

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK 45. NEW YORK

Mr. Karl R. Bopp, Vice President,  
Federal Reserve Bank of Philadelphia,  
Philadelphia 1, Pa.

May 16, 1955

Dear Karl:

*Sent to  
General  
Files*

**C** I have read the draft of your paper on Monetary Policy which you sent me last week, and I haven't enough specific comments to warrant sending back the extra copy with marginal notations. In general, I thought the paper excellent, the sort of balanced yet provocative survey of the field which we have come to expect from you.

**O** My specific comments verge on the picayune. First, there is an old phobia of mine which relates to the inflation after World War II. You know what it is; that most of the inflation really took place during the war but was concealed or suppressed, and that the ready availability of credit to the private economy after the war was not so large a cause as most people believe or assume. Your second paragraph on page 2 awakened this reaction.

**P**  
**(1)** **Y** I did get thrown off the track a little when you started with convertibility as one of the objectives of central bank policy - as to whether you were talking about central banking in general or in the United States. You picked me up later when you pointed out that we have been able largely to disregard our balance of payments in pursuing monetary policy. You might want to throw in a paragraph on the closeness - day to day - with which central banks in most foreign countries have to follow the foreign exchanges and the balance of payments. Incidentally, in the same area you change from convertibility to redeemability at the bottom of page 5, but don't say what you mean by redeemability. Do you want to get into domestic convertibility?

**(2)** I liked what you had to say about guides and judgment, and about the supply, availability and cost of credit. Perhaps I liked particularly your statement that no directive or specific guide will tell the practitioner what to do at 11:00 a.m. on Thursday. It is a failure to understand that simple fact, which underlies some of the present desire to make the Manager of the System Open Market Account more directly responsible to the Federal Open Market Committee. I can think of nothing much worse than a twelve man committee trying to decide what to do at 11:00 a.m. on

Thursday. It would be 11:00 a.m. on Friday before the directive emerged. Because I believe so thoroughly in what you say about the Federal Open Market Committee, and in the quotation you use on page 11, I am alarmed by the present tendency to try to make the Committee more of an operating body. It has enough to do making policy, if it has the capacity to do that well.

Sincerely,

Allan Sproul

AS:ES