

WHO CONTROLS CENTRAL BANKS?

A Lecture Delivered to the
Classes in Money and Banking
The State University of Iowa

March 17, 1938
by
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A dozen years ago I was a student in the course in Money, Credit, and Banking taught by Professor James Harvey Rogers at the University of Missouri. Professor Rogers used four texts of which two: Bank Credit and Readings in Money and Banking were by Professor Phillips. We were complimented indeed one day when Professor Rogers brought Professor Phillips to address us. I am very happy to reciprocate with a lecture to the class in Money and Banking at the State University of Iowa.

By this time in your study of banking you have doubtless become convinced of the great importance of the Federal Reserve system not only upon the American banking system but also upon our whole economic life. Central banks in other countries play similarly important roles in those countries. It is interesting to ask, therefore, who controls these powerful institutions called central banks?

A central bank is administered by a number of individuals; and its policy, in the first instance, is an expression of the balance of power among those individuals. But an old central bank is more than a mere aggregation of individuals. It is an institution whose history gives it standing independent of that given by the particular individuals who manage it at a moment of time.

The Bank of England is well over two centuries old. Founded in 1694, it has survived the House of Orange, the House of Hanover, and still serves Liberal, Conservative, and Labour cabinets under the House of Windsor. The Bank of France has survived Napoleon, who founded it, the Bourbon Restoration, the House of Orleans, the Second Republic, Louis Napoleon, and now, in modified form, serves the Third Republic. The Reichsbank survived the Hohenzollern Empire, the Republic and its inflation, and now serves the Third Reich. These ancient institutions have been battered and scarred by many conflicts; they have had to adjust themselves to many unpleasant circumstances; they have changed greatly

as they have aged; but they have survived. Perhaps it is possible to gain some maturity of view toward the Federal reserve system if we recount briefly the histories of these older central banks.

1. The Bank of England.

The Bank of England is nominally a private corporation managed by a governor, a deputy-governor, and a Court of 24 directors. Its stock is bought and sold on the exchange, and any individual who wishes may buy one or more shares. Every holder of £500 or more of stock for six months before an election is entitled to one vote. More than six thousand persons are thus qualified. At first sight it may appear that an unpatriotic clique could easily gain control of the Bank which has only £14,553,000 of nominal capital. But this conclusion would be in serious error. For although a person may purchase a nominal amount of Bank stock without difficulty, he would find it impossible to purchase a majority of the stock; because he would soon ~~find~~ hold the entire floating supply; and his prospects of buying more shares would be remote indeed.

even granting that no one discovered his ambition or organized any move to defeat his purpose. The great bulk of Bank shares is inactive. Approximately half are held in joint names (presumably trustees). This stock ~~is~~ practically never changes hands in the market, yet it carries control over elections to the Court.

There is no provision in the statute for nominations to the Court. In actual practice the members of the Court canvass the field before the spring elections and prepare a House List or official slate of candidates. Usually the directors are unable to find any persons better qualified than themselves; and the directors are really a self-perpetuating body, because the stockholders almost invariably follow their recommendations. A few years ago an industrious scholar was given access to the many old documents of the Bank and found that there was a contest in 1789 when some stockholders were dissatisfied with the small dividend^{1.} they received. In 1832, J. Horsley Palmer,

1. W.M. Acres, The Bank of England from Within: 1694-1900, London, 1931, Vol. I, p. 261.

Governor of the Bank, could not recollect when the last contest had occurred. He recalled that one vote had been cast for an individual not on the House List in the preceding election, but no regular canvass had been conducted.² The results of this procedure are shown clearly in the terms served by the directors. Though subject to annual election, the average term has been fifteen years. Of 354 directors who served between 1694 and 1900:

115 served twenty years or more

54 served thirty years or more

20 served forty years or more

2 served fifty years or more.

This record is all the more impressive in view of the fact that one-third of the directors were required to retire each year. Nevertheless the membership of the Court usually includes a dozen directors who have served ~~from~~ a minimum of ten to twenty years.

But even so, occasionally a new face appears. How is he chosen? That depends upon the vacancy

2. Committee on the Bank of England Charter, Minutes of Evidence, London, 1832, questions 239 and 240.

which he is to fill. A number of merchant banking houses "seem to have won a sort of dynastic right to be represented on the court."^{3.} The House of Baring has been represented (with interruptions) since 1805; the House of Grenfell (now Morgan, Grenfell) since 1830; Goschen, since 1858; Hambro, since 1879; Fr. Huth, since 1838; Arbuthnot and Latham, since 1838. These connections form the basis of the renewed attacks which allege that the Bank is "a close corporation with its eyes too exclusively on City interests."^{4.}

Only about a third of the directors are merchant bankers. In filling the other vacancies the directors appear to take care not to elect persons whose interests are limited to one section of trade and industry. Thus, the textile, mechanical, brewing industries are not represented; whereas, insurance, railway, and shipping have been strongly represented for a long time.

3. R. J. Truptil, British Banks, London, 1936, p. 37.

4. Ibid., p. 38.

During the past generation, and especially since the war, a number of traditions of the Bank have been broken. In 1921, Sir Charles Addis, chairman of the Hongkong and Shanghai Banking Corporation, was elected a director and became the first commercial banker ^{to be} so honored; similarly, Mr. Edward Holland Martin, of Martins Bank, joined the court in 1934. In 1914, the Bank began to have some full time directors. There are of two types: some, like Sir John Gordon Nairne and Sir Ernest Harvey, have spent their entire lives in the interior service of the Bank; others, like Mr. Norman during the war, Mr. Charles Hambro from 1932 to 1934, and Messrs Clegg and Holland-Martin since 1934, have given up their private connections to shoulder part of the responsibilities at the Bank. Formerly also the Governor served for two years only (with rare exceptions).^{5.} Mr. Norman, the present Governor, has served for seventeen years. Before the war, when the govern-

5. Occasionally, as when a renewal of the charter was pending, a Governor served a third year: Palmer in 1832 and Cotton in 1844. Sir Gilbert Heathcote served as Governor for two separate periods.

orship was rotated, it was necessary that a director have a decade or two of experience before he became governor. Consequently, the tradition developed of electing new directors from among the most promising young men of established firms.⁶ This practice is still followed in some cases; but in others, men of mature age are selected.

Thus far it appears that the Bank of England is directed by a, perhaps benevolent, self-perpetuating financial oligarchy of City men. And in ordinary times this is true. But superimposed upon this continuing financial control is domination by the government in emergencies.

Governmental interest in the Bank dates to its origin. The government of William and Mary needed funds to carry on the war with Louis XIV of France when Parliament passed the Ways and Means Bill of 1694 entitled:

An Act for granting to their Majesties several duties upon tonnage of ships and vessels, and upon beer, ale, and other liquors, for securing certain recompenses

6. W. Bagehot, Lombard Street, London, 1904, pp. 211-213.

and advantages in the said Act mentioned, to such persons as shall voluntarily advance the sum of fifteen hundred thousand pounds toward carrying on the war with France. (7)

The taxing features of this bill were not expected to raise sufficient funds, and Parliament incorporated in the Act the scheme of William Paterson by which a loan was offered for public subscription. The establishment of the Bank in sections of a Ways and Means bill indicates that "Few people were far-sighted enough to realize then that the rights given to the Bank were infinitely more important ~~than~~ 8. to the nation than the sums advanced by it."

The Bank thus owes its creation to the financial exigency of the government. Furthermore, as lender to an impecunious government, it was in position to dictate terms and to secure privileges out of harmony with the growing theory of laissez-faire. It was incorporated for a limited period and was nominally subject to liquidation upon repayment of the loan by the government. Instead of repayment, however,

7. 5 William & Mary, cap. 20.

8. P. Mantoux, The Industrial Revolution of the Eighteenth Century, 1929, p. 98.

the ordinary course of events was to renew the charter in exchange for an increase in the loan.

At the close of the seventeenth century Parliament had just emerged victorious from a long and bitter struggle with the King for supreme governing power. The Whig Parliament had no intention of jeopardizing the hard-won victory by permitting the King to use the Bank to free his purse strings from Parliamentary control. Consequently, it forbade the Bank to loan to the Crown or to buy Crown lands without the consent of Parliament.

Although Parliament closed the doors of the Bank to the King, it periodically visited the institution on behalf of its own finances. From its foundation until the nineteenth century the Bank remained primarily a financial institution of the state. The directors, however, were not always docile or even willing lenders. After the Bank moved its premises it became known as the Old Lady of Threadneedle Street; and a significant part of its history touches the courting of the rich Old Lady by impecunious

ministries in search of loans, and conversely the courting of the ministries by the Old Lady desirous of favors. Advantages were gained by the ministries when they gave her a new lease on life by renewing her charter; advantages were gained by the Old Lady when she enabled ministerial suitors to stave off financial embarrassment.

Gradually the government began to assume that whenever public subscriptions to its loans were inadequate, the directors of the Bank would secure the necessary funds by an increase in its capital. In 1793 the directors earnestly requested Pitt to repay part of the advances. Pitt promised to give "full consideration" to the matter. After "full consideration" Pitt increased his demands upon the Bank. The directors complained and at times were on the verge of refusing the next demand; but they never actually refused. "Repeated appeals to Pitt by the Bank for moderation brought no hope of relief, and at length, upon urgent representations by the Bank as to their condition, it was arranged by Pitt that an Order-in-Council

9. A.E. Feavearyear, The Pound Sterling, London, 1952, p. 167.

be issued enjoining the Bank from further payment of their obligations in cash." ^{10.} Just as it had earlier become established that the Bank would assist the government in raising money, so now a precedent was set that the government would always come to its aid when the Bank was in difficult circumstances.

During the world war all the resources of the country were enlisted to win the conflict. This included the resources of the Bank of England. In addition to free advice to the Chancellor of the Exchequer, the Bank extended very large sums directly and indirectly to the government. Even had the management been willing to incur the stigma of slacker, it could not have prevented the government from securing the aid of the Bank. Total governmental expenditures for the six years 1915-1920 were £11,268 million or £300 million more than for the preceding two and a quarter centuries. If necessary, the government would simply have assumed the management of the Bank to finance the war. Thus in the world war as in every major war back to the time of William and Mary the wishes

10. N.J. Silberling, "Financial and Monetary Policy of Great Britian during the Napoleonic Wars," Q.J.E., XXXVIII, May, 1924, p. 398.

of the government prevailed, modified only by such financial advice of the Bank as the government was willing to accept.

What conclusions can we draw from the experience of the Bank of England? First, in ordinary times little attention is paid to the Bank, and it is controlled by the dominant financial interests of London. Second, in periods much disturbed by war these financial interests have found it expedient to yield to the wishes of the government of the day. Third, that although the Bank has had to yield to one government after another, it has survived them all.

2. The Bank of France.

The Bank of France, like the Bank of England, is nominally a private corporation whose stock may be bought and sold on the exchange. Until very recently it was even more definitely under the control of a small group of financial houses than the Bank of England. Although there were over 40,000 shareholders, until 1936 exclusive voting power ^{was vested in} rested with the 200 citizens with largest holdings. An investment of \$50,000 to \$100,000 was required to belong

to this group known as the General Assembly. Small wonder that the spectacular press referred to them as the 200 families who govern France. These 200 stockholders elected the fifteen Regents, three of whom were government officials and the other twelve of whom really controlled the Bank. The average term of the Regents was about fifteen years. Of the 141 who served from 1800:

30 served 20 years or more
 12 served 30 years or more
 6 served 40 years or more
 2 served 50 years or more.

Francis Delaisi discovered that in 1935, the twelve controlling Regents occupied 150 directorships in 95 corporations. He also found that Rothschilds had been on the board since 1855, Mirabauds since 1839, Vernes since 1832, Hottingeurs since 1803. The most spectacular record, however, was that of the House of Mallet which had been represented by the great-grandfather, grandfather, father, and present Ernest Mallet without interruption for 155 years since the foundation of the Bank.

11. F. Delaisi, "Les maitres secrets de la France," Vu, Vol. 8, No. 380, June 26, 1935, pp. 837 ff.

Yet Napoleon had no such intention when he founded the Bank. On the contrary, he founded the institution precisely because the private banks of France were unwilling to finance his ever more expensive military campaigns. He therefore decided to found a "truly French" bank; that is to say, a bank which would grant him loans. The Bank of France was founded on February 13, 1800, as an aid to government war finance - just as had the Bank of England a century before.

Three years later Napoleon decided to centralize "banking" in the new institution. Replying to Mollien, his tutor in finance, he said:

Have you not told me that the preservation of credit demanded that an artificial money like that issued by banks should come out of one source only? I adopt this idea. One bank is easier to watch than several; for the government and for the public. Busy yourself with a new plan of organization for the Bank of France in line with the preceding ideas; submit it to me only." (12)

The Bank soon fell upon evil days which Napoleon attributed to the excessive influence of financiers upon its management. On April 2,

12. H.E. Fisk, French Public Finance, New York, 1922, p. 232.

1806, Napoleon is reported to have said: "France lacks men who know what a bank is; it is a race of men to be created."^{13.} So Napoleon, who had made and unmade empires, created such a race of men by having passed on April 22, 1806, a law which lodged with him the power to appoint the governor and deputy-governors of the Bank. But there were some things that even Napoleon couldn't do. When accommodating governors met his increasing demands, and when British troops invaded France in 1814, the Bank suspended operations. But though Napoleon was exiled to Helena, the Bank reopened and served the restored Bourbon government.

Periodically, the financial oligarchy which controlled the Bank acceded to the demands of the government."The Bank went to the aid of the State notably in the Revolution of 1848, the Franco-German War (1870-1871) and the World War. During the last period it lent the Treasury 26,000,000,000 francs cash, without counting 3,500,000,000 francs in Treasury bills, and went on lending steadily without reimbursement

13. G. Ramon, Histoire de la Banque de France d'après les Sources Originales, Paris, 1929, p. 77
E. Kaufmann, Das französische Bankwesen, Tübingen, 1911, p. 5.

until the end of 1925. In 1925 alone - the inflationary year - the Treasury borrowed 17,500,000,000 francs.^{14.} In April of 1925, "M. Bèrenger, Rapporteur of the Finance Commission of the Senate, made the sensational disclosure that the Bank of France, under pressure from the Government, had falsified its published accounts and that the figures in the weekly statement were not trustworthy."^{15.}

Yet, despite such aid to the government, ten years later we find the Socialist deputy, Leo Lagrange, crying in the Chamber of Deputies: "There exists in our country a Bastille which is the stronghold of resistance to popular sovereignty and the will of the State: the Bank of France and its Council of Regents."^{16.}

14. H. L. Matthews, "The Bank of France Under Fire", Current History, November, 1935, p. 146.

15. R. M. Haig, The Public Finances of Post-War France, New York, 1929, p. 118.

16. Journal Officiel, Chambre, Debats, June 7, 1935, p. 1804, "Parce qu'il existe dans notre pays une Bastille qui est la place forte des resistances a la ~~volonte~~ souverainete populaire et a la volonte de l'Etat: la Banque de France et son conseil de regence. (Vifs applaudissements a l'extreme gauche et sur plusieurs bancs a gauche)"

A week later the influential Socialist weekly, La Lumiere, took up the cry: "For fifteen days, openly, cynically, the Bank of France...has publicly defied popular sovereignty. ... The country will no longer submit to the will of a financial oligarchy, directed by M. de Wendel and M. de Rothschild. Republicans of all shades, you must unite to tear down this Bastille! You seek a program. There it is!"^{17.} Even the astute Delaisi concluded his article with the statement: "In earlier days, when the King was a minor, a Regent governed in his place. Democratic France now has twelve regents."^{18.} How had the financiers been able to force the governmentally appointed governors of the Bank into line and to defy the premiers themselves?

17. Cited from H.L. Matthews, "The Bank of France Under Fire," Current History, Nov. 1935, p. 139.

18. F. Delaisi, "Les maitres secrets de la France," Vu, Vol. 8, No. 380, June 26, 1935, p. 863: "Autrefois, quand le roi était mineur, un Régent gouvernait a sa place. La Démocratie française a maintenant douze Régents."

First, the law required the governor's signature to every contract and engagement; by withholding it, he could impose a veto upon any transaction of which he disapproved. But the law also required the governor to own ^{at least} 100 shares of Bank stock (say, \$50,000 to \$100,000). fr 6,000 each
 Frequently the nominee was not wealthy enough to acquire the stock; and he had to borrow some of the money or the shares. Chief owners were the 200 families, who were quite willing to lend the shares as long as the governor was a "reasonable person". Furthermore, the governors were on the look-out for remunerative positions when they voluntarily or otherwise left the employment of the Bank. The Regent-controlled Suez Canal Company and Banque de Paris et des Pays-Bas were notable havens of refuge for retired or dismissed governors who had behaved "properly."

Governors even supported the Regents against the government which had appointed them. Thus in 1935 governor Moret was summarily dismissed and M. ~~Rix~~ Tannery was made governor for the purpose of securing the aid of the Bank of

France to the liberal credit policies of the Flandin government. Once he was appointed governor, however, M. Tannery found it impossible to follow Premier Flandin's program. By the end of 1935 M. Tannery was still governor of the Bank of France, but M. Flandin's name had been added to that of Herriot (1924) and Daladier (1934) among the ex-Premiers who had incurred the displeasure of the Bank.

In the elections of the spring of 1936, the Left conducted its campaign against the Bank of France and the "occult money powers." Hostility to the Bank was not, however, limited to the radical groups. A considerable number of substantial business men felt that the antiquated statutes of the Bank should be modified. As a result of the victory of the Popular Front of Radical Socialists, Socialists, and Communists, the Blum government reorganized the Bank completely.

What conclusions do we draw from the experience of the Bank of France? First, as with the Bank of England, in ordinary times the Bank goes its quiet way dominated by the financial interests.

Second, in war periods the financial interests have patriotically yielded to the wishes of the government. Third, when in peace times the Bank challenged successive governments, a popular referendum enabled a victorious government to subject the Bank to its wishes.

3. The Reichsbank.

From the history of the Reichsbank I wish merely to describe a few important events which will enable us to enlarge our conclusions somewhat. The Reichsbank has always been a one-man institution whose policy is controlled by its President. Both Schacht and Luther have casually described periods in which they personally determined the policy of the Bank. ^{19.} Although the Dawes experts tried to copy a chapter of Montesquieu into the German Bank Act of 1924, both Schacht and Luther were politicians who usually attended Cabinet meetings during their tenures as head of the Reichsbank.

19. H. Schacht, Die Stabilisierung der Mark, Berlin, 1927, pp. 114-115; H. Luther, Wirtschaftsfragen der Gegenwart, Jena, 1932, p. 59.

The first experience that I wish to recount occurred in 1929-1930. At that time Germany had two budgets: an ordinary and an extraordinary budget. Until the financial year 1929-1930 the ordinary budget, financed by tax revenues, was kept in balance; but the extraordinary budget which involved large non-recurring expenditures broke down because of the difficulty of raising loans. The Treasury transferred to the extraordinary budget all surplusses and even the working balance of the ordinary budget. In February 1929, the Treasury was forced to borrow temporarily to meet the end of the month payments. This was repeated in succeeding months. Gradually the Treasury availed itself of the maximum credit available from the Reichsbank, 400,000,000 marks, as well as the surplus funds of the post office, railroads, state agricultural banks, and other public institutions. When these resources, amounting to more than a billion marks, proved inadequate, a fifty million dollar credit was secured from Dillon, Read & Co. It was then apparent that new difficulties would arise at the end of the

year. Hilferding, Minister of Finance, relied upon an eventual second credit from Dillon, Read & Co. But Schacht, President of the Reichsbank refused to consent to the new loan. He publicly attacked the government's fiscal policy and forced Hilferding and Popitz, Secretary of State in the Ministry of Finance, to resign. They based their resignations upon the statement that their efforts to reduce taxes had become impossible because of "interference from outside"; or as Popitz wrote in his letter of resignation, the unavoidable "subjection under the conditions of the President of the Reichsbank, Dr. Schacht."

We have here the extraordinary illustration of a central banker who forced a minister of finance to resign. When to this experience was added what Schacht considered the German "bungling" of the Young Plan negotiations, he became convinced that the existing government was leaderless and would soon collapse. Consequently, he resigned.

He was succeeded by Hans Luther, former German Chancellor. In the fall of 1932 the

weak von Papen government also experienced serious budget difficulties. It first requested, then demanded that the Reichsbank discount government bills to provide funds. When neither entreaty nor threat succeeded, von Papen demanded the resignation of Luther.^{20.} But Luther refused to resign. Again we have the central bank defying a weak government and emerging victorious.

In March 1933, however, when Luther became convinced during a series of conferences with Mr. Hitler that his continuation as President of the Reichsbank was intolerable to the Nazis,^{21.} he resigned.

What additional conclusions can we draw from these German experiences? If the government is unwilling to risk the trial of fire by general election, it may not be able to force a strong central banker to do its bidding; but a strong government will not brook opposition from a central bank.

20. Frankfurter Zeitung, March 18, 1933, No. 209.

21. Confidential letter of resignation of Luther to President Hindenburg, dated March 16, 1933.

4. The Federal Reserve System.

A vital issue before the Congress which drafted the Federal Reserve Act was: who should control the system; the so-called money trust^{22.} or the government? The Act represented a compromise. ~~Two~~ Two major agencies were created to determine policy. Members of the supervisory Board are appointed by the President with the advice and consent of the Senate. The local Reserve banks, in turn, are managed by boards of nine directors, three of whom are selected by the supervisory Board and six of whom are elected by the member banks. How has this system of checks and balances functioned?

a. The Reserve Banks.

The member banks in each reserve district are grouped into large, medium, and small banks. Each group member is entitled to nominate and to cast one vote for each director of its group. Some groups contain more than 400 banks. Yet, of 240 regular elections which were held from 1925 to 1934 inclusive, 176 or almost three-fourths, had only one candidate, 46 had two candidates,

22. R. L. Owen, The Federal Reserve Act, New York, 1919, p. 89.

and only 18 had more than two. Only one candidate has been nominated for each regular vacancy at the Boston Bank since 1928 and at the New York and Kansas City Banks since 1926. The conclusion is inescapable that a single name ordinarily is called to the attention of all nominating banks. Elections are usually merely a matter of form in which only a fourth to a half of the member banks vote.

Where do the three Board-appointed directors fit into the picture? The Board does not know the best qualified candidates and requests suggestions from those who do know the local situation; the reserve bank directors themselves. Concerning the procedure which is followed in their selection, Mr. Platt, a former member of the Board, wrote Representative Steagall as follows:

As a matter of actual operation Class "C" directors and Federal Reserve agents never have been, or at least only rarely been, actually appointed by the Federal Reserve Board (apart from the first appointment at the organization of the system). By this I mean that nearly all the appointments of Class "C" directors and Federal Reserve agents have been made by the Federal Reserve Board on recommendation from the directors of the Federal Reserve banks themselves. It seems to me that that is the way the thing must operate for a Board sitting in Washington can't possibly know the best men to select.³

³ *Congressional Record*, May 1, 1935, p. 6980.

A consequence is that whereas Reserve bank policies were supposed to be the result of compromises among the several classes of directors on the board, actually there is hardly ever any conflict, and votes at Reserve banks have been unanimous for years without interruption. In short, the dominant financial interests control the Reserve banks.

b. The Board of Governors.

In addition to the ineffective internal checks at the reserve banks, the Reserve Act provides a politically selected Board of Governors. Long terms were provided, and an "independent" Board was envisaged. Yet actually two-thirds of the members served less than five years and every President has had the opportunity to appoint a majority of the members. Experience seems to show that almost without exception the members serve at the pleasure of the President and resign at his request or suggestion. Actually, therefore, the administration in power controls the Reserve Board.

c. The Balance of Power.

During the war the Treasury dictated Reserve policy, and the entire system cooperated in financing the conflict.

After the war the system was blamed for the depression; and the Farm Bloc amended the law to provide a ~~dirty farmer~~ position for a dirt farmer on the Board despite the earnest protests of the officials of the system.

In the twenties the New York Bank assumed the leadership of the system. When this leadership was blamed for the Great Depression, the government again changed the law to provide for greater governmental control over policy.

SUMMARY

Persons who are interested in the adoption of wise central banking policy have attempted to devise a proper balance between the power of the dignified sovereign government and that of the technical banking personnel. As long as the economic system appears to be functioning reasonably well, the existing balance of power between the government and the bank is tacitly accepted. But when the system functions poorly, the existing control (whatever it may be) is criticized and a realignment is recommended. Usually it is a disappointing state of affairs rather than a conflict on basic principles which leads to discussions; and it is not surprising that the conclusions of students on the best balance of power are conditioned by the periods which they have studied.

A reasonably accurate generalization is that the government is interested in the short run and the central bank in the long run. The government of the day must produce quick results or face defeat at the polls. Frequently in severe depressions individuals feel wholly overwhelmed by external circumstances and elect to office an administration which is expected to show immediate results. Since the central banks are frequently held responsible for the difficulties, the government is directed to force the bank into line. The cry becomes: "The government must control the bank or be controlled by it." Similarly, in wars the government is expected to enlist all the resources of the nation in its prosecution.

Now, although easy governmental access to the credit of the central bank may show favorable immediate results, historically it has often resulted in inflations more or less severe. When an inflation is traced to governmental domination of the central bank, a reaction develops. Governmental "leadership" becomes "Bureaucracy," the "strong man" becomes

the "dictator". Freedom of the central bank from political control is raised to a copy-book maxim and even appears in the central bank statutes. But the mere existence of a statute is neither a safeguard nor an obstruction when the next ~~depression~~ emergency appears. The appearance of depression emergencies is evidence that even the "independent" central banks are not infallible.

The test of any system is the results which it secures. Both governmental domination and genuine bank independence are subject to grave dangers. Governments, interested in reelection, are perforce concerned with immediate solutions of pressing problems with but little concern for long-run costs. Central bankers of the toughest fiber, on the other hand, may be too willing to sacrifice too much of a nation's substance to gain illusory objectives.

If one assumes that particular administrations are placed in control of modern governments to accomplish certain social objectives, and if one holds them responsible, the governments must be accorded power to prescribe

the general objectives for the central bank. It would then appear to be the function of the central bank to accomplish these objectives as efficiently and as far as technically possible.

At the same time it must be remembered that neither the government nor the bank functions in a vacuum; nor strictly speaking, can they be isolated. Policy is determined by the interactions of individuals, and the best policy is secured when the most capable individuals determine it. Neither the central bank nor the government has a continuing monopoly of these individuals. Although central banking is an occupation which requires technical skill, not all technical central banking administrations have been entirely successful. The person who is interested in securing the best policy would be well advised to center his attention upon securing the best administrators wherever they may be. The real job is, after all, but slightly more difficult than squaring the circle.