OFFICIAL CENTRAL BANKING THEORY IN THE UNITED STATES, 1939–61: FOUR EDITIONS OF *THE FEDERAL RESERVE SYSTEM: PURPOSES AND FUNCTIONS*[1]

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THE past decade has witnessed a resurgence of controversy over the perennial issues of monetary policy. What should be the objectives of monetary policy? What methods should it employ? What are the channels or processes through which it influences economic activity? By now, opinion has become so sharply divided—fragmented would perhaps be the better word—on so many issues as to almost defy classification, much less resolution.

What influence, if any, has this intellectual ferment had on the thinking of the monetary authorities? The purpose of this paper is to trace the evolution of official Federal Reserve views on these questions, as they have been reflected in the changes made between 1939 and 1961 in the four successive editions of the widely read Board of Governors publication, *The Federal Reserve System: Purposes and Functions.*

There seems to be a rather widely held impression that the Federal Reserve stands aloof, impervious to gratuitous advice or dissident opinion. Journal editors are all too aware of the almost tropistic reaction of academicians to policy actions and statements of the Federal Reserve. Is there any evidence of reaction in the other direction, with the System modifying its own conception of its *raison d'être* in light of commentary from the academic community? If we are to have a viable central bank, some degree of such interchange would seem to be imperative. It is with the hope of shedding some light on this matter that the present paper has been written. But a disclaimer is quickly in order: to explore this topic fully requires a much wider inquiry than has been attempted here. My aim has been only to piece together one particular chain of evidence—namely, the changes made between 1939 and 1961 in the four editions of *Purposes and Functions*—which, while suggestive, is but one strand among many.

First a word about the book itself. *Purposes and Functions* was published originally in May, 1939. A revised second edition was published in 1947, a third edition in 1954, and the fourth and most recent in February, 1961. Bray Hammond was primarily responsible for the text of the first edition, E. A. Goldenweiser for the second, and Ralph Young for the third and fourth. However, all four editions were joint efforts, written in collaboration with other members of the Board's staff, and all bear the imprimatur of the Board of Governors. As described in the Foreword to the first edition, the volume is intended "primarily for students, bankers, businessmen and others who desire an authoritative statement of the purposes and functions of the Federal Reserve System. It is neither a primer, nor is it an exhaustive treatise. The aim has been to have it cover the

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