

Discussion on  
OBJECTIVES OF MONETARY POLICY

by

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before the

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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.

	Expand	Contract	
Gold standard (stable exchange rate)	Reserves large, rising	Reserves declining	Deflationary
Productive credit (real bills doctrine)	\$ volume of business up	Monetary volume of business down	Self-inflammatory
Stable prices	When prices down	Prices up	--
Full employment	When unemployment	Over full employment	Inflationary
Fixed rate of interest (low, stable)	When savings are inadequate	When savings are excessive	Self-inflammatory

Conflict in last fifteen months.

Lost  $\$1\frac{1}{4}$  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 rare 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 $\frac{1}{2}$ per cent (periodic debasements of the currency)

1. John Law early in 18th Century
2. Assignats late in 18th Century
3. The "Continental" 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 |        | High - variable rates    |
| and stagnation     |        | and exuberant 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 - monetary 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 $\frac{1}{4}$ 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!