local governments)
 - d. Advantages of fiscal policy
 - It has not only aggregative effects but inherently has selective or distributive effects

- (I) The sources of revenue (tax policy) affect
- (A) The distribution of wealth and income
(~~interest~~)
 - (B) The division of GNP between consumption and investment
and therefore the rate of GROWTH
 - (C) The profitability (both absolute and relative) of enterprise and thus total output as well as the distribution of our resources (eg. depletion allowances; investment credits, depreciation allowances, etc., capital gains vs income, etc.)
 - (D) The rate of interest

- (II) Government expenditures affect
- (A) The allocation of our resources
 - (B) The level of structural unemployment
 - (1) Regional: Appalachia
 - (2) Other: Poverty pockets
education
 - (C) The balance of payments
government expenditures for
defense
development

2. Debt management policy

- a. Reginald McKenna ~~of~~ Chancellor and of Midland Bank on the great refunding of 1932?
- b. Debt management, liquidity, and the flow of expenditures
some problems of application:
issue long terms when rates are high & rising
the $4\frac{1}{4}\%$ ceiling

3. Other governmental policies

- a. Price/wage guidelines
- b. trade policy

C. The role of general monetary policy

1. The matter of timing:

- a. Fiscal policy though powerful, is cumbersome
- b. Monetary policy is flexible
- c. Handicap to monetary authority:
it must operate on economy as it results from other governmental policies.

2. Its contribution to our economic objectives

- a. to the basic economic environment:
It is "calculated to foster and promote free competitive enterprise."

The ~~mix~~ role of money as an instrument of choice
Monetary policy as a means of inducing individuals of their own volition to achieve social goals while pursuing their own interest.

b. Maximum employment

- (I) relation of unemployment to social problems
youth and the disadvantaged
- (II) If full employment becomes our sole objective, irrespective of wage rates, we are in for trouble
- (III) Monetary policy for aggregate demand deficiency
expenditure for structural

c. Stable prices

- (I) Not for their own sake, but because of consequences of fluctuating levels

d. Balance of Payments

e. Growth

specific rate is not appropriate objective for monetary policy.

II Relation of Monetary Authority to Government Saller p9

A. No universal and timeless answer to problem

1. An absolutist might consider

a. How governmental Bank of England would have operated in 18th and 19th Centuries

b. How independent Bank of Issue would operate in U.S.S.R.

2. Answer depends on role govt should play

a. Absolute - whether by divine Right or brute force

b. Limited - eg. 10th Amendment to U.S. Constitution

B. Recall foundation of Bank of England in 1694

1. Revolution of 1688

a. Parliament emerges as supreme governing body

2. Prohibitions on Bank of England

3. British Parliamentary system

a. Commons supreme

b. Executive dependent on Commons

C. Our System of Representative Government

1. Principle of Separation of Powers
 - a. Art I. Legislative powers vested in Congress
 - b. Art II. Executive " " " President
 - c. Art III. Judicial " " " Supreme Court
2. Checks and Balances
3. Bicameral Legislature to give
 - a. Continuity - Senate with 6 year terms rotating
 - b. Prompt response - House - 2 year terms
4. Executive
 - a. Four year term
 - b. May not have majority support in Congress
(Impossible in British System)

D. Authority over money to Congress
Art I. Sec. 8. paragraph 5

(11)

E. How resolve differences?

1. In parliamentary system

a. by directive to bank from executive,
who, in turn, is dependent on legislature

2. In U.S. system

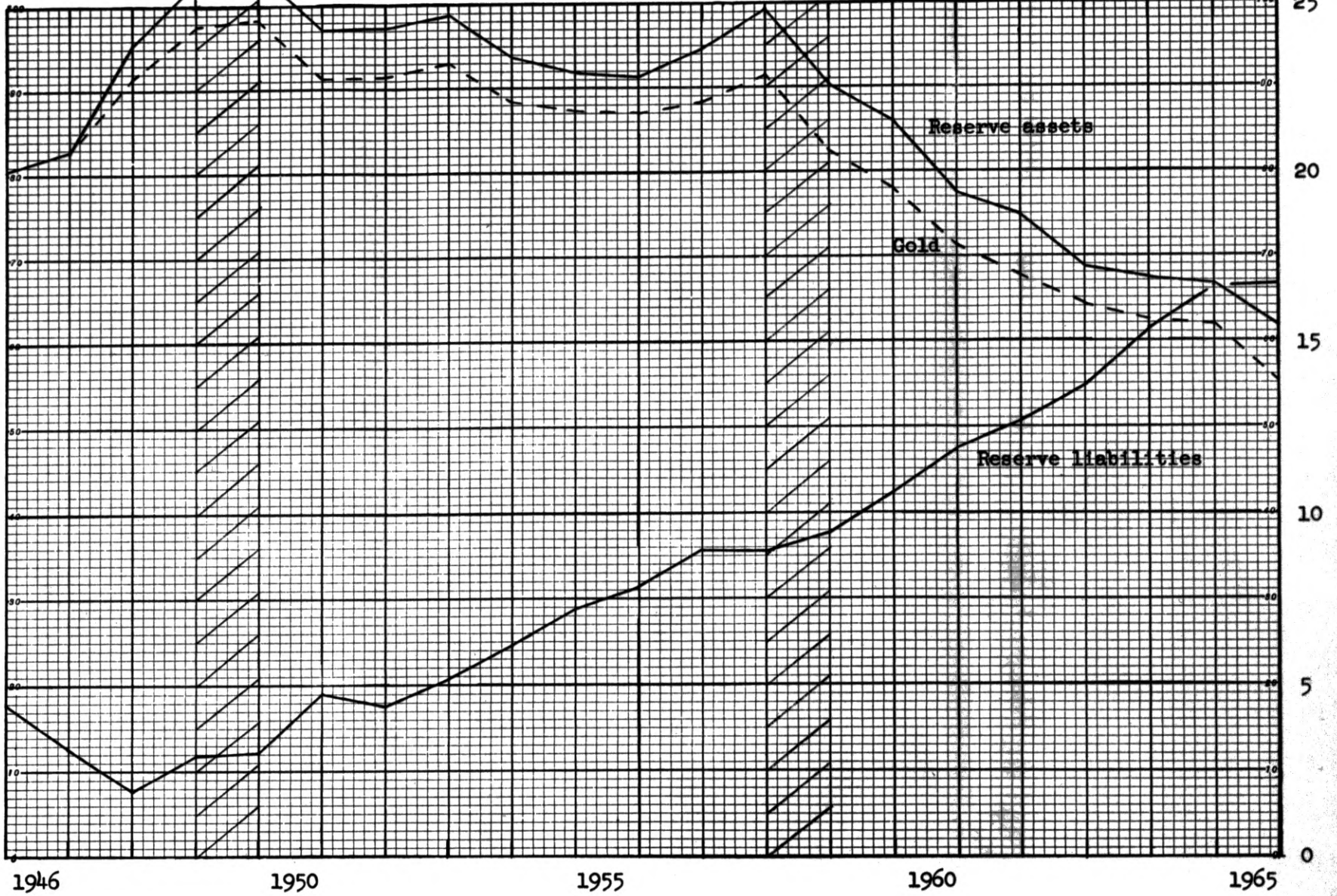
a. by Joint Resolution?

*Foreign Reserves
10-30%*

Convertibility

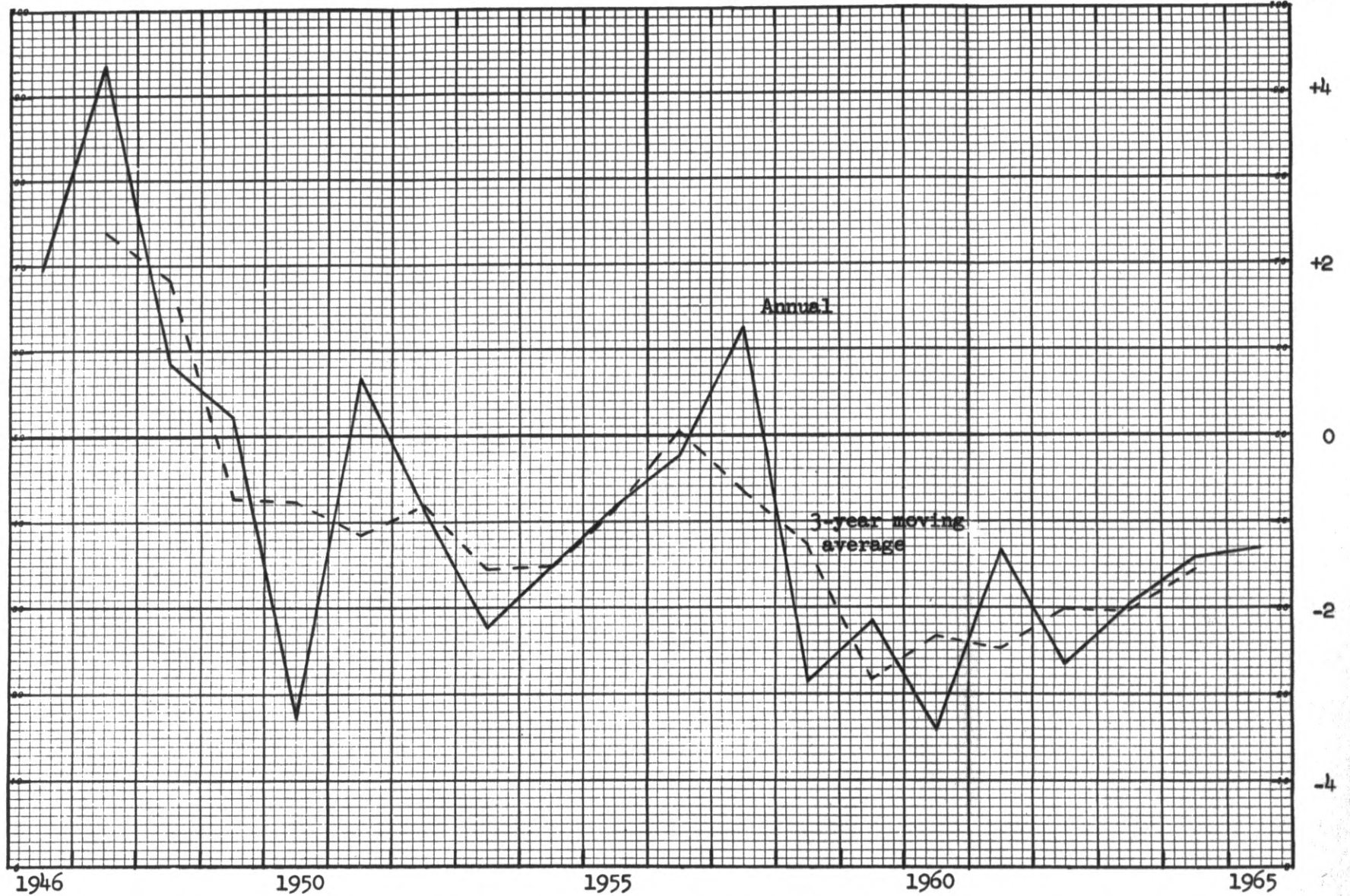
U.S. INTERNATIONAL RESERVE POSITION

Billions of dollars



NET CHANGE IN U.S. INTERNATIONAL RESERVE POSITION

Billions of dollars



U.S. NONMILITARY IMPORTS AS PERCENTAGE OF GROSS NATIONAL PRODUCT

Percent

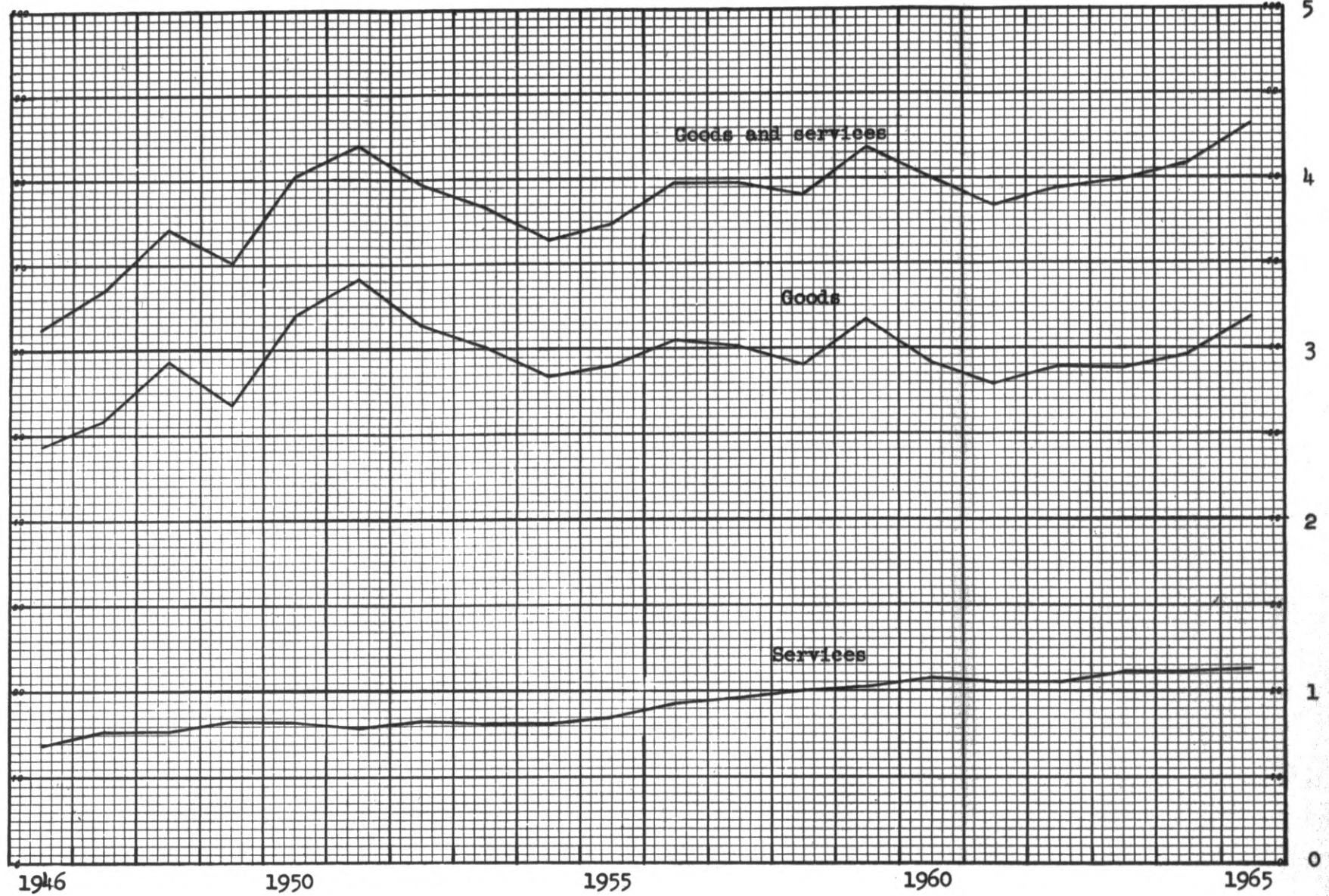


Table 1. U.S. International Reserve Position
(In billions of dollars)

End of year	Reserve assets				Reserve Liabilities					Assets less Liabilities	Assets as percent of Liabilities
	Gold stock	Reserve position in IMF	Foreign currency holdings	Total	To official institutions in foreign countries			To U.S. Govt.	Total		
					Short-term	Market-able	Nonmarketable	To IMF	Total		
1945	20.1	--	--	20.1	4.2	.3	--	--	4.5	15.6	450
1946	20.7	--	--	20.7	3.0	.1	--	--	3.2	17.6	660
1947	22.9	1.0	--	22.9	1.8	.1	--	--	2.0	21.9	1,220
1948	24.4	1.4	--	25.8	2.8	.1	--	--	3.0	22.8	930
1949	24.6	1.5	--	26.0	2.9	.1	--	--	3.0	23.0	860
1950	22.8	1.4	--	24.3	3.6	.9	--	--	4.5	19.8	540
1951	22.9	1.4	--	24.3	3.5	.3	--	--	3.9	20.4	630
1952	23.3	1.5	--	24.7	4.7	.5	--	--	5.2	19.6	480
1953	22.1	1.4	--	23.5	5.7	.5	--	--	6.1	17.3	380
1954	21.8	1.2	--	23.0	6.8	.4	--	--	7.2	15.8	320
1955	21.8	1.0	--	22.8	7.0	.9	--	--	7.8	15.0	290
1956	22.1	1.6	--	23.7	8.0	.7	--	.2	8.9	14.7	260
1957	22.9	2.0	--	24.8	7.9	.8	--	.2	8.9	16.0	280
1958	20.6	2.0	--	22.5	8.7	.6	--	.2	9.5	13.1	240
1959	19.5	2.0	--	21.5	9.2	.9	--	.5	10.6	10.9	200
1960	17.8	1.6	--	19.4	10.2	.8	--	.8	11.9	7.5	163
1961	16.9	1.7	.1	18.8	10.9	.9	--	.8	12.6	6.2	149
1962	16.1	1.1	.1	17.2	12.0	.7	.3	.8	13.7	3.5	125
1963	15.6	1.0	.2	16.8	12.5	1.2	.9	.8	15.3	1.5	110
1964	15.5	.8	.4	16.7	13.2	1.1	1.4	.8	16.6	.1	101
1965	13.8	.9	.8	15.5	13.0	1.1	1.7	.8	16.7	-1.2	93

Table 2. Changes in U.S. International Reserve Position

(In billions of dollars)

Period	Reserve assets			Reserve liabilities			Assets less liabilities	
	Gold stock	IMF position and foreign currency holdings	Total	To official institutions in foreign countries	To IMF	Total	During period	3-year moving ave. centered
1946	+6	--	+6	-1.3	--	-1.3	+2.0	n.a.
1947	+2.2	+1.0	+3.2	-1.2	--	-1.2	+4.4	+2.4
1948	+1.5	+4	+1.9	+1.0	--	+1.0	+9	+1.8
1949	+2	+1	+3	+0	--	+0	+2	-.7
1950	-1.7	-.0	-1.8	+1.5	--	+1.5	-3.3	-.8
1951	+1	-.0	+0	-.6	--	-.6	+7	-1.1
1952	+4	+0	+4	+1.3	--	+1.3	-.9	-.8
1953	-1.2	-.1	-1.3	+1.0	--	+1.0	-2.2	-1.5
1954	-.3	-.2	-.5	+1.0	--	+1.0	-1.5	-1.5
1955	-.0	-.1	-.2	+6	--	+6	-.8	-.9
1956	+3	+6	+9	+9	+2	+1.1	-.3	+1
1957	+8	+4	+1.2	-.1	--	-.1	+1.2	-.6
1958	-2.3	-.0	-2.3	+6	--	+6	-2.9	-1.3
1959	-1.1	+0	-1.0	+8	+3	+1.1	-2.2	-2.8
1960	-1.7	-.4	-2.1	+1.0	+3	+1.3	-3.4	-2.3
1961	-.9	+3	-.6	+7	--	+7	-1.3	-2.5
1962	-.9	-.6	-1.5	+1.1	--	+1.1	-2.7	-2.0
1963	-.5	+1	-.4	+1.6	--	+1.6	-2.0	-2.0
1964	-.1	-.0	-.2	+1.2	--	+1.2	-1.4	-1.6
1965	-1.7	+4	-1.2	+0	+0	+1	-1.3	n.a.
1946-49	+4.5	+1.5	+5.9	-1.5	--	-1.5	+7.4	
1950-57	-1.7	+5	-1.2	+5.6	+2	+5.8	-7.0	
1958-65	-9.1	-.3	-9.4	+7.2	+6	+7.8	-17.2	

Robert Rous

Texas Tech

Sublock

Hist of Central Banking

SOURCES AND USES OF MEMBER BANK RESERVES

(In millions of dollars)

	<u>Dec. 30, 1964</u>	<u>Dec. 29, 1965</u>	<u>Change</u>	<u>Effect of Change on Reserves</u>	
				<u>Source</u>	<u>Use</u>
<u>Sources</u>					
Gold stock	15,388	13,734	-1,654		1,654
Treasury currency outstanding	5,405	5,591	+186	186	
Reserve bank credit--total	(39,688)	(43,808)	(+4,120)	(4,120)	
U.S. Government securities					
Bought outright	36,506	40,631	+4,125	4,125	
Held under repurchase agreement	257	258	+1	1	
Acceptances					
Bought outright	56	73	+17	17	
Held under repurchase agreement	10	91	+81	81	
Discounts and advances					
Member bank borrowings	327	499	+172	172	
Other	30	41	+11	11	
Float	2,502	2,215	-287		287
Total sources	<u>60,481</u>	<u>63,133</u>	<u>+2,652</u>		
<u>Uses</u>					
Currency in circulation	39,775	42,314	+2,539		2,539
Treasury cash holdings	642	820	+178		178
Treasury deposits with Federal Reserve banks	754	533	-221	221	
Foreign deposits with Federal Reserve banks	228	159	-69	69	
Other deposits with Federal Reserve banks	188	227	+39		39
Other Federal Reserve accounts (net)	1,067	338	-729	729	
Member bank reserves at Federal Reserve banks	<u>17,826</u>	<u>18,742</u>	<u>+916</u>		916
Total uses	<u>60,480</u>	<u>63,133</u>	<u>+2,653</u>	<u>5,612</u>	<u>5,613</u>

NOTE:

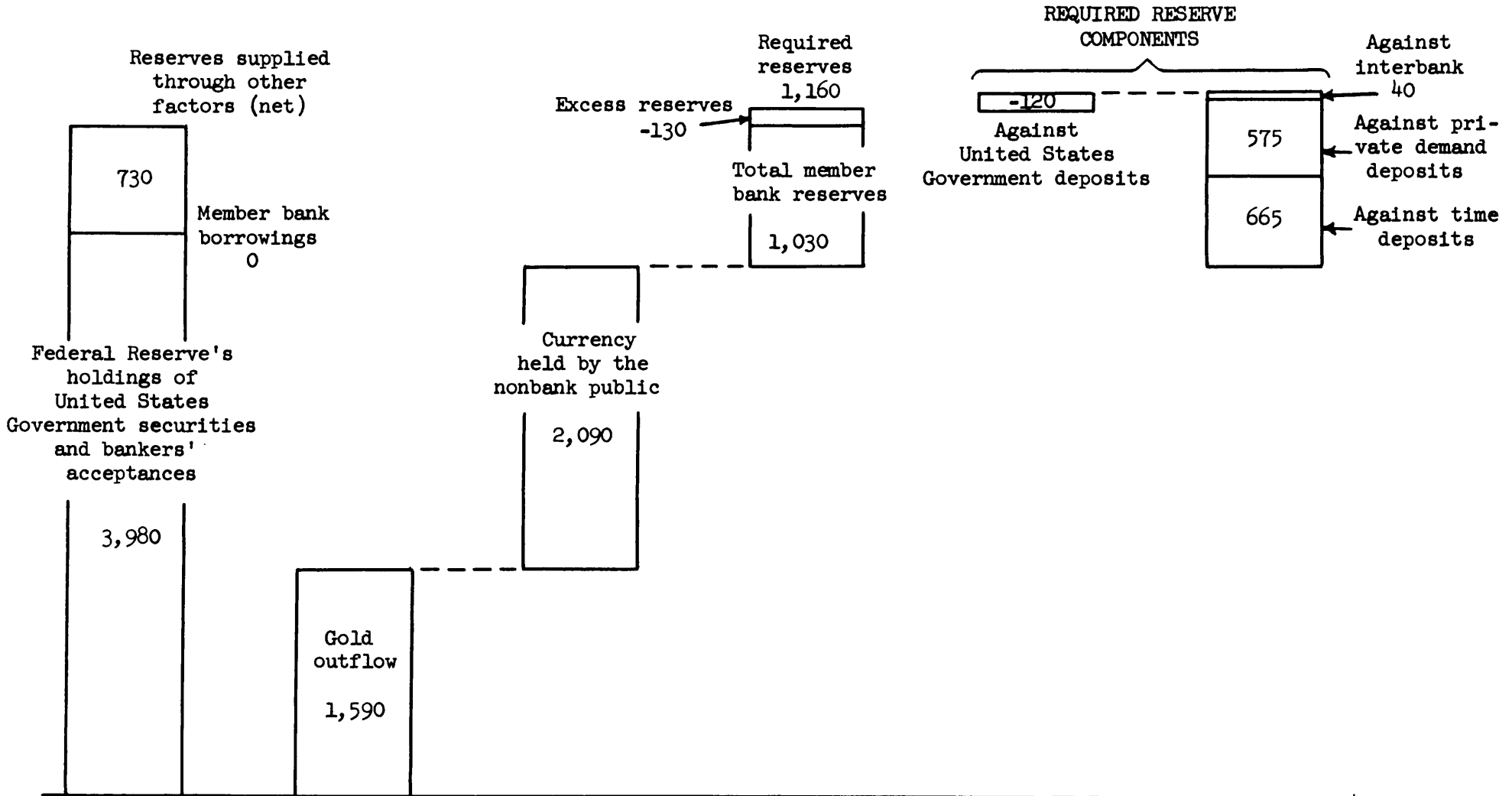
Member bank reserves		
With Federal Reserve banks	17,826	18,742
Currency and coin (estimated)	<u>4,359</u>	<u>4,644</u>
Total reserves held	<u>22,185</u>	<u>23,386</u>
Required reserves (estimated)	<u>21,554</u>	<u>22,786</u>
Excess reserves (estimated)	631	600

Chart I

CHANGE IN FEDERAL RESERVE ACCOUNTS

December 1964 - December 1965

Millions of dollars

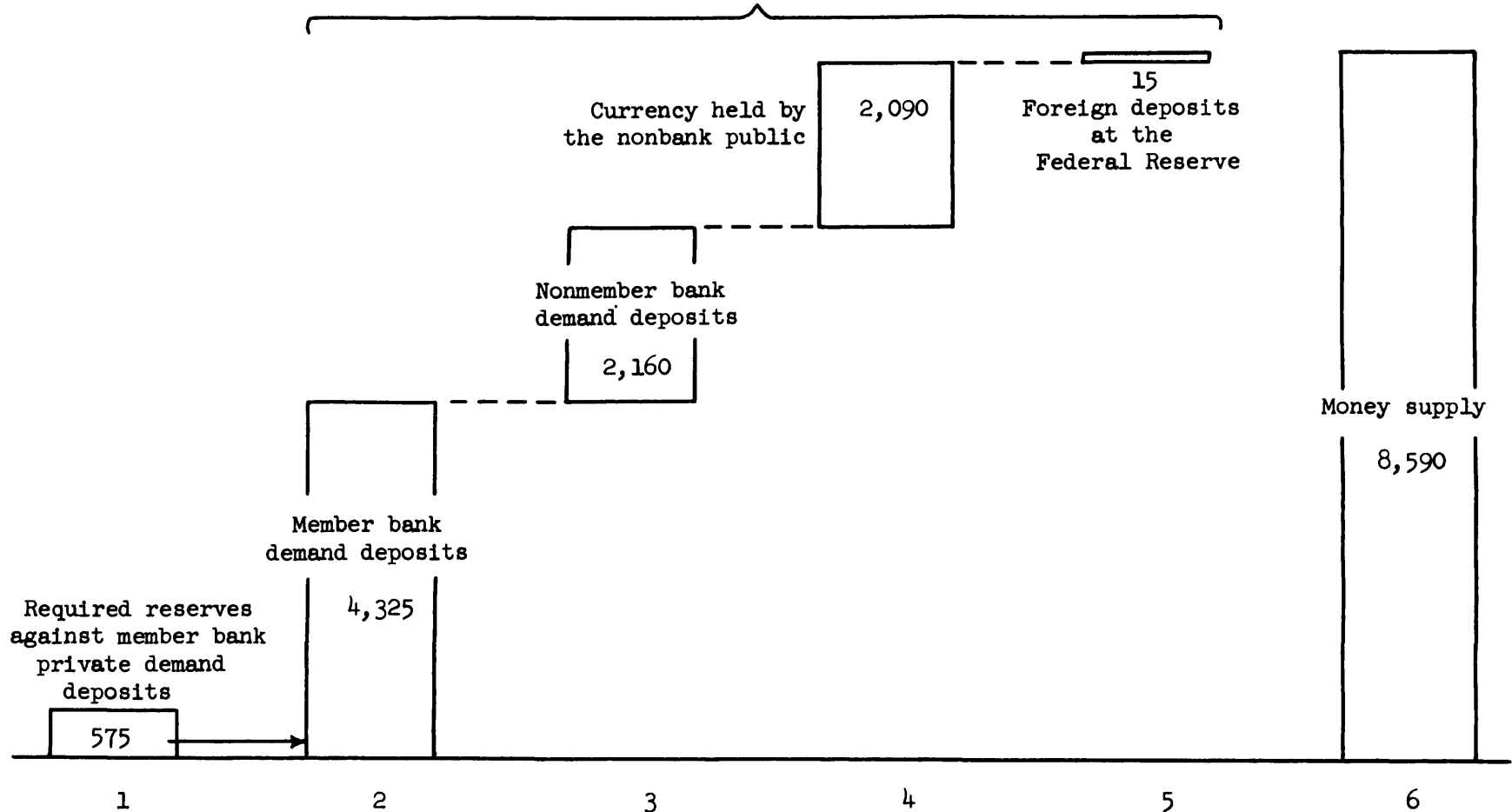


CHANGE IN THE MONEY SUPPLY

December 1964 - December 1965

Millions of dollars

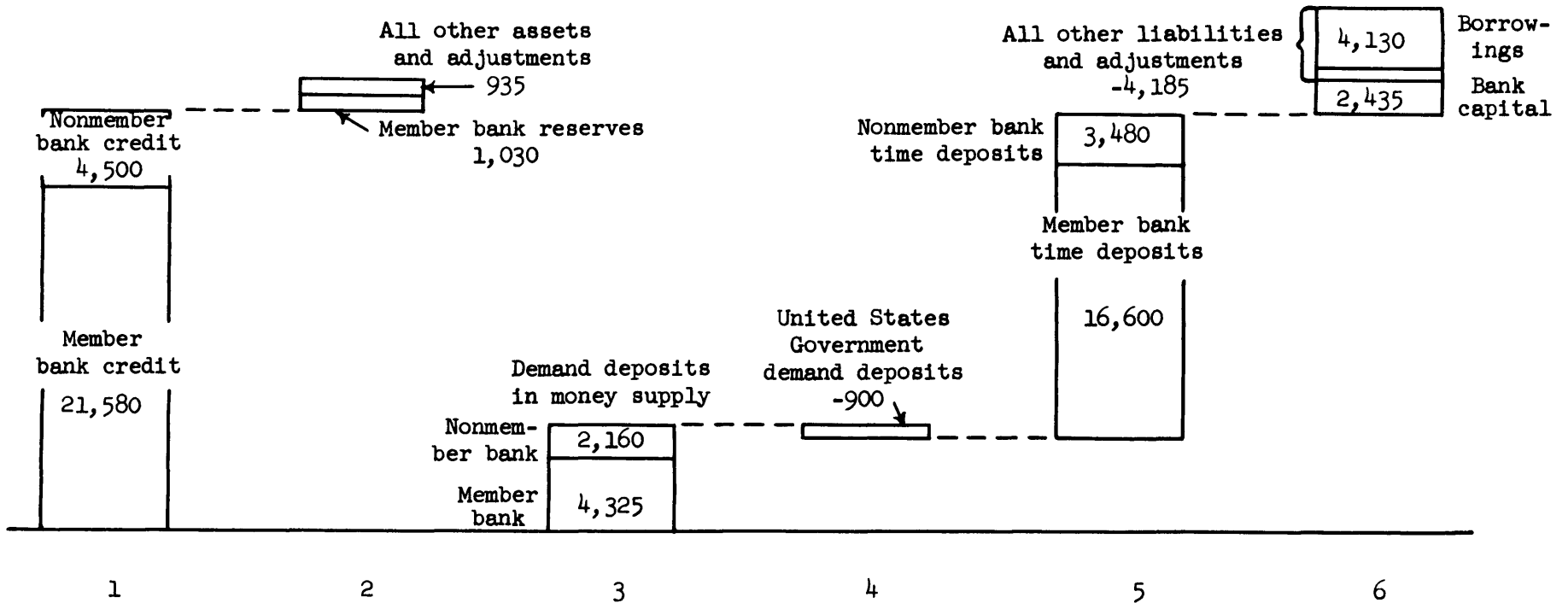
MONEY SUPPLY COMPONENTS



CHANGE IN BANK ASSETS AND LIABILITIES

December 1964 - December 1965

Millions of dollars



CHANGE IN COMMERCIAL BANK CREDIT BY COMPONENTS

December 1964 - December 1965

Billions of dollars or percent

