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**CONTROL OF CENTRAL BANKS**

by

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**Graduate Course in Central Banking  
Wharton School of Finance  
Wednesday, April 28, 1943**

## CONTROL OF CENTRAL BANKS

### Introduction

De facto vs. de jure analysis

Gladstone vs. Bank of England, 1854, on payment of interest on the government debt.

1. Bank council - Kelley and Palmer - after meditation, supports bank position.
2. Law officers of the Crown - Cockburn and Bethell - after meditation, support Gladstone. "I may almost say they declared me bound to pursue it."
3. Lord Chancellor Cranworth - having read all the papers relative to the question - wrote Gladstone: "I am clearly of opinion you are right."

### Assumptions

1. General familiarity with theory of central banking.
  2. Curiosity why central banks do not adopt "the proper" policy forthrightly.
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### I. The major drift of control

#### A. Central banks in the 19th century

1. The philosophy of laissez faire; liberalism
  - a. Content of the philosophy  
"which . . . refused, in any profound or coherent way, to consider the state as a potential source of good."

H. J. Laski

Private corporations acquired an enormous prestige - in part not merited.

b. Application to central banks:  
independence

(1) England

(a) Lord Grenville: "The utility of the bank depends upon its being kept distinct from the government."

(b) Fox in 1797: "The bank directors ought to do nothing inconsistent with the interests of the proprietors for whom they act."

(c) Sir James Graham, 1827, comments that Fox remarked "with rare sagacity and early foresight."

(2) Cretet memorialized Napoleon -  
"No bank without complete independence."

Mollet memorialized to the same effect.

(3) Germany

Aretz  
von Phillipovich

(4) United States

Didn't even have a central bank after Jackson destroyed the Bank of the U. S.

- c. "Demonstration" of validity of the theory *selected incidents*  
*like Law Assignate*  
*opposite each to "demonstrated" in same way*  
For example: Government yielded to wishes of Bank of England that floating debt be reduced rapidly after the Napoleonic wars - added to deflation.

Part of Napoleonic inflations caused by commercial discounts of the bank.

Bank came to the rescue of commerce in 1847 - according to its own evidence - only after insistence by the government.

Bank refused to accept any social responsibilities.

## 2. Natural law

### a. Content of the idea

Government refused to assign and bank refused to accept social responsibilities.

Cobden - 1840 - "Managing the currency is just as possible as the management of the tides or the regulation of the stars or the wind."

Gov. Rouland - 1865 - "Monetary crises occur because God has attached a fatal law to all things human - excès et imprevoyance."

## B. Central banks in the 20th century

Eccles' quotation

# I. Cyclical changes in control

## A. Historical

### 1. Bank of France

#### Government domination

#### Independence

Napoleon

Foundation

Louis, minister of finance, appointed Lafete provisional governor replacing Joubert.

Revolution of 1830 -  
House of Orleans

Revolution of 1848 -  
Second Republic

Limit on note issue

Coup d'État - 1851 -  
Louis Napoleon

1870 - Third Republic

Limit on note issue

1914-18-26

1926 - power of the bank  
over loans to the gov't.

1936

World War II

### 2. Bank of England

Throughout its history has maintained the fiction of independence.

Government domination

Independence

Napoleonic wars

Pitt vs. the bank - 1814

*see quotation*

Peal's Act, 1844 -  
"With respect to banking  
business of Bank, I pro-  
pose that it should be  
governed on precisely the  
same principle as would  
any other bank dealing  
with Bank of England notes"

3. Reichsbank

Law vs. fact

Government domination

Independence

Rate increase December  
1880.

Dechend - pressure on  
France.

July 1887 - Lombard on  
Russian securities  
refused

World War I

The Dawes plan

Hitler

4. Federal Reserve System

Government domination

Independence

No central bank till 1915

After 1919

World War I

The depression

(D)

The Napoleonic Wars and the Restriction Period

M. Vansittart usually addressed the Governor and Deputy Governor somewhat as follows: "I beg leave to acquaint you, that it will be an Accommodation to the Public Service, if your Court will consent to exchange the Exchequer Bills dated . . . for a like Amount to be dated . . . I request therefore you will have the goodness to move your Court to consent to such Exchange accordingly." In the case of purchases (as contrasted with exchange) of bills, it was a "great Accommodation to the Public Service" or even a "very great Accommodation." Ordinarily the Court resolved to comply with the Chancellor's letters. Not infrequently, however, they imposed conditions, especially concerning repayment. For example, the Bank became increasingly concerned in 1814. They had agreed to purchase 3 million from May 5 to June 9. They agreed to a further purchase of two million on June 16 "on account of the urgent Necessity of Government, under the peculiar Circumstances of the Moment, and also that so large a Portion of the said Advances is settled to be paid off out of the Instalment of the present Loan." Three weeks later they agreed to purchase another two million. "But the *chairs* to acquaint the First Lord of the Treasury and the Chancellor of the Exchequer, that the Court cannot grant any further Advances; and expect such Arrangements may be made as shall tend to a very considerable Reduction of the present enormous Amount of these Advances." Nevertheless, the request of July 28 for yet another two million was "Reluctantly complied with, under the Assurance that every Endeavour will be made to bring the Advances of the Court within reasonable Bounds as soon as possible."

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- 1/ 1819 Lords Com. Appendix 2, especially Letters of August 7, 1816, October 7, 1816, January 29, 1817.
  - 2/ 1819 Lords. Appendix 1, p.280.
  - 3/ Ibid.

B. Analytical

- 1. Government domination in the war and depressions
- 2. Resuscitation of independence afterwards

C. Reconciliation with "the major drift"

*D Abberations change of generation*

II. Organizational factors

A. The role of law

1. Sets certain limits

e.g. a. German government could not dispose of Schacht

2. Can be over emphasized

e.g. a. Germany 1875-1914

b. France 1806-1936

B. Institutional factors

1. Persistence of institutional personality

*3d/1854*  
*brand 1839*  
*1835*  
*1803* *mallet 1800*  
*times of office of firms*

IV. Human factors

A. Human nature

1. Place of emotions

a. Likes and dislikes

C. S. Hamlin vs. P. M. Warburg  
 Warburg and Miller vs. remainder  
 J. S. Williams vs. remainder



b. Jealousy of power

Federal Reserve policy in 1929

c. Desire to follow

Gov. Bailey and Benjamin Strong

Benjamin Strong and the System

*bench vs Commerce*

*Currier vs Gambetta Laurier*

2. The place of reason

*B. Strong rates vs open-market operations*

Chester Davis and Class 3 directors

The two-term myth

B. Institutional analogy

1. Effect of public censure

a. Federal Reserve in 1921

b. Federal Reserve in 1923

2. The importance of personalities

a. Benjamin Strong

b. Hjalmar Schacht

c. Montagu Norman

V. Conclusion: the interrelations of

A. The major drift

B. The cyclical factors

C. Organizational factors

D. Human factors