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OUR FEDERAL RESERVE SYSTEM

Remarks of Wm. McC. Martin, Jr., Chairman,
Board of Governors of the Federal Reserve System,
before the 77th Annual Convention of the American Bankers Association,
Chicago, Illinois,
October 2, 1951.

OUR FEDERAL RESERVE SYSTEM

Mr. Chairman, I appreciate very much the opportunity to participate in this convention of the American Bankers Association. This is particularly so, because, as Chairman of the Board of Governors of the Federal Reserve System, I feel that we have a special dependence on, and a real responsibility to one another.

We are all painfully aware today of the manifold and overpowering complexities of our modern life. As bankers, dealing in media of exchange, we understand more clearly than ever before the ramifications inherent in our daily operations, which, like the proverbial pebbles tossed into the pool, set in motion forces with far-reaching repercussions. It was this realization that led originally to the creation of the Federal Reserve System.

Out of the increasingly unwieldy gyrations, the Frankenstein mechanics of an uncontrolled supply of money, the need for a strong central bank has been found to be essential to our economic stability. The banks, the people, and the Government realized that panics and crises, caused by periodic irregularities in the flow of our money supply, must no longer be permitted to rock our country back and forth every few years. The Central Bank was designed to minimize these convulsions, create more stable values, and thus make possible the smooth functioning of monetary machinery so necessary to promote the growth of the country and to improve standards of living. This was the purpose and this is the ideal.

Our present Central Bank is now nearly 39 years old and the time has come, it seems to me, when we must reevaluate, reassess, and redetermine its worth and effectiveness.

Central banking in the United States has been adapted to the requirements of a free people with a minimum of Government interference. The genius of the framers of the Federal Reserve Act lies in the creation of regional banks, knit together by a national governing body in Washington rather than in the establishment of a central institution with authoritarian powers. Each Federal Reserve Bank and each branch office is a regional and local institution as well as part of a nation-wide system. Through their boards of directors, the banks are in a position to represent the views and interests of the particular region to which they belong and, at the same time, they are the administrators of nation-wide banking and credit policies.

Instead of functioning from the center outward, we function through an interdependence of all our parts. The life blood of the Federal Reserve System is in its members. The health of each member affects the whole and it is only through the work, and the conviction, and the determination of the members that the whole has life. No dictatorial powers were accorded it when it was set up. No dictatorial powers should it usurp. Within the framework carefully outlined by law, the Federal Reserve Board is charged with the responsibility for formulating national credit policies and supervising their execution.

The Federal Reserve System is certainly not perfect but it is unquestionably the main bulwark of our private banking system. Without a strong and independent Central Bank, private banking must inevitably lose the initiative it now possesses. Too few bankers seem to appreciate this fact. It was never more important than now for the Central Bank to understand and cooperate with commercial banks and for commercial banks to understand and support the Central Bank.

These are challenging times. These are times when strange voices would lead us down roads alien to the concepts of our founders. If our institutions do not serve us well, let us revamp them. On the other hand, if, given the imperfections of all things human, they are the best servants of the common good which we can fashion, and if they can adapt themselves to the changing needs of the people they serve, let us see to it that they are preserved. I call upon you as bankers, and as leaders in your community, to ever be conscious of the measure of freedom we have enjoyed in every sphere of our life, to be concerned with any attempt to deprive us of this freedom and to be vociferous in preserving those rights which we have obtained. Whatever changes we make, let us not betray the foresight of those who have struggled so valiantly to maintain our self-government and the security of our democracy.

In the next few years the bankers of America will be called upon to meet severe tests. They are already meeting successfully, in the Voluntary Credit Restraint Program in which they are so actively participating, one of the demands placed upon them. In this program, they have organized the managerial resources of the banking community in an educational program of benefit to borrower and lender alike. This has confounded the cynics and those who sneer at self-regulation. It will require real courage, vision, toughness, and stamina to continue this laudatory fight against inflation. I am confident that the bankers can meet the test, provided they are ever alert to the famous admonition, "... eternal vigilance is the price of liberty."