

THE ROLE OF CENTRAL BANKING

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(Brief - barest outlines)

1. Basic economic problem
 - Who is going to produce
 - how much
 - of what
 - for whom?

2. Basic approaches to a solution
 - a. Centralized -
Government plans and determines, and orders
(In inflation, how to limit demand to supply)
(Prejudiced view but based on kind of world I would like for my children)
 - b. Decentralized
Individual freedom of choice

3. Centralized control system
 - a. Method
Government establishes prices, wages
Rations (ultimately involves labor direction)
 - b. Difficulties (illustrate in inflation)
Control of essentials makes their production less profitable
Especially beyond necessities (wide variety) for existence
"Points" system - or barter - part way back to a market system
Punch cartoon
"Of course the reason we have so much sugar is because neither of us takes any."
What about new products, new companies
Expensive to administer

4. Decentralized market

a. Method

Some way in which individuals can make their wishes known

Is it chaos?

Money - price - overcome scarcities

b. Difficulties

(1) Allegation that "rationing by the purse" is unethical

No one supports absolute egalitarianism

Income/inheritance taxes

Effects on incentives

(2) The need for a stable money (Overall limit on demand)

Why have we not had it

Government's needs

5. The Role of Central Banking

and the interest rate

availability of credit

Rigors of the market place

Full employment

Stable prices