

For Release on Delivery
(Approximately 2:30 P.M.,
Central Standard Time)

Address of J. L. Robertson, Member of
Board of Governors of the Federal Reserve System
before the
Fifty-Ninth Annual Convention
of the
Wisconsin Bankers Association
Hotel Schroeder, Milwaukee, Wisconsin
June 21, 1955

"PEOPLE SHOULD KNOW

I welcomed the invitation to meet with you today, not only because I count some of you among my good friends of long standing, but also because I have a particularly warm spot in my heart for Wisconsin. It was here that, as a lad of fourteen, I spent the first vacation of my life - at the summer home of that great statesman from my native State of Nebraska, Senator George W. Norris, on Rainbow Lake, just outside of Waupaca. It is there that I shall be returning with my family a few weeks hence, for another in a long series of enjoyable vacations in your beautiful State. But there is still another reason. Today provides an appropriate opportunity to voice what has long been one of my strongest convictions, that the American people and their government should be brought closer together.

It would seem to be in order that I should start by practicing what I preach - by discussing the agency of which I am a part, with the sole view of enabling you to determine whether it is serving the nation satisfactorily.

No one will be surprised when I say that the American people - and I do not mean only the man on the street - do not have a broad understanding of the significance of the role which the Federal Reserve System plays in banking, in business, and - for that matter - in the life of every individual. Proof of this lack is on every hand. There are some who are all too willing to give the System praise for things it does not do and has no power to do. There are others who seek to blame it for developments clearly beyond the influence of monetary policies. Paradoxically, the System is sometimes criticized for competing with the large city banks for correspondent bank balances, and for otherwise impeding their activities, at the very time that it is also being criticized for being a "tool" or "captive" of those same "big banks", and of being operated for their benefit, neither of which criticisms has substance.

I suspect my associates in the System and I are most responsible for this situation because we tend to become so absorbed in our day-to-day work that we neglect our public relations. In addition, we are obliged in some respects to operate on a closed-mouth basis in order to prevent some segments of the business community from profiting by our actions at the expense of the rest. But whatever the reasons, and wherever the blame may lie, real efforts must be made to open up the vista and enable the American people to see what those of us who are their servants are doing - even at the risk of being accused of either apologizing or boasting.

Fortunately, I am not alone in advancing this doctrine. Others have taken up the cudgels. For example, the American Bankers Association has just released an excellent pamphlet called "You - Money and Prosperity".

Such a course will facilitate constructive criticism of our actions, criticisms that will serve to prevent us from developing a smug ivory-tower outlook. There is no better way to keep an organization from becoming so isolated and insulated that it loses the common touch than the frequent tender of constructive criticism. I do not mean captious criticism of the sort that can be shrugged off as merely partisan, but rather informed, intelligent, and objective presentations of views that challenge an agency to "take another look" just to be sure its policies are thoroughly justified when tested on the firing line of actual daily operation.

Forty years ago the authors of the Federal Reserve Act showed great perspicacity in devising and creating a system that was tailor-made for the country's economic expansion. The fact that the System has survived two world wars, two booms and a bust, floods, droughts, inflation, deflation, and what have you, is vivid testimony to their imagination and foresight. Their creation constitutes one of the best illustrations to be found anywhere in the world of democracy at work. There is nothing quite like it. It is somewhat similar to a pyramid. The Board of Governors, which is its capstone, is purely government - and wholly non-partisan. The Federal Reserve Banks and their branches which form the next slice of the pyramid, are quasi-public - quasi-private institutions. They are directed by 260 private citizens - men who serve as directors of the System's units, contributing their time and efforts to make the organization's performance efficient and effective; to read the roster of their names is to know that they rank among the leading citizens of the nation. And although somewhat fewer than half of all commercial banks are members of the System and as such constitute the pyramid's base, the breadth and strength of that base is attested by the fact that those banks hold more than 85% of the demand deposits of the country.

The work of the System may be roughly divided into two parts, although the parts are almost inseparable one from the other. By far the greater number of its 20,000 employees are engaged in serving the public through the member banks and in supervising those banks. Nobody, today, would seriously contend that the nation's financial structure would run as smoothly or as efficiently without those services. However, the System's biggest job - monetary regulation - is even more important to the country, although it is performed by a relatively small part of our manpower.

Only the senior members of this audience can recall the country's cash and check arrangements before the Federal Reserve was established forty years ago because most of us were either in knee-pants or yet unborn. It is difficult for us to conceive of shortages of cash, and yet the panic of 1907 resulted largely from the fact that there was not enough cash to go around and no way of increasing the supply. (I refer, of course, to the great national panic of 1907 - not the somewhat smaller one which occurred precisely at the same time in my home town of Broken Bow, Nebraska, upon the announcement of my birth.)

Today we take for granted the clearance of checks from one end of the country to the other in a matter of two or three days, as contrasted with the waste and delay involved in the circuitous routing of the years before the first World War.

It may interest some to know that each year the System handles enough paper currency to make a stack 350 miles high, and enough checks to make a ribbon that would wrap around the world ten times with enough left over to tie a bow-knot, the loops and ends of which would festoon the State of Wisconsin and all the states contiguous to it.

In contrast to forty years ago, today we have an elastic currency system responsive to the needs of agriculture, commerce, and industry. The banking reserves of the country are fluid and can be quickly mobilized to meet unusual credit demands anywhere in the land. And, at least in so far as member banks are concerned, there are adequate facilities for the discounting of paper; assuming they are sound banks to begin with, their ultimate liquidity is assured in all kinds of economic weather.

But the System was not designed solely to provide the country with an elastic currency, efficient check clearing and adequate discounting facilities. No twentieth century industrial economy can function well without strong banks. Without sacrificing the advantages of our dual banking system, Congress sought to strengthen the nation's banks by charging the Reserve System with supervision and regulation of member banks.

As all of you know, a large part of this work is performed by bank examiners who get under foot in your institution every once in a while - sometimes when you least want them. It has long been a thesis of mine that the banking community doesn't get its money's worth from the excellent work done by these men. I wish I had the time - and you the patience - to discuss this point.

But let me take a minute to ask: Are you bankers reaping all the benefits that are to be gained from the wealth of experience accumulated by these experts who see the best and the worst of banking as they make their rounds? When the examination is completed, do you and your directors invite the examiners to discuss the standards and practices of your institution? In a "problem" bank there will be no need for an invitation. But in a "good" bank, which I assume all of yours are, the examiner will not do this ordinarily without an invitation, for he has been trained to avoid crossing that shadowy line between supervision and management. Supervisory authorities are no more anxious to invade the province of management than you are to have them do so.

Speaking of examiners, I should mention that today they are being trained better than ever before. Some of you, I am sure, have heard about the Inter-Agency Bank Examination School we have set up in Washington, complete with a model bank, and staffed with some of the best men from the federal supervisory forces and with outstanding bankers and fi-

nancial specialists who contribute their time and effort for the public good - these include your own Carl Flora.

All State examining authorities are invited to send representatives to attend the school. Some of them have, and they can testify to its worth. But many cannot for lack of funds to cover living expenses. (Of course, the schooling itself is free.) Every State Bankers Association should see to it that improvement of the examining organization of its State is not impeded by the lack of a very few dollars. It is also in your own interest to see that sufficient funds are available to adequately compensate examiners - men who today rank among the most underpaid, underrecognized specialists in the country.

In its capacity as a bank supervisor, the Federal Reserve System naturally gets involved in many thorny problems regarding the "ideal" structure of the American banking system - problems revolving around, for example, mergers and consolidations; holding-company and branch banking. It has been compelled to evaluate, and in some measure to govern, the trends in American banking.

In my opinion, governmental agencies have a duty to supervise and regulate banks, their expansion and activities, not only from the view of what is good for the banks, but also what is good for the national economy. Safety of deposits, suitable extension of credit, provision of adequate banking service are important, but so is the preservation of competition - a vital safeguard of a sound banking structure. This does not mean that we must insist that four banks continue to operate in a town that could be served adequately and efficiently by two, if the force of excessive competition among the four is likely to result in practices that could endanger the safety and soundness of a bank and its depositors, and, consequently, the community itself. It does mean that competition should be preserved where the community can support competition.

Having spent most of my life in contact with commercial banking, it is perhaps natural that I feel more comfortable in dealing with and discussing its progress and problems. But from the viewpoint of cosmic significance, the Federal Reserve's job as the central banking system of the United States outweighs its supervisory and service functions.

Regulation of money and credit was not the chief objective of the Federal Reserve System forty years ago. The necessity for such regulation, in order to avoid unnecessary economic setbacks and to maintain a favorable climate for economic progress, has come to be seen more and more clearly over the past thirty years. The evolution of this objective is attributable in part to changing economic conditions to which the System has had to adapt itself.

There is little comparison between the conditions prevailing then and now. There are not many here who can remember the conditions of that time. I have to stretch on tip-toe to recollect the lamp-lighter in Broken Bow, who rode around on horseback and stood on the saddle and the rump of his horse to light the gas lamps that lit the dirt road. I can

remember that only because one of my brothers once scared the horse in the midst of the operation and caused the lamp-lighter to fall and swear a blue streak, to the enlargement of my youthful vocabulary. At that time the wagon industry was still fighting a game though losing battle with the automobile. More than a few people looked upon airplanes as a defiance of heaven. The first broadcasting station in this country was not established until 1920. Even a decade ago the newest of our present miracle medicines was still in the experimental stage, and nuclear physics was still confined to the laboratories. Today, less than a handful of our 14,000 banks - four to be exact - hold deposits exceeding in amount all of the deposits in all of the banks forty years ago.

But gradually we have evolved a monetary policy designed to keep a proper balance between the volume and velocity of money on the one hand and the supply of goods and services on the other, with the view of maintaining high levels of economic activity and employment while endeavoring to see that the value of the dollar remains stable.

For about a decade beginning with our entry into World War II, the effective exercise of the powers of the System in this regard was suspended. This was done, of course, in the interest of assuring adequate financing for the tremendous cost of winning that war. But in retrospect one can see that if this had not been done, the inflation of the late 40's could have been greatly moderated - if as a nation we had been willing to tax ourselves more and to borrow less, thereby minimizing the need for monetizing the public debt through "pegging" the prices of government bonds, which resulted in creating a superfluous amount of money.

In any event, during the past four years the System has freed itself from the wartime strait-jacket and made use of its traditional tools of general credit control: open-market operations, discount policy, and reserve requirements. These tools have been used flexibly and frequently to make credit more available whenever that seemed to be desirable for the country's continued economic progress, or to make credit less easily available when there seemed to be a threat of a detrimental overextension of credit. The System is obliged, we feel, to take whatever action, within its power, will aid in averting inflation on the one hand, and deflation on the other, and yet provide the economy with a supply of money and credit adequate for a steady and sustainable expansion.

Stating this power and policy is simple, but the execution of them is another matter. Deciding when and what actions should be taken necessitates daily meetings of the Board of Governors. At the Board and at the Reserve Banks throughout the country, we have a staff of highly capable and devoted experts who continuously strive to develop, for our use in formulating policy, the essential economic significance of regional, national, and international occurrences and trends. The Board of Governors, the Open Market Committee, and the Reserve Banks, wisely insulated by Congress from political strain and pressures of the moment, seek to use this mass of information and expert views to chart a safe course through the rocks and storms of the economic seas.

How successful we have been must be for others to judge. And, of course, time will surely tell. However, the fact that there have been and still are, some disquieting factors, is sufficient to dispel any smugness on our part. Agriculture has gone through some painful experiences and is still a cause of concern. So is the housing field, which has been stimulated, perhaps excessively, by government guarantees and easy credit terms. Consumer credit has fluctuated to a considerable extent and down payments and terms have been dropped and stretched out inordinately in spots. The stock market keeps bouncing around. And the number of unemployed people is always a cause for concern.

On the other hand, over-all economic activity is on an exceptionally high plane. The gross national product in the second quarter of 1955 is estimated at the peak rate of \$375 billion. Expansion in the demands of business and consumers, as well as State and local governments, has tended to offset declines in defense spending. Our index of industrial production is now at the peak figure of 138 - compared with 100 a half-dozen years ago.

All segments of the economy do not move in the same direction, at the same time, and at the same speed. The laws of supply and demand make this impossible. But, in the long run, they tend to offset each other and work out as a fairly smooth rolling-adjustment, provided the underpinning of the economy remains sound and no single factor is permitted to get so far out of line as to cause a collapse of the others. Hence, it is important to note that during the past four years the dollar has remained stable - it will buy approximately the same amount of goods and services today as it did in 1951, '52, '53, or '54. That may indicate in some degree the effectiveness of System policies for, although far from being solely responsible, they certainly have contributed to the economic environment which has made that stability possible.

I have tried to indicate the kinds of problems with which the Federal Reserve must deal. They range all the way from the ordinary bank supervisory problems with which you are familiar to the chartering of a new corporation to engage in international finance. One day we may be called on to consider the take-over of a score of branches as a part of a merger between two great banks, and the next day an application to organize a new bank in Florida or to admit a bank in Wisconsin to membership in the Federal Reserve System. Right now, much time is spent in considering proposed legislation affecting bank holding companies, bank mergers, and the investment powers of banks, and apprising Congress, through reports or testimony, of our views. And, of course, credit and monetary developments must be subjected daily to unceasing scrutiny. The information available to us must be combed carefully and continuously to determine whether our actions should be in the direction of expanding or contracting the supply of money and credit; whether we should be absorbing or providing reserves through open-market transactions; whether we should be raising or lowering reserve requirements, discount rates or margin requirements.

These are the kinds of problems with which the System must grapple, to the best of its ability, and with no aim other than the country's economic welfare. Since the System has no supermen in it, it will make some mistakes, as it has in the past, but when it discovers errors it must try to correct them with candor and promptness.

In my judgment no single factor is more important to the American economy than the effectiveness and integrity of its central banking arrangements. Senator Carter Glass, one of the authors of the Federal Reserve Act, in referring to the System, commented:

"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."

It is difficult to imagine greater economic misfortune than to have a corrupt, timid, or biased central banking system, misusing its vast power for private gain or even popular acclaim.

In the long run the most effective bulwark against the possibility of such a catastrophe is public insistence that the Federal Reserve System devote itself 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.

In order for the people to insist upon that kind of Federal Reserve System, they must understand it. People should know what it is, what it does, and how it does it. They should know the impact it has on the economy and on their own individual lives. As bankers, you are particularly well equipped to help them achieve this understanding - to explain the relationship of economic laws and institutions to the individual welfare and the standard of living of the community and the nation.

After two World Wars the United States has emerged as a leader of the free world. As Sir Winston Churchill recently remarked: "There is no other case of a nation arriving at the summit of world power, seeking no territorial gain, but earnestly resolved to use her strength and wealth in the cause of progress and freedom." Our position of world leadership cannot long endure without having as its foundation a strong and dynamic economy. That cannot exist without widespread understanding of its essential ingredients - the what, the how, and especially the why. It is up to all of us - public servants and private citizens alike - to help bring about that understanding.