

WELCOME AND INTRODUCTORY SPEECH

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FRENCH PRODUCTIVITY LOAN FUND BANKING TEAM  
(Arrangements by International Cooperation Administration)

at Federal Reserve Bank of Philadelphia  
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- I. Welcome
  
- II. I have long had an interest in French banking,  
especially the Bank of France
  - A. Plan of 1939      Athenia
  
  - B. Reprints
    - 1. The Government and the Bank of France, 1941 (35 pages)
    - 2. Nationalization of the Bank of France  
and the Bank of England, 1946
    - 3. Encyclopedia Brittanica
    - 4. Bank of France Policy, 1800-1914 - 1952
  
  - C. Ask about
    - 1. Reprints of Annual Reports    1800 to date    (Hirigoyen)
    - 2. Emile Moreau autobiography
  
- III. Plan of this Meeting
  - A. Introductory comments on productive credit
  - B. Credit analysis by George Lavin
    - 1. Mention Proceedings of Federal Reserve Relations Committee
  - C. Discussion (also answer questions on F.R. policy)
  - D. Luncheon
  - E. Tour of the Bank

#### IV. Productive Credit: Meaning

##### A. To lender

If loan and interest are repaid without trouble and on time

##### B. To borrower

If he ends with more profit than he would have had had he not borrowed

(If borrower increases his output - rather than buildup inventories; but what if all resources are already in use?)

##### C. To society

###### 1. The question of amount (Particularly that extended by banks)

a. The commercial loan or real bills theory (every central bank has used at one time or another)  
- gives no control over amount  
Self-liquidating?

b. The flow of spending - flow of goods and services at current prices

(doesn't distinguish between rise in output because of P. & Q)

###### 2. Distribution

a. Real Bills Doctrine too conservative? -  
Based on collateral rather than income

b. Imaginative extension of credit to develop new ideas (look to future rather than the past)

(1) Dangers or risks

- the genius in everything except finance

(2) Opportunities

(elastic currency)

(Technical aspects)

(Correspondence and material to Bank Relations Department - 11/1/55)

Some questions

The expected level of performance

- I. From Great Depression until Second World War (1941)  
at no time did we have less than 5 million unemployed
- II. Since the War at no time have we had as many as 5 million unemployed  
early
  - A. War and/Post War Inflation
  - B. But now for several years with stable prices
- III. The result
  - A. In part from behavior of the public  
e.g. in depression of 1954  
banks expanded loans and investments  
in 1955  
banks and loans = investments  
that the non-financial public bought
  - B. In part from management
  - C. In part from luck
- IV. We have set our standards higher  
Not over  $2\frac{1}{2}$ -3 million unemployed  
at 40 hours a week and stable prices
- V. I have indicated it to be my judgment we shall  
achieve this during the next 6-9 months.
- VI. Yet, in longer run we should not rule out deviations  
greater than '49 and '54
  - A. People have and can change psychologically - in a hurry
  - B. Fiscal policy in fact not as flexible as would be necessary
  - C. Monetary policy  
Flexible as to what is done  
But do not confuse with what should be done  
Delay in knowledge  
Delay in effects  
Complexities of the money and capital markets now!

A basic issue is

Highest level of sustainable employment with stable price level

Prices related to costs - including labor costs

Too high wage rates and full employment spell inflation

YET, in a dynamic economy, pressure on management to cut costs

- plant and equipment expenditures -

produces amazing results

- including stomach ulcers!

Who would have thought we could take a cut in Government

purchases of \$15 billion

and add a turnaround in inventories of \$10 billion

and yet enough with unemployment never reaching 4 million

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	<u>3rd Q.</u> <u>1954</u>	<u>3rd Q.</u> <u>1955</u>	
G.N.P.	359 +33 (9%)	392	
Personal services		91.5	+4½-5 a year
State & local Gov't		30.1	+2
Fed. Gov't		45.4	(41 for Nat.Def.)
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Non durables		127.5	
Construction & equipment			
Housing		16.2	down in starts ==in cost
Other construction		16.1	up )
Equipment		25.4	up ) on plans
Durables		37.5	
Inventories		+ 3.	recent rise in purchased +
Foreign		- .7	in process, not finished goods

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