

For release 8:00 p.m.
Central Standard Time
November 8, 1972

Remarks of J. L. Robertson
Vice Chairman of the Board of Governors
of the
Federal Reserve System

at

A Dinner Sponsored by the
Federal Reserve Bank of Dallas

at the

Shady Oaks Country Club

Fort Worth, Texas

November 8, 1972

As some of you may know, for quite some time I have been deeply concerned about the difficulties of getting accurate information about matters of public importance communicated to the public. Lester Markel, who recently retired as Sunday editor of the New York Times, has published a book entitled "What You Don't Know Can Hurt You". But what can hurt us even more is the condition described by Ambrose Bierce when he said that what bothered him was not what people didn't know, but what they knew that wasn't so.

In recent years we have been subjected to quite an inundation of information about our country, and especially about what is referred to as the "system" that just is not so. The result has been that many people both here and abroad have gotten a twisted or distorted picture of America and its institutions. It has been obvious for some time that some correctives are badly needed.

I agree with my friend and former classmate, Mr. Justice Lewis Powell, who was recently in the news for having written a memorandum stating persuasively our obligation to get the twisted picture of our system back into recognizable shape by countering vigorously the one-sided blows of misinformation.

I have been personally active in doing this for some time, as those of you who are familiar with my public speeches and my book, "What Generation Gap???", well know. I feel strongly that we must combat misinformation from whatever source it may come. I have been particularly troubled by the fact that widespread misinformation about the Federal Reserve System is not being exposed and corrected.

Lest there be any misunderstanding, let me state specifically that I am not complaining about criticism of the Federal Reserve. On the contrary, some criticism is welcome, and even some of it that is not exactly welcome is beneficial to the System. For example, I think the Federal Reserve is a better institution today than it would have been without the almost constant flow of

criticism over the years from Congressman Wright Patman. We have been obliged to try to make doubly sure of the correctness of our actions before we take them.

Speaking of complaining always reminds me of the young man from my home town, Broken Bow, Nebraska, who entered a Trappist monastery where the discipline was very severe. Each monk was permitted to speak only two words a year. At the end of the first year the abbot had an interview with the new monk and asked him if everything was all right. The monk used his two words and said, "Bed hard." The abbot said, "Yes, I suppose it is; we will put a little more straw in the mattress." Another year passed and the monk had another interview with the abbot, who asked again if all was going well. This time he said, "Food bad." The abbot allowed that it might be improved and said he would speak to the cook. The third year when the abbot asked for comments, the monk said, "I quit." The abbot replied, "Well, I guess it is just as well. You have done nothing but complain ever since you came here."

Perhaps because I have been outspoken as a critic of the distortions and falsehoods of those who are opposed to the American system, I have received in the mail many letters from Americans, some of whom agree with much of what I say but who seem to be genuinely puzzled to hear a vigorous defense of American institutions and values from an official of the Federal Reserve System. They have been convinced that the Federal Reserve is part of a conspiracy to destroy America. This will seem laughable to those who know the System and the men who run it, but it has made me aware that there is a concerted campaign of defamation being waged against the Federal Reserve, one that is influencing the thinking of a wider segment of the public than the rantings of the old-fashioned currency cranks in past decades ever did.

I believe the time has come to take cognizance of this campaign and to expose the falsehoods and half-truths that are being employed to mislead good Americans

about the nature of the Federal Reserve System, a valuable institution that needs and deserves their support.

This attack on the Federal Reserve is a simple one, not too far removed from the older crank attacks with their anti-Semitic, anti-banker theme. Grafted on to this, we now find some Marxist harmony, buttressed with psuedo-documentation purporting to show that the "international bankers" are in complete control of all major political and economic developments in the world. We are told that they manufacture recessions and depressions at will. They are responsible for war and for peace. Officials of all countries are merely their puppets, who do their bidding without question.

The strangest part of this theory is the notion that these omniscient and omnipotent rulers of the world are not the enemies of the communists, as the Marxists would have us believe. On the contrary, we are told, they manipulate the communists, using them to achieve their nefarious ends.

To take just one example, this is how the 1929 stock market crash is described in a widely distributed paperback book that propounds the theory I have described:

"To think that the scientifically engineered crash of '29 was an accident or the result of stupidity defies all logic. The international bankers who promoted the inflationary policies and pushed the propaganda which pumped up the stock market represented too many generations of accumulated expertise to have blundered into 'the great depression'."

The only evidence the author provides to support this serious charge is a single quote from one long forgotten congressman, saying nothing more than that in his opinion the crash was contrived by the international bankers.

However, this same writer contends that eight recessions since 1929 have been "scientifically engineered"

by the Federal Reserve, and he provides his readers with what may, to some, appear to be proof in the form of a chart. Using an old trick of the charting trade, he compresses the horizontal scale, using only a quarter of a centimeter for each year, and he stretches the vertical scale. The timing of stimulative or restrictive monetary actions by the Federal Reserve is indicated by marks on the chart. The lack of precision in placing these marks is indicated by the fact that each mark alone occupies space representing nearly half a year.

The result is an optical illusion, a chart which shows sharp drops in the stock market seeming to come right on the heels of restrictive Federal Reserve actions and sharp rises in the market immediately following easing actions. The author draws this conclusion: "If you have inside knowledge as to which way the Federal Reserve policy is going to go, you can make a ton of money." And I am sure that many unsophisticated readers looking at his deceptive chart would be inclined to agree.

Since six of the eight market declines attributed by this author to the "scientific engineering" of the Federal Reserve have occurred during the two decades that I have served on the Board of Governors, I am certainly one of those who had inside knowledge of what the Federal Reserve was doing. I have not made a ton of money or even a thin dime on the stock market since, in view of my position, my conscience would not permit me to own a single share of stock, or, for that matter, a single marketable government security. Moreover, at the Federal Reserve we have adopted strict regulations that bar our officers and employees from engaging in market speculation of any kind and from disclosing "inside" information to outsiders.

The allegation or insinuation that the Federal Reserve has been engineering stock market fluctuations with the ulterior motive of enabling insiders to make "a ton of money" is an outrageous distortion of the

truth and a vicious slander on some of the most honorable men this country has produced.

However, I would not expect those who purvey these slanders of the Federal Reserve to change their tune merely on my say-so, notwithstanding my reputation for "telling it like it is". It is not necessary for anyone to have to rely on my assurance that they are wrong. Their error can be demonstrated by examining the public record.

Monetary policy is a powerful instrument which does affect the economy. The Federal Reserve was created with the hope that this instrument could be used to prevent money panics of the kind that had frequently beset our economy in the past. In designing the Federal Reserve, care was taken to see that the control of monetary policy was lodged in an institution that would be responsive to the public welfare rather than to private interests. The Federal Reserve is very much a part of the United States Government. Its top policy makers, the seven members of the Board of Governors, are appointed by the President with the advice and consent of the Senate. The System's activities and policies are subject to careful and continuous scrutiny by Congressional committees. A great amount of the time of the Chairman and a fair amount of the time of the Vice Chairman and other Board members is spent testifying before Congressional committees.

The relationship is quite different from the one that prevailed between the government and the private bankers that were depended on for financial support and advice prior to the creation of the Federal Reserve. To illustrate this point, I would like to recount a little historical episode.

In 1895, the United States was confronted with a crisis because of a rapid outflow of gold that was draining the government's reserves. President Cleveland called upon J. Pierpont Morgan for advice and assistance.

Morgan agreed to head a syndicate that could quickly market a large volume of government bonds to reverse the drain. The operation was a success, but there was a public outcry that the bankers had made huge windfall profits. A Senate committee investigated the matter and called J. P. Morgan to testify. When he was asked the question, "What profit did your house make upon this transaction?", Morgan replied flatly: "That I decline to answer. I wish to state that I am perfectly ready to state to the committee every detail of the negotiation up to the time that the bonds became my property and were paid for. What I did with my own property subsequent to that purchase, I decline to state."

Perhaps J. P. Morgan was within his legal rights in taking that stand, but it was clearly not a healthy situation to have the U. S. Government dependent (for financial advice and management of its public borrowing) upon private individuals who not only stood to gain personally from their advice and assistance, but who were accountable to no one for what they did. I can assure you that Federal Reserve officials are not in that position, and it is simply inconceivable that they would ever defy a Senate committee as J. P. Morgan did.

While it was necessary and desirable to put the control of monetary policy in a body that was part of the government and responsible to the public, there was a strong feeling that this power should not be put in the hands of those who might use it for political purposes. This is why care was taken to insulate the System from control by the Executive Branch of the government. This explains why members of the Board of Governors are given fourteen year terms, making it difficult for a single President to dominate the Board with his own appointees.

It is this independence which has enabled the Federal Reserve to call the shots as it sees them, free from any taint of political motivation in its decisions. This has been important in maintaining bipartisan support for the System over the years. This independence has been vital to preservation of the System's

integrity. It is important that the public understand that.

It is also important that they understand that the profits of the System, which are indeed very large, accrue to the U. S. Treasury. I find that there is considerable misunderstanding about this. People have been led to believe that, since the member banks subscribe to the capital of the Federal Reserve Banks, it is the member banks that control the Federal Reserve and rake in the profits. That is, of course, false. The member banks earn a statutory 6 per cent on their capital stock of the Federal Reserve Banks. In these days of high interest rates, that is no bonanza. In 1971, the dividends paid to member banks amounted to \$43.5 million, while the amount the System paid in to the U. S. Treasury totaled \$3.4 billion. And while the member banks participate in the Federal Reserve System through their representation on the boards of the twelve Federal Reserve Banks, it is well understood that this does not give them control over the policies of the System.

I have said that the policies adopted by the Federal Reserve exert a powerful influence on our economy. The public has a right to know what factors enter into the determination of those policies. Do we act with an eye on the stock market, as our more slanderous critics charge? Do we set out to create recessions and instability in the economy? What are our goals?

Our policy, broadly and simply stated, is to make available all of the money and credit the economy needs for both normal and healthy growth, but not so much as to induce inflation or so little as to set the stage for a depression. In other words, our objective is not to create booms and busts, as some of our critics have charged, but precisely the reverse. What we try to do is smooth out the business cycle and achieve a high but sustainable rate of economic growth without inflation. The main determinant of Federal Reserve policy changes has been our reading of the basic economic indicators, which we watch and analyze most carefully. This means

that we shift from ease to restraint and restraint to ease as the economic indicators tell us that either inflationary or deflationary pressures are emerging in the economy. Admittedly, we have not been successful in completely eliminating either recessions or inflation, but we have been successful in moderating the swings, which is as much as can be expected of us.

Federal Reserve policy is not the sole force that influences the economy. The Federal Reserve obviously cannot control many of the most potent factors, such as fiscal policy, public psychology, the spending and saving proclivities of people, and pressures from various economic sectors that produce wage and price increases. Given the multiplicity of these forces and the complexity of the economy, it is not surprising that we have not perfected our ability to make all the right judgments at precisely the right time to keep the economy from overheating or slipping into a recession. We have made mistakes, and some of them have been "beauts", as Fiorello LaGuardia used to say. For example, back in 1968, the members of the Open Market Committee, the economists in the System, and practically all of the academic economists throughout the land misjudged the impact of the fiscal measures adopted by Congress. It was thought that these measures would have a strong dampening effect on spending, and we adjusted monetary policy accordingly. As it turned out, the dampening effect was a lot less strong than anyone expected, and the easier monetary policy we adopted spurred inflationary forces and set in train an inflationary psychology that has not yet been completely eradicated.

However, reverting to the charge that we "scientifically engineer" recessions, there is nothing surprising in the fact that business upswings follow in the wake of stimulative monetary policy and downturns follow restrictive policies. When the economy has overheated and monetary restraint has been adopted to counter that tendency, the result has frequently been a recessionary dip rather than merely the reduction in upward pressure that we aimed for. When this ~~has~~ happened, the Federal Reserve



has always acted promptly to correct in the other direction and to get the economy moving upward again.

Far from scientifically engineering recessions, we sometimes stumble into them, just as we mistakenly fueled inflationary pressure in 1968. These are always honest errors of judgment, stemming largely from the fact that none of the members of the Board of Governors or the Open Market Committee has the divine gift of prophecy that would be necessary to tell in advance precisely when a cyclical turning point was at hand.

I would like to lay at rest the notion that one could make money in the stock market by capitalizing on inside knowledge of which way Federal Reserve policy was going. Putting aside the small short-run fluctuations in the stock market that may result from such things as an announcement about a change in the discount rate, which becomes public information immediately, it would be extremely hazardous to try to predict longer-term market movements on the basis of shifts in monetary policy. Past experience shows that there is no predictability of the length of time that it takes for a shift in the direction of monetary policy to be reflected in a change in the upward or downward movements of the stock market. For example, in 1954-55, the Federal Reserve was concerned about the economy overheating and about an unhealthy speculative boom that seemed to be developing in the stock market. Monetary policy shifted to restraint in January 1955, and margin requirements on loans to finance purchases of securities were increased at the same time to restrain stock market speculation. Despite this, stock prices continued to climb sharply and did not reach their peak until July 1956, a year and a half later. Anyone who had made speculative short sales in January 1955 because of inside knowledge that monetary policy had shifted to restraint would have lost his shirt.

Having spent over forty-five years in government service, over twenty of them as a Governor of the Federal Reserve, I want to attest to the fact that I know of no finer institution devoted to serving the public than the

Federal Reserve. It is officered and staffed by men of the highest integrity and competence. No breath of scandal has ever touched it. It is significant, I think, that those who talk about the possibilities of money being made by insiders with knowledge of Federal Reserve policy cannot cite a single case in which any Federal Reserve official has been found to have made a speculative profit on the basis of his knowledge of Federal Reserve policy. That is a record that we are proud of.

I am also proud of the fact that the Federal Reserve is an important bulwark in the defense of the free market economy. We believe in the free market and in free enterprise, and we want to see it function smoothly and efficiently. To the extent that we succeed in helping to keep America economically strong and prosperous, we can in good conscience ask the American people to continue to give their wholehearted support to the kind of governmental system that has given us all great material blessings and unmatched personal liberty.