

ECONOMIC DEVELOPMENTS - DOMESTIC AND FOREIGN: 1929 - 1954

Notes of Lecture by

KARL R. BOPP

Vice President, Federal Reserve Bank of Philadelphia

before the

1955 Executive Program in Business Administration

Graduate School of Business, Columbia University

Arden House, Harriman, New York

July 21-22, 1955 and Sept. 22-23, 1955

Introduction

- 1. In an hour! 1 year = 2 minutes
- 2. Many important episodes will slip by while I pause for breath.
 - I suggested different question.

I. Where were we in 1929? (I started teaching that year. My students had no recollection of World War I.)

A. The economic façade

- 1. The world had restored an international monetary system
 - Major producing and trading nations on gold standard
- 2. New era of perpetual prosperity in U.S.A.
 - Monetary policy alone could and would do the job
 - Fringe of qualified but unsatisfied borrowers

B. Stresses and strains

- 1. Overvaluation of the pound (1925)
- 2. Undervaluation of the franc (1926)
 - a. France accumulates great financial power
 - gold and foreign balances
- 3. Reparations, war debts, and foreign loans
- 4. Diverse developments in U.S. economy
 - a. Real factors vs. stock market - fed by brokers loans
 - b. Tight money to restrain stock market
 - increased strain abroad
 - borrowing short / lending long

II. The Great Depression


A. Initial reactions to stock break

1. A necessary / healthy readjustment
 - a. There were obvious extravagances
e.g. investment trusts
2. Prosperity just around the corner

B. Cumulative nature of credit liquidation

1. Conventional thinking on fiscal policy
- both parties
2. Conventional ideas of banking and central banking
don't save bank stockholders
liquidate failed banks
lend only on commercial paper

C. Financial crisis in Europe

1. March 1931 Brüning Anschluss proposal 
2. May Kreditanstalt
 - a. England vs. France (France refuses to help unless drop)
 - b. France vs. Hoover moratorium proposal
withdrawals by foreigners
3. Nordwolle failure
4. Darmstadter Bank failure July 13
5. MacMillan Report June 23, 1931
 - a. London owns £ 150 million
 - b. London owes £ 400 million
6. England borrows abroad: French conditions
Bank rate $2\frac{1}{2}$ to $4\frac{1}{2}$
7. England leaves gold September 21, 1931

D. Rise of Economic Nationalism

1. Detach themselves from international system
2. Monetary policy in national interest
3. Direct controls - Germany, a note on rise of Hitler

E. Despair

1. Individual caught in forces he does not understand and for which he is not responsible
- industrial society dependent on money income
2. Rise of dictatorship in Germany
3. Greater role for government everywhere
4. Determination never to let happen again
- mere determination is not enough

F. The new economics

1. Inadequacy of conventional thinking to explain
- temptation to throw it all overboard
2. Search for a new explanation
 - a. Pump priming
 - b. Compensatory fiscal policy
3. Improvising in the U.S.A.
 - a. From W.E.C. in London 1933 to Lend Lease
 - b. Did not have full recovery in 1939
 - c. Role of Government in stable economic progress

III. The Second World War

A. In real terms

1. We increased total labor force by 10 million 55-~~65~~ million
2. We reduced unemployment by 9 million 10-~~1~~
3. 12 million to armed forces, 8 million to manufacturing
4. Increased work week by 20% - 38 to 45 hours

B. In 1944, Federal Government took \$90 bill. of \$210 bill. G.N.P. yet we had little real suffering in standards of living

C. In financial terms

Calendar 1941-1945

	\$ billion	%
Fed. Gov't expend.	378	100
Tax receipts	150	40
Borrowings = ↑ in liquid assets		
Com. banks	72	19
F.R. Banks	22	6
Other	134	35

D. Economic controls

1. General, via fiscal and monetary policy (Why finance at a fixed rate)
2. Direct: Know Government needs - priority
Equitable + of remainder
 - a. Price and wage ceilings) tend to proliferate
priorities → rationing → more
rationing
 - b. Rationing
3. Use of direct controls repressed evidences of inflation
 - a. "Forced" savings in the form of money and other
liquid assets

IV. Post-war Developments

A. Heritages of the war

1. Shortages
2. Money and liquid assets
3. In rest of world restoration of devastation

B. Why no more was done to halt inflation

Large cash surplusses - didn't halt

1. Motive to remove direct controls
2. Fear - periodic - of deflation - bear of $2\frac{1}{2}\%$ by the tail
C.E.D.
The spring lulls
3. Inflation accompanied by rapid rise in real standards
of living as war output went to civilians

C. Conflict between F.R.S. and U.S. Treasury

D. Korean Invasion

E. Restoration of monetary policy

(You had discussion of foreign aspects on Monday and Tuesday)

F. What the free world fears of our economy
- boom and bust