

to dues-paying members of the club—that is to say, the member banks—at a rate or structure of rates set so as to deter or encourage member bank borrowing? Why, in short, does the Federal Reserve not depend on markets and prices to help more in the allocation of financial resources?

The answer is, first of all, that bankers in general and central bankers in particular are prone to conservatism when any public policy change is suggested, whereas academicians are inclined to urge change that may seem precipitate to those who shoulder responsibility for public and private financial decisions. But it seems to me further that certain assumptions and prejudgments color the report of the System Committee, as well as most of the supporting papers, and that they should be explicitly articulated and defended by the Federal Reserve.

In the first place, considerable weight is given to Federal Reserve history up to the early 1930's. In my view, System experience before 1933, and perhaps before 1951, should be disregarded in this context. These years spanned another day and time, an economic era long past. I think it is neither unfair nor unkind to say that the Federal Reserve in its early years was run by men who had no real sense of what a central bank is supposed to do. A careful reading of the legislative history of the Federal Reserve Act and detailed attention to Federal Reserve policy actions before 1933 lead to the firm conclusion that during these first two decades stabilization policy as we now conceive it was completely foreign to early Federal Reserve thinking. It was the duty of the central bank, so its founders and early managers believed, to provide liquidity in times of recurring monetary crises, to mitigate seasonal swings in bank reserves, and, more generally, to provide the "right" amount of credit for the economy. The statement of credit objectives were never more explicit than that generalization.

Look as you will, you will find no insistence that the objectives of monetary policy should be the stabilization of incomes or employment or prices or anything else. And the notion that during the 1920's the Federal Reserve was attempting to maintain a stable price level is a myth, pure and simple. You never find an explicit statement of that objective.

Monetary policy of the 1920's was probably more closely attuned to international than to domestic considerations. It is clear in retrospect that Governor Benjamin Strong was continually "playing footsie" with Lord Norman, then Governor of the Bank of England, in an effort to get England solidly back on the gold standard at the old mint par of exchange.

If proof were needed of the total lack of understanding of central bank functions, we have only to analyze the terrible deflation of 1929-33. Federal Reserve authorities callously allowed the economy to grind down to a halt, most of them acting as though the central bank, like the commercial banks perishing throughout the country, could fail.

I do not mean to pass a harsh judgment on our forebears. The ignorance of central bankers in those days was simply a part of the ignorance of economists about macroeconomics, which in 1930 was about at the theoretical level of surgery in the year 1500. The point I wish to make is that any experience with the discount mechanism emerging from those years gives us few insights for today's problems. Specifically, we cannot conclude from the alleged ineffectiveness of progressive