

[Remarks] of J. L. Robertson, Member of the
Board of Governors of the Federal Reserve System
[at the
Fortieth Anniversary Celebration of the Federal
Reserve Bank of Kansas City
Muehlbach Hotel, Kansas City, Missouri
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I am very glad of the opportunity to participate in this celebration of the fortieth anniversary of the Federal Reserve Bank of Kansas City. In the first place, I am particularly sensitive to anniversaries. A number of years ago a very personable young lady came to my office selling magazine subscriptions to finance her college career. I wasn't the slightest bit interested in either her magazines or her career. But she was persistent - and pretty. Finally, she asked: "Are you a good enough sport to wager that I can't tell you exactly how many birthdays you have had?" I knew she couldn't do that unless someone had told her, and she professed no one had. So I agreed to take not only a ten-year subscription to a magazine I didn't want, but also a cook book I couldn't use, if she guessed correctly, and she agreed to give me a five-year subscription free if she was wrong. I shall not soon forget the glint in her eyes, or my own embarrassment, when she said: "Mr. Robertson, you have had only one birthday; you have been celebrating anniversaries of it ever since."

You can easily see why I am anniversary-conscious, but for most all of us an anniversary is always an occasion for sweet nostalgia. On the morning of November 16, 1914, I was trudging along a dirt road in Broken Bow, Nebraska (the garden spot of the Tenth Federal Reserve District) on my way to the second grade. I had not the slightest knowledge that the Federal Reserve Bank of Kansas City was opening its doors that day. Therefore, to get the feel of the occasion I found it necessary to spend some delightful hours rummaging through musty records and newspapers, which produced strong vapors of the atmosphere which prevailed here that day.

Even the make-up editor of the Kansas City Star had trouble deciding which was the most important event of that November 16th. The Germans, driving toward Paris, had won a major victory in the Argonne. Peace had been established in Mexico, so the paper said. Volunteer doctors were at work in Kansas City to stamp out diphtheria. The Federal Reserve Bank opened. And 4,000 people were going to witness the world's championship checker match in the Kemper Building. Believe it or not, the checkers story rated the second column, and the Federal Reserve got the third.

There were several other interesting items in that paper - which, by the way, cost one cent. A new star, Miss Sophie Tucker, was opening at the Empress Theater, and Gus Edwards' "matinee girls" were featured at the Orpheum, where the best seats were priced at seventy-five cents. Appropriately enough - or, perhaps inappropriately enough - the National Purity League was holding its annual convention in Kansas City at the same time.

Further evidence of how up-to-date everything was in Kansas City in 1914 were the ads of several furniture stores. Complete suites for

three rooms were on sale at Wurmser's for \$67, and in big black type were the words: "No first payment and only \$2.00 a month". Installment credit isn't brand new!

The Star pointed out that the opening of the Federal Reserve Bank was the second of two outstanding events of November 1914 in the economic life of the area. On the first of the month, the new Union Station had gone into operation, demonstrating, it said, that Kansas City was the gateway for transportation to the west and to the southwest; and the opening of the Reserve Bank officially established Kansas City as the center for business and finance.

"Hundreds flocked into the building and overran the Bank's quarters", said the Star's story that evening, and "about twenty persons tried to deposit their savings in this new Government Bank."

And what followed the story about the opening of the Bank? A black headline: "Bank of England Suspends". It was not the Old Lady of Threadneedle Street, but instead the Bank of England, Arkansas, which suspended payment on that same November 16th. (Today, we have almost forgotten the chill which accompanied such announcements.)

The other eleven Federal Reserve Banks throughout the country - which, like this one, and, in fact, like all our national banks, had been chartered by the Comptroller of the Currency - were getting under way on the same day, and a wire story to the Star from Washington quoted the most experienced banker among the new members of the Federal Reserve Board, Mr. Paul M. Warburg, as saying:

"November 16 might well be considered the Fourth of July in the economic life of the United States, marking the foundation of the nation's financial emancipation. The new banking system, wisely administered, will prove to be the means not of inflation but of safety, independence, and gradual healthy expansion. How soon we may become a world power equal in strength and independence to those on whom we have had to lean until now will depend on our ability to avail ourselves of the opportunity now open to us."

He said that just forty years ago!

As you know, the Federal Reserve System was created because recurrent financial stringencies and panics, from the beginning of the Industrial Revolution in our country, had caused terrible suffering and had again and again (in fact, five times within a period of thirty years) set back our economic and social progress. Finally the destructive panic that

struck in October 1907 spurred the nation to action. The National Monetary Commission held exhaustive hearings both here and abroad in an effort to get to the bottom of these recurrent crises. Out of the Commission's work, and the labors of Congress, came enactment of the Owen-Glass Bill on December 23, 1913, and the Federal Reserve System came into being. President Woodrow Wilson characterized it as "a Christmas present for the American people".

Ponderous tomes have been written about the evils that the System was designed to remedy, but I believe that the basic objective can be summed up in a dozen words - a currency and credit structure that is elastic and yet manageable. The System has many critics today, but none will deny that this great objective has been achieved in fuller measure than even the most enthusiastic of its founding fathers anticipated in 1914.

One cannot help marveling at the scientific wonders that have been wrought in the lifetime of the System. Forty years ago the carriage and wagon industry was still putting up a game though losing battle against the automobile, and more than a few people considered airplanes a defiance of heaven. In 1920 the first broadcasting station opened. A decade ago the newest of today's miracle medicines were still in the experimental stage; the whole field of atomic energy had barely passed beyond the threshold of theoretical physics. Each change has been accompanied by new economic problems, and it has been necessary for the Federal Reserve System to evolve with the times and to gear itself constantly to changing conditions and needs. This it has done, but not without a considerable amount of growing pains, many mistakes, and a good deal of "blood, toil, tears, and sweat".

The machine is not yet perfect - it never will be - and it does not run itself. In the early 30's its capacity proved inadequate under extreme conditions; but the Banking Acts of 1933 and 1935 greatly expanded its capacity to deal with monetary and credit developments. The mechanism has not always achieved all that should have been achieved, but its failures have not been due as much to structural weaknesses as to human fallibility.

Despite our human shortcomings, the Reserve System has been most fortunate in having been permitted to carry on its work with single-minded attention to the economic welfare of the American people, almost - if not quite - unhampered by partisan interference or political storms. This is an amazing fact when we consider that the past forty years have witnessed the emotional and physical strains produced by two World Wars, two booms

and a bust, floods, droughts, inflation and deflation, and what have you. Fate has been kind in preventing the perversion of the Federal Reserve System and in preserving its integrity, perhaps in fulfillment of its creators' dream. Let me recall for you this statement of Senator Carter Glass:

"While the Federal Reserve Board may never, if it should ever, become so detached and so completely independent of legislative and executive influence as to assume the status of the 'Supreme Court of Banking', as many eminent bankers have desired, it is certainly to be devoutly wished that it may permanently hold such a high place of appreciation in the confidence and esteem of the country as to make it futile, if not positively dangerous, for political vandals to practice their arts against it. An intelligent and fearless performance of its functions involves as much of sanctity and of consequence to the American people as a like discharge of duty by the Supreme Court of the United States."

During the intervening four decades, the increasing industrialization of our country and an increased recognition of the duty and ability of the government to promote economic stability and progress have led to changes both in law and in the philosophy of American central banking. But at least one big problem has evaded solution. To exemplify it, let me dip back again into the System's past. After the Federal Reserve Bank of Kansas City had been in operation two years, its Chairman, Mr. Charles M. Sawyer, reported to Washington as follows:

"In district No. 10 the attitude of the general public toward the Federal Reserve Bank is apparently one of friendliness and favor. It can not be said that this is because the average citizen has thoroughly digested the provisions of the Federal Reserve Act and comprehended the fundamental principles underlying. Nor indeed could it be said, in the case of the average citizen, that this sentiment is due to a personal recognition of the influence exerted over general business conditions by the operation of the Federal Reserve Bank...."

This points up one of the crucial continuing problems that we face - no different today from what it was forty years ago. No single factor is more important to the American economy than the effectiveness and integrity of its central banking arrangements. Unfortunately, it is also true that no factor seems to be of less interest to most people - particularly in prosperous times, when the economic system is functioning smoothly. In poorer times, however - and we would be unwise to close

our eyes to the possibility that there may be poorer times in the years ahead - the Federal Reserve System might become the scapegoat of demagogues, or even of men of good will but of limited or erroneous understanding. It is difficult to imagine a greater economic misfortune than a corrupt, timid, or partisan central banking system, misusing its vast powers for private gain or popular acclaim, or as a tool of political expediency.

In the long run, the most effective bulwark against the possibility of such a catastrophe is public insistence that the Federal Reserve System continue as an organization devoted solely to the economic welfare of all the people of the United States, free from self-interest, free from subservience to any class or group, and free from interference aimed at diverting its great powers to selfish or partisan ends. But such a public attitude must rest on a solid foundation of public faith in our institution, and faith that will stand firm in stormy times as well as fair must be founded on understanding.

I sincerely believe, therefore, that none of us faces a more serious or more worth-while job than to make his maximum contribution to more general understanding of the significance of the Federal Reserve System - to a public awareness of what the System does, what it can do, and equally important, what it cannot do. As Senator Robert L. Owen, a co-author of the Federal Reserve Act, said so accurately only a few years after the System was established:

"It does not promise businessmen protection against waste, improvidence, or carelessness in conducting business; it does not protect them against over-production or under-consumption; it does not give complete protection against industrial depression.... The protection of the country against industrial depressions is very largely safeguarded by this Act, but other steps by Government are essential if industrial depression in the future is to be entirely avoided."

While monetary policies offer no panacea, no cure-all for the ills which may beset our economy, they do constitute, as I said, the most potent single factor affecting the economic welfare of our people. The public should know the limitations of the System, but they should know equally as well the contributions which it can make toward stability and the continued growth of the economy. Out of understanding will come public confidence, and out of confidence a measure of public support that will enable the System to survive and to act effectively in all circumstances.

No one need tell me that this is an Herculean task. As one who has attempted it again and again, I can tell you feelingly that it is

surprisingly difficult to get across the point that open-market operations involving the purchase of \$100,000,000 or so of Treasury bills at one time and the selling of an equal amount at another time does not mean that a temporary "soft" money policy has been replaced by a "hard" money policy of uncertain duration. All it means, ordinarily, is that our judgment of numerous factors affecting credit availability indicates a need for expanding the supply of bank reserves in the first instance and for contracting it in the second, in order to contribute toward the maintenance of a credit and monetary climate conducive to a stable and progressive economy.

Central banking is an exceptionally dull matter (unless it is a part of your life, in which case, I can assure you, it is anything but dull). It is also a very complex operation; I find it constantly necessary to refresh and expand my own comprehension by repeatedly studying one or another of its phases. However, there is a ray of sunshine in this heavy atmosphere. For despite the complexity of its operations, the underlying philosophy and policy of the Federal Reserve System are extremely simple.

That policy, as you know, is, on the one hand, to take whatever action is necessary, and within our authority, to provide that money and credit are available, at all times, in adequate volume, to permit the national economy to progress without being hampered by credit shortages; but, on the other hand, to see to it that credit is never available in such excessive measure as to encourage inflation and speculative excesses that inevitably detract from our economic welfare by destroying stability and impeding effective long-range business planning.

Notwithstanding the simplicity of this policy, the newspaper reader who knows it not, must sometimes have a very confused idea about the objectives of the Federal Reserve System, and I, for one, could not blame him if he gave up as a bad job any effort to comprehend what we are doing. Everyone here has read time and again over the past few years superficial statements about the Federal Reserve's "hard money policy", "soft money policy", reversals and switches from one of these policies to the other. You and I know that the Federal Reserve's policy is neither hard nor soft, but it is up to all of us to bring such facts home to those who are not aware of them.

This is a call to duty without the inspiration of any visible goal, or flags, or band music, or acclaim. But it is a duty of the sort that must be performed devotedly year after year, if great democratic institutions are to flourish rather than to decay. We have in this country an economic, social, and political structure many times more complicated than our forebears ever conceived. It is our particular job to keep in

operation and in good repair one important segment of this structure. "The struggle of today", Lincoln once said, "is not altogether for today; it is for a vast future also."

With a will - if we want to strongly enough - we shall find a way to bring about a broad public understanding which will assure the maintenance of a Federal Reserve System that can meet the ever-changing needs of the American people in a manner that will make us as proud of it forty years hence as we are on this fortieth anniversary.