

# THE RESPECTIVE ROLES OF CENTRAL AND COMMERCIAL BANKING

by Karl R. Bopp  
Vice President, Federal Reserve Bank of Philadelphia  
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(Below is small outline made by KRB before going to meeting;  
attached is outline sent in advance for use in program)

Who takes initiative for changes in volume of money and  
how is volume adjusted to "needs" of economy?

1. Gold standard - miners - theory of equilibrium
2. Productive credit - commercial banks - with central  
banks controlling thru rate  
- bank reserves
3. Stable prices - central bank thru open market
4. The Great Depression - Full employment -  
central bank + Government deficit or surplus ) reserve  
Low rates - Generalization of credit institutions ) requirements to  
absorb  
excess
5. Stable Government bonds - interest rates -  
any holder of securities ) selective  
controls

Role played by commercial banks in distributing life  
blood of industry

# THE RESPECTIVE ROLES OF CENTRAL AND COMMERCIAL BANKING

## I. Preliminary Statement

- A. The central bank regulates the supply, availability, and cost of money and bank reserves
- B. The commercial banks distribute available credit among prospective borrowers
- C. Qualifications

## II. Alternative Objectives and Related Central Banking Policies

- A. Convertibility
  - 1. Expansion permitted when gold holdings are high and/or rising
  - 2. Contraction called for when gold holdings are low and/or declining
- B. "Productive credit"
  - 1. Expansion called for when monetary volume of "real bills" is expanding
  - 2. Contraction called for when monetary volume of "real bills" is decreasing
- C. Stable prices
  - 1. Expansion called for when prices are declining
  - 2. Contraction called for when prices are rising
- D. "Full employment"
  - 1. Expansion called for when there is less than full employment
  - 2. Contraction permitted when jobs are in excess of workers
- E. Supporting government finance
  - 1. Expansion called for when the Government is unable to secure all the funds it wishes at market rates
  - 2. Contraction permitted when the Government is able to secure more funds than it wishes at market rates

## III. Commercial Banks and Decentralized Distribution of Credit

## IV. Recent Developments in Central and Commercial Banking