Discussion on

OBJECTIVES OF MONETARY POLICY

by

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before the

FOURTH MEETING OF TECHNICIANS
OF CENTRAL BANKS OF THE AMERICAN CONTINENT

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Appreciate opportunity to discuss objectives of policy. All papers and discussants agree it should be to promote stable economic progress. But this term is too vague to be a useful guide to operations. I find four meanings attached to it in the papers. It seems to me we are a bit too sanguine and optimistic in our belief that there is no conflict between them.

<table>
<thead>
<tr>
<th>Expand</th>
<th>Contract</th>
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<tbody>
<tr>
<td>Gold standard (stable exchange rate)</td>
<td>Reserves large, rising</td>
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<tr>
<td>Productive credit (real bills doctrine)</td>
<td>$ volume of business up</td>
</tr>
<tr>
<td>Stable prices</td>
<td>When prices down</td>
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<tr>
<td>Full employment</td>
<td>When unemployment</td>
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<tr>
<td>Fixed rate of interest (lov, stable)</td>
<td>When savings are inadequate</td>
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Conflict in last fifteen months.

Lost $24 billion of gold - Contract?

Prices stable at wholesale and retail - No change.

Unemployment up 1.8 to 3.7 million - Expand?

Role of major countries, especially United States of America.
I study history to gain perspective. We are tempted to believe our problems are entirely new problems - they aren't.

We are apt to forget that the pressing problem of today is

(a) the opposite of the pressing problem of yesterday BUT that it is essentially

(b) the same problem as that of day before yesterday.

Alternatives of prosperity and depression! Surely we can gain something - a little bit at least - by taking a longer view.

I am one of that rate breed of college graduates who never took a single formal course in the History Department! Why not? But I have a great respect for experience - more than many professional students of history.

So I am an amateur - in history - and for that matter - in central banking too. Responsible vs. observer - technician!

I am much more conscious of my ignorance than of my knowledge - yet I have convictions.

Before I am finished you may say I am a reactionary. Well, maybe I am - at present. But 20 years ago I was considered a revolutionary - true of many. But 20 - 10 - 30 years from now I will again be considered a revolutionary.
A Bit of History

I. Before the First World War the great fear was of inflation

A. Fear based on experience
   Bank rate up 1 per cent; down ½ per cent
   (periodic debasements of the currency)
   1. John Law early in 18th Century
   2. Assignats late in 18th Century
   3. The "Continents" of American colonies
   4. Napoleonic inflation in England and France

B. A belief based on "natural law"
   Depressions are God's way of punishing men for failure to
   observe natural law - which meant convertibility

C. Economic progress came as a surprise
   - continuing fear that it wasn't real
   - and could not be maintained
   Pride in actual progress - not dissatisfaction that it
   was not more rapid
   - A PATIENCE THAT WE HAVE LOST!

D. Diverse developments (later forgotten) after the Franco-Prussian War in
   1. France and in Germany (or the U.S.A.)
      Low - stable rates
      and stagnation
      High - variable rates
      and exhuberant prosperity
   2. Why?
      a. In part, natural resources
      b. More important, character
         (1) France admitted defeat - fear
             even victory in First World War led to Maginot Line
         (2) Germany
             even defeat in First World War did not destroy
             FAITH THE JOB COULD BE DONE
             AND IT INVOLVED SACRIFICE
   3. Suggested limits to monetary policy
      Not merely that infant grows faster at faster rate!
      He outstrips his father and continues to grow.
II. The 1920's in the U.S.A.

We forgot these limits

We talked of a new era - monetar, policy the panacea

III. The Great Depression

Vast, unused human and material resources

Fiscal policy, starting as a supplement, eventually supplants monetary policy altogether

Instead of natural law -

Man is the master of his fate - money is merely a servant -

true - but you remember Paul Dukas the Sorcerer's Apprentice?

IV. The Second World War and its aftermath

A. Inflation - in varying degrees - but with a vengeance!

Direct controls and their distortions which submerged the appearance

You can't make money your servant by decree

but only by treating it as a servant!

If you do not behave as a master, your servant may blackmail - or prosecute you!

The curious recurrence of the contrast between France and Western Germany!

V. Beneath the monetary facade there is a real economic problem

How to use LIMITED resources to satisfy UNLIMITED wants and desires

In the main, central banks will contribute most if they concentrate on MAXIMIZING OUTPUT OF REAL RESOURCES- including voluntary leisure!

and leave to others the problem of distribution

As one takes this view, Maximizing current standards of living

and

Maximizing the rate of economic development are brought in their true focus as COMPETITIVE or ALTERNATIVE of resources
If we insist on trying to accomplish both via monetary policy, we shall end up with inflation - which falls far short of achieving the "best" combination - however defined.

**Fallacy of productive credit idea** - motors for refrigerators

- Stable prices have been at wholesale cost
- Full employment increased from 1.8 to 3.7 million
- Gold standard we lost $1.5 billion in last 16 months

VI. A final reason for studying our forefathers

A. Without such study, we tend to react against **everything** we did before because we now consider the **over-all** effect bad

B. A study of history reveals that our forebears were not all bad or all of ill will

   - IF IT DID, - are we prepared to face our historians?
   
   - or do we believe we exclusively commune with the BURNING BUSH?

BUT don't take my word - take your own! There is high authority which says I am stupid!

We cannot in any event **DELIVER** the millenium overnight.

Let us not promise it!

We may lose our bodies - **TEMPORARILY** but we shall retain our **SOULS** - and regain our bodies - in **DUE COURSE**

But how much is too much?

Remember **FRANCE** -

and **GERMANY**

But be **RIGHT**!