

For release at 10 00 a.m.
Central Standard Time
December 15, 1962

CHORES AND CHOICES

Remarks of Harold King
Member of the Board of Governors
of the
Federal Reserve System
before the
19th Annual Convention of the
National Association of Home Builders
Chicago, Illinois
December 15, 1962

CHORES AND CHOICES

When I learned that your convention was entitled "Prophets and Profits," I wondered if I had been invited to speak in error. I am no "prophet." They are nonexistent in the Federal Reserve as far as I know. Any theorem which claims inherent powers of prophecy for any central bank has at least one serious flaw. Such a theorem attempts to clothe a real myth in the cloak of science. It is commonplace to witness a compatible marriage of myth and art; but the nature of science ipso facto bars the entry of mythology much in the same manner that solid rock does not absorb air. The ravages of time may wear a rock thin, or force may pulverize it, but it is still rock -- just smaller pieces -- with the air of mythology still surrounding each particle but unable to get in. The bane of all mythology is the light of day, which simply dissolves fantasy, leaving only empty space -- with perhaps a residue of haze.

I am afraid I have dignified the concept of prophecy beyond its importance. Certainly a few words on a more substantive subject p-r-o-f-i-t-s would be in order. We of the Federal Reserve realize that the margin of profits must be adequate for optimum performance of a free market society; but we simply do not possess the power to assure adequate profit margins for your industry -- or for any industry.

I hope I have not disappointed you too greatly here at the start because I do intend to talk of a few things which I believe you will find interesting, if not helpful. I am happy that I was not given an exact time limit for my presentation. And while we both hope my remarks will not be too lengthy, I will make no such promise.

My subject today will be "Chores and Choices." Specifically, I will first describe a few of the routine procedures of the Board of Governors. With that as a background, I will then make an effort to give you a closer look into our method of policy formulation. This latter effort, I hope, will validate my use of the word "choices" as descriptive of this process.

First, I would like to give you a few simple facts which, even though they are simple, I doubt are widely known. The Board of Governors of the Federal Reserve System is composed of seven members appointed by the President and confirmed by the Senate. The length of a full term is 14 years. On occasion, an appointee fills an unexpired term and then under law may be reappointed to a full term. However, once an appointee has been appointed to a full term, he is ineligible under the law to be reappointed to another term. The Chairman of the Board is designated by the President and his term as Chairman runs for a period of four years, even though the term as Chairman is not concurrent with his appointment as a Board Member. Generally, there has been rather wide diversity of backgrounds and geographic roots among Board Members. While a Board Member does not represent any certain Federal Reserve district, of which there are 12, the law does prescribe that no two Board Members may serve at the same time from the same district. This assures wide geographical spread, and the responsibility for providing diversity of background is one that the President exercises.

Our main chore, which is a daily one, is the chore of digesting as much economic information as we can. Some of our information comes to us in the form of memoranda from our staff, which as you probably know is widely recognized as the best gatherer of economic information in the United States -- possibly in the world. Then we have access to all of the news media, as do all of you. Another type of information which we endeavor to secure is what we call "straws in the wind." Each individual Board Member naturally has his own sources for this type of information. Undoubtedly this is a fortunate thing, because each of us gathers bits of information that might be useful in discussion. You can be sure we do not necessarily believe everything we hear.

Another daily chore which we have is attendance at Board meetings. Ordinarily we meet five days a week at 10 o'clock in the morning. In the best traditions of central banking, the start of the meeting is punctual. All items to be considered at a Board meeting appear on the agenda for that day's meeting. In advance of the appearance of a given item on the agenda, our staff will have furnished each Board Member with the papers and information that are necessary for adequate consideration of the matter.

Perhaps it would be interesting for you if I would mention a few of the different types of items which we consider in Board meetings. Bank merger applications in which the resulting bank is a State bank and a member of the Federal Reserve System are assigned by law to our Board for determination. Other bank merger decisions are rendered by other bank supervisory agencies. All applications for the formation

or the expansion of bank holding companies are assigned to our Board for decision. Many of these decisions are very difficult ones. These decisions form a framework into which the future development of our banking structure is channeled. Obviously, this is a very important matter. Other items that appear on our agenda relate to our responsibility to exercise general supervision over the 12 Federal Reserve Banks, their 24 branch banks, and the more than 20,000 employees of the System. The devotion to service that these personnel display and the almost complete lack of dishonesty in the handling of vast amounts of money is a story that should be told. Another responsibility of the Board is to render reports on proposed legislation that would affect the banking system.

One chore that we have as Board Members, but which is not a daily chore, is the attendance at frequent meetings of the Federal Open Market Committee. This Committee is composed of the seven members of the Board plus five of the twelve Federal Reserve Bank Presidents. The members who are Presidents of the Federal Reserve Banks rotate as members under the law. Because there are seven Board Members and five Bank Presidents does not mean that the Board dominates the decisions of this Committee. As far as I can tell, there tends to be just as much objective difference of opinion among Board Members as there is among people in general. The exact field of responsibility that Congress assigned to this Committee is that of engaging in open market operations as one means of influencing bank reserve positions. The Congress allowed the Federal Open Market Committee great latitude in the exercise

of its judgment in the discharge of this function. There are some who think we do not do enough in this field, and there are others who think we do too much. The one truth that I believe can be stated about these operations is that we do the best we know how.

The meetings of this Committee provide an occasion for each member of the Board and the individual Presidents of the Federal Reserve Banks to make policy recommendations for the next few days ahead. Frequently it is surprising to find with whom we are in agreement on a particular day, occasionally having differed in judgment with some of the same members of the Committee on previous days.

Our minutes are not kept verbatim but are written in considerable detail. Even though these minutes are not published, they do afford each member of the Federal Open Market Committee an opportunity to record his position on every matter considered. Before these minutes are filed, each member has an opportunity to examine them and make suggestions for greater accuracy as he deems appropriate. The minutes of our Board meetings are kept under the same general procedure.

A final type of chore that I will mention is what I refer to as outside contacts. We have many of this type, one example of which would be liaison with other Government agencies and the Treasury. An outside contact which I have found quite enjoyable is the one of speaking engagements. Board Members receive their invitations to speak in their individual capacities, and we are never assigned the task of speaking anywhere.

Now for a few words about the framework within which we make our choices. The Congress, in what I believe to be its wisdom, granted the Federal Reserve a wide degree of latitude within which it might conduct its affairs. The System is not part of the Civil Service, although terms of employment correspond. Because of the nature of the authority which Congress placed in the hands of the System, there is no need for the appropriation of Government funds for the operation of the System. In fact, the excess income of the System, which is largely derived from earnings on System holdings of United States Government securities, is transferred to the Treasury even though this is not required by law. Policy in this regard has been shaped by an awareness of a lack of need to accumulate funds ad infinitum.

In its desire to assure the Board of Governors a maximum amount of freedom and independence within the Government, Congress exempted the Federal Reserve from supervision by the General Accounting Office. As a matter of fact, the auditing procedures that are used in the Federal Reserve are very extensive, even to the point of employing private auditing firms. Each board of directors of the 12 Federal Reserve Banks is free to select and, as a matter of fact, does select any auditing firm it believes desirable. At the Board level this has also been done for a number of years. All of this freedom within which we function places a strong accent on objective decisions -- or, to make my point clearer, I might say objective choice.

One of the perpetual choices that face a central bank is the one that relates to publicity of actions and policies. The Federal

Reserve Act requires a yearly report of policy actions from the Federal Reserve, but Congress left publication of any other information to the Board of Governors. Our reluctance at times to give more detailed information is based on apprehension that misinterpretation could mislead many people. A necessary prelude to wider and more current dissemination of our decisions and policies is the need for a more general understanding -- among all Americans -- not only of the powers but especially the limitations of Federal Reserve action.

Now that I have talked about the freedom aspects of Federal Reserve choices, it seems in order to also talk about a few things that limit our choices. The most frequent constraint with which I tangle is the one of circumstances. And here is where our chore of digesting all available information becomes important, because it puts additional light on the circumstances that surround our choice on each occasion. We might be further limited by our personal philosophies, but I am convinced that your servants in the Federal Reserve System make determined efforts to temper their personal philosophies with the personal philosophies of others. It is unavoidable, even desirable, that we attach greater significance to the different views of others which are rooted in personal experience than we do to views without this type of foundation.

I hope I have given you a more illuminated view of our institution. We make no claim of perfection. We try to be wise enough to recognize our sins. And I hope you have gathered from my remarks that divergence of opinion within our Board -- or within the entire Federal

Reserve System -- is wide. Perhaps our reluctance to publicize our disagreements misleads the public into believing that we are all of one mind; but to wash our linen in public, we believe, would tend to limit our institution's ability to render maximum service.

Could I ask you to retain just one thought from what I have said today? If I might, I ask you to remember: while we perform our chores and make our choices, we strive to always be ready and willing to make our maximum contribution to the solution of problems within our assigned sphere of responsibility. Ours is the same endless chore as that of all humans: to seek the answer to the simple question: What is possible?

Even though we must maintain a constant vigil as to the approach of economic storms, we should all keep our hopes high. Such an outlook encourages others to find an understanding of life which offers them a fair chance to discover for themselves that belief is a power of unbelievable force.

Speaking of belief, I believe I have given you little or no evidence that I might be a prophet; and it will be a satisfactory day for me if I have encouraged your interest in p-r-o-f-i-t-s instead.