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SYMBOLS

(Remarks of C. Canby Balderston, Vice Chairman, Board of Governors of the Federal Reserve System, at the Federal Reserve Bank of Minneapolis Open House and Conference, on Saturday, May 4, 1957.)

The new building of the Minneapolis Federal Reserve Bank is a symbol of the decentralized strength of the Federal Reserve System and of its links with this and other great communities. It is a structure of which you may be proud, but before commenting upon its significance, I must speak of two individuals.

One of them is the new President of this Bank, Fred Deming, who is highly regarded in the System for his financial knowledge, his research prowess, and his administrative talent. The System has learned that he wears well, a truth that will become more and more apparent to you here in the Ninth District.

The other individual is, of course, Oliver Powell. His thirty-seven years of service to the Fed were marked by the energetic and intelligent effort that has been characteristic of all of his public service. Whether as officer and President of this Bank or as a member of the Board of Governors, he made his contribution so effectively that it will be remembered long.

In Washington he was at the birth of the now famous accord between the Treasury and the Fed which ended the pegging of Government bonds, a process that former Chairman Eccles so aptly described as "an engine of inflation." More widely known, however, is the work that Oliver Powell headed while on the Board of Governors: the Voluntary Credit Restraint Program.

That novel and difficult assignment called for exceptional talent, industry and powers of persuasion. The success of the program depended upon an appeal to place national interest above all other considerations at a time when the public was not in a mood to accept restraints. Yet Oliver Powell's leadership in this patriotic undertaking made it effective to a degree that was reflected in repercussions to it.

One of the many other accomplishments for which he will be remembered is the new building whose opening we are celebrating.

My initial observation was that this building is a symbol; so, in truth, is the Federal Reserve System as a whole. The nature of that symbolism can be understood best if we examine the structure of the System itself. In its wisdom, the Congress created a System which would include in its name the word "Federal." This word reflects a balancing of centralization and of decentralization as well as the use of checks and balances similar to those of our Federal Government. In creating the design, the Congress faced a fundamental decision: whether to have a central bank with branches, or a decentralized institution. It chose the latter in order that the varying problems and conditions of the country as a whole might be reflected in the decisions that determine the supply, availability and cost of credit. By creating 12 Federal Reserve Districts, each with its own Bank and appropriate branches, the Congress avoided the danger of excessive concentration of money power either in the financial capital of the country, New York, or in the political capital of the country, Washington. This building stands as a lasting symbol of the role that this District is expected to play in the making of national System policy, and the service that the Federal Reserve is expected to render to the agriculture, banking, commerce and industry of this great area.

Congress not only evolved a basic structure suited to our American needs but division of control that is unique among the central banks of the world. The Federal Reserve is partly private and partly governmental. Of the directors of this Bank, three may be said to represent lenders of money and credit; three to represent borrowers; and three to represent the public at large. Of these nine individuals, six are chosen by the member banks of the district and three are named by the Federal Reserve Board. In the case of the branch bank at Helena, three are named by the directors of this Federal Reserve Bank, and the other two by the Board of Governors in Washington. The mere fact that the majority of the directors of each Federal Reserve Bank are chosen by the member banks must not lead you to assume, as is sometimes done, that they approach their duties and responsibilities from any narrow point of view. It has been my observation that the representatives of the banks and borrowers who are selected by the member banks seek to serve their district and their country with the same objectivity as the three who are named by the Board of Governors in Washington to represent the public at large. In the board of a Federal Reserve Bank, all these nine men have the obligation to discover what is best for the economy at a given time and then to act accordingly.

An example of the leadership and courage of the directors in this District occurred only last year. By April it was evident to the directors of the Minneapolis and San Francisco Banks that the loan demand and the ebullience then evident made a change in the discount rate timely in these two Districts. Accordingly, the two Banks voted to increase the discount rate from 2-1/2 per cent to 3 per cent which the Board of Governors approved at once. Four months later the other ten districts, with the approval of the Board of Governors, moved their rates up to the same level. Thus, over the nation, strengthening inflationary pressures were met by strengthened measures against them.

Still another contribution of the directors of a Federal Reserve Bank to the policy formation of the System is to make available to the Board of Governors and the Open Market Committee up-to-date information as to the complexion of business. Economic intelligence is as important to the making of sound monetary decisions as is military intelligence to the making of military decisions. Consequently, the "straws in the wind" that the directors provide from their own observations and contacts are a valuable supplement to the figures because they anticipate them.

Since the middle of 1955, prices have been rising under the pressure of demand. During that time, wholesale prices have risen about 6 per cent and consumer prices about 4 per cent. Roughly about one half of last year's gain in the gross national product is to be attributed to price increases. It is often assumed that many citizens, especially those that are in debt, are pleased by inflation and displeased by policies that lead to sound money. Of course even debtors discover in time that any apparent gains arising from an immediate increase in money income are only illusory. Furthermore, it is not true that we can have just a little inflation and be sure of controlling it.

Once the community accepts the prospect of continued inflation and begins to make its business decisions in the light of that prospect, the infant ceases to creep. It learns to walk, run, and finally gallop even though the gallop may carry it over the brink of the precipice that everyone agrees must be avoided. An inconvenient but inescapable fact of modern economic life is that phenomenon commonly referred to as the "wage-price spiral." This operates to reinforce pressures on prices caused by increased demand from any cause, including that part of the economy in which wage rates are set by bargaining between strong unions and strong corporations. When demand is at a high level, it is relatively easy to pass along to the general public, in the form of higher prices, cost increases like those arising from wage advances in excess of increases in productivity. The resulting gain in profits is then an occasion for further wage demands, followed by still another price rise.

It is sometimes asserted that inflation is inevitable and that a slowly rising price level is to be expected. It is my own belief, however, that it is possible to have orderly economic growth without inflation provided general monetary controls are effective, fiscal policies are sound, and business decisions are prudent. That conclusion is grounded in the belief that increases in capacity tend to curb price increases and that as capacity catches up with demand, prices recede. It is also my belief that any general acceptance of the theory that inflation is inevitable is both self-defeating and dangerous. It is self-defeating because it leads to attempts by individuals and special groups to protect themselves by such devices as escalator clauses that tie wage rates to the cost of living and form the basis for a wage-price spiral. It leads some company executives to build more plant capacity than they need in order to anticipate higher construction costs. Not only does this psychology have an adverse affect upon the quality of decision making on the part of those who think that their mistakes on the side of over-building will be validated by inflation, but it is also dangerous in that it tends to bring to pass the inflation that is dreaded.

Just as this Bank and the Helena Branch are symbols of the Federal Reserve System in this District, so has the System itself come to be a national symbol that the ups and downs of a free enterprise economy can be minimized and the purchasing power of the dollar preserved. For monetary policy has two objectives, both of tremendous social importance:

(1) To foster orderly economic growth and sustain employment at consistently high levels;

(2) To maintain the financial equilibrium of the economy, both internal, by protecting the purchasing power of the monetary unit, and external, by keeping international payments in balance.

These objectives may be expressed in another way: to keep the economy running at high speed and still maintain the stability of the dollar. The former is needed to provide jobs for those who are now wage earners and still more jobs for the large additions to the labor force in the 1960s. The second is needed to protect savers and those dependent upon savings. This group now includes not only the proverbial widows, but those who have retired and the many millions more who are accumulating pension rights.

The entire Federal Reserve System and each of its Banks are dedicated to the well-being of all citizens. Consequently, the seal used throughout the System features the American eagle that represents our nation as a whole. If one were designing a plaque for a building such as the new

Minneapolis structure, he should not feature the dollar that is associated in the public mind with the operations of the System. He should devise an insigne that features the men and women who are the beneficiaries of its work if it is done well, or who suffer if its decisions are faulty. To portray the real meaning of this System in this nation of mass prosperity and mass savings, the building's plaque should feature human welfare and social values. But these can be attained in their highest form only through an economy whose medium of exchange is kept sound. The satisfaction of the needs of the people as a whole requires that the buying power of the dollar be protected.

And so, sound money and healthy economic growth represent for the Federal Reserve the symbol by which it must be known. It is as important for the Fed to keep itself unsullied as for Cyrano de Bergerac to be able to say in the presence of Roxanne and his two friends: "One thing without stain, unspotted from the world, in spite of doom mine own! - - - My white plume. . ."