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

at the

**Dedication of the Communications
and Records Center**

Culpeper, Virginia

December 10, 1969

We are gathered this morning to dedicate a unique facility to the purposes for which it was built. It houses the core of the Federal Reserve nation-wide communications network and a formidable money vault.

The communications switching center now being installed is but prologue for greater things to come - a combined communications-computer system that will permit not only the instant transmission of information and the transfer of funds among banks, but also, in time, the storage, analysis, and retrieval of economic data gathered throughout the nation and many parts of the world.

The vault is the largest one-floor money vault in the Federal Reserve System - perhaps in the world. It has the capacity for storage of coins sufficient to prevent coin shortages in normal times; and the capacity needed for storage of currency to meet requirements under any conditions of national emergency. It goes without saying that a facility that contains such a vault demands the utmost in security, and the utmost security has been provided.

I wish to comment briefly on the significance of this facility to the Federal Reserve System. But one cannot speak on an occasion such as this, to a group such as this, in a facility such as this, located in the beautiful hills of Virginia, without first paying obeisance to two of Virginia's great sons - Woodrow Wilson and Carter Glass - the founder and the defender of the Federal Reserve System.

Perhaps a brief review of the nature of the Federal Reserve System as they began it and as it is today is as good a way as any to reveal the significance of this facility to the System and to the nation.

The authors of the Federal Reserve Act were aware that monetary policy would inevitably be predicated on judgment. Since enlightened judgment must be based on comprehensive facts, they took precautions to see that insofar as human and technological capabilities permit,

timely and pertinent information should flow from all geographical regions and all economic sectors to support a course of action which would benefit the country as a whole.

When the Federal Reserve Act was enacted on December 23, 1913, the availability of such data was extremely limited and it moved at a snail's pace. At that time, the fastest means for the transportation of currency and checks was by rail, which took over five days from coast to coast. The fastest means of communication was by telegraph. Air mail and jet transportation were still in the dream world; and supersonic transportation (SST), now on the drawing boards, was science fiction. In 1913, the first transcontinental telephone call had not been made. It was not until January 25, 1915 - more than a year after the Federal Reserve was established - that men marveled at the completion of such a call. But it was slow and unreliable. Imagine the time it took to plug in lines and make connections from switchboard to switchboard - city to city - across the country. The idea of computers talking to computers, receiving, storing, collating, and sending information by telpaks and microwaves at the speed of light, and in volume as high as 50,000 bits per second - or three million per minute - had not even reached the science fiction stage in 1913. Even today, communicating at the rate of three million bits per minute provides a capability which seems incredible to me, especially when I contrast it with the capability of a fast keyman in 1913, tapping out dots and dashes at the rate of 144 per minute.

But whatever the means available, from Railway Express to jet transports, from telegraph keys to computers, telpaks and microwaves, it has been the policy of the Federal Reserve System to use the best that technology could provide to assemble and analyze data and thus provide the informational basis for improving judgments and increasing efficiency - to the end of better serving the nation.

The Congress of the United States, in entrusting the power of money management to the Federal Reserve, took

special care to safeguard that power from becoming a device that could be controlled by private, political, or sectional interests. Checks and balances, similar to those in our Constitution, were built into the Federal Reserve Act. The framework of the System, consisting of local member banks, regional Reserve Banks, and a Board of Governors in the nation's capital, was designed to blend local, regional, and national interests. Guidance on the selection of Reserve Bank directors was designed to reflect a blending of the interests of banking, other private enterprise, and the public. Requirements for membership on the Board of Governors - appointment by the President, with the advice and consent of the Senate, for terms longer than for any elective office, and with due regard to a fair representation of financial, agricultural, industrial, and commercial interests, and geographical areas - were designed to provide a nonpolitical, national body, composed of members from a cross-section of the economy and the country.

What a framework! - a grand and meticulously designed Central Bank created to reflect kaleidoscopically all shades of view in a constantly changing economy. But as a kaleidoscope will reflect nothing in the absence of light, neither will our framework reflect the blending of interests and views that it was designed to provide in the absence of communications. Through communications, the framework becomes a living system - thus the significance of a communication center created to speed the flow of information throughout the System and beyond.

The purposes originally assigned to the Federal Reserve System were "to give the country an elastic currency, to provide facilities for discounting commercial paper, and to improve the supervision of banking". From the outset, however, there was recognition that these original purposes were, in fact, parts of broader objectives. Woodrow Wilson said: "We will deal with our economic system as it is - and step by step we shall make it what it should be." Carter Glass said: "In the Federal Reserve Act we instituted a great and vital banking system, not merely to correct . . . periodical financial debauches,

nor to aid the banking community alone, but to give vision, scope, and security to commerce and amplify the opportunities, as well as to increase the capabilities of our industrial life at home and among foreign nations." And, so today, the broad objectives of the Federal Reserve are to help counteract inflationary and deflationary movements, and to share in creating conditions favorable to sustained high employment, orderly economic growth, and a stable dollar.

At this moment in 1969, the Federal Reserve's most pressing problem is to cope with the pervasive and persistent inflationary psychology abroad in the land. It is like a virus deeply infecting our economy, sapping its basic strength even as it gives rise to some feverish hallucinations of well-being. It has proved a stubborn virus to combat. Oh, yes, we can control the money supply within tolerable limits; the authors of the Federal Reserve Act gave us the means to do that. We can increase the cost of bank credit, increase reserve and margin requirements, restrict the ability of banks to acquire loanable funds, and provide or absorb bank reserves through the purchase or sale of government securities. But we cannot control the rate of turnover of the money supply - that is determined largely by public psychology, by the spending and saving decisions of people. A ten-dollar bill spent once in a given period represents only a half as much purchasing power, chasing the available supplies of goods and services, as one spent twice in that period. Consequently, a certain volume of money may be exactly right in one environment but quite wrong in another, depending upon the spending attitudes of money-owners. Thus, the effectiveness of our restrictive policies may be thwarted or delayed for a time by spending decisions prompted by a belief in the minds of too many people that restraints will be lifted before inflation is curbed, that inflation will not be controlled.

While some complain of the cost of living and the shrinking value of their savings, others, afflicted with an inflationary psychosis, seek more and more credit, borrow more and more, pay higher and higher prices for items

purchased with borrowed funds. They do this in the belief that they would have to pay higher prices later on and would find it more difficult to obtain credit even at higher rates of interest. This psychological state must be changed! People must realize that the unnecessary use of credit now, in the hope of beating price increases later on, may result in exactly what they fear most - scarcer credit and higher prices, or, a more unpleasant alternative, a variety of new controls which they would rather be without. They must be made to realize that they are contributing to the very things they seek to hedge against - inflation, impairment of the value of the dollar, and, borrowing from Carter Glass, "financial debauches".

People must be made to realize - if not by reason, then by tighter and more painful controls - that the Federal Reserve will not abandon the purpose for which it was created, that the fires of inflation will be quenched. Inflationary psychology has already become so deep-seated that painful measures seem to be necessary to moderate it. We hope that the measures will be no more painful than necessary and be continued no longer than need be. But we must not temporize with the problem. It often happens that gradualism, based on the hope of easing the pain of a difficult problem, only prolongs the agony.

We are mindful of the time lag between monetary policy actions and their effects. We eagerly look for indications of moderation in inflationary psychology. We are sensitive to the views of those who help to formulate public opinion and influence credit action. We are sensitive to the opinions of economists - some who say we have gone too far and will cause a serious recession, and others who say we have not gone far enough to prevent further inflation. We are particularly sensitive to the views of the 262 directors of our Reserve Banks and branches. But in the last analysis we look for facts to verify presumed increases or decreases in spending intentions and credit demands. We look for facts which will indicate

whether the public is abandoning its inflationary psychology. And here again, the constant flow of economic intelligence through our nation-wide communications network is vital to the development of sound monetary policy.

The responsibilities of the Federal Reserve System have been increased with the passage of time and the need to cope with new risks - risks which would have seemed as incredible in 1913 as computers talking to computers. I have reference to the new risks created by weapons of mass destruction and to the responsibilities assigned to the Federal Reserve pursuant to the National Security Act.

By Executive Order 11490 the President gave to the Federal Reserve the responsibility for developing emergency plans to cope with the economic effects of a nuclear attack as well as the effects of mobilization for "limited" war. The Secretary of the Treasury, pursuant to his authority under the Trading with the Enemy Act, has delegated to the Federal Reserve Board authority and power to take such action as may be necessary, in an emergency, to maintain, regulate, limit, or suspend the operations of any banking institution.

The Board has issued its Emergency Regulations providing for the maintenance of the money, credit and banking system in the event of an attack and has authorized the Reserve Banks to perform the functions of the Board under certain conditions, such as a breakdown of communication facilities. Federal Reserve Banks, in turn, have issued emergency circulars to all banking institutions - circulars designed to provide the banking system with the information and instructions needed for the conduct of postattack banking operations.

It has been generally recognized in military and defense planning circles that one of the most important requisites for effective decentralized operation in an

emergency is a communications system capable of surviving enemy attack. Accordingly, in 1953, after another country had detonated both atomic and hydrogen weapons and presumably had them in production, it was decided to move our switching center from the Board building in Washington to the Federal Reserve Bank of Richmond. At that time, Washington was believed to be highly vulnerable, while Richmond had little or no vulnerability. But vulnerability estimates do not remain static.

Increasing weapons capabilities have increased the number of likely targets. The estimated vulnerability of Richmond increased to the point where, by 1962, we could no longer risk the postattack capability of our entire communications system by leaving the switching center in Richmond. It was then decided to relocate the switching center to a place having no foreseeable vulnerability and in a facility which, in addition to the security of its location, would have a high degree of protection against the effects of nuclear weapons.

One of the specific preparedness responsibilities that the President assigned to the Board was the acquisition and decentralized storage of an adequate supply of currency for use in a postattack emergency.

In carrying out this responsibility, it was decided to provide for a two-years' emergency supply of currency. The amount was based on an estimate that it might take two years to get back into the production of currency if the present source of supply were to be destroyed by enemy action. As supplies were acquired, they were stored in the vaults of Reserve Banks and, in some instances, in the vaults of other institutions that were willing and able to serve as emergency Cash Agents. Due to limitations in vault space, vault capacity to handle the overflow has been constructed in the western, central and eastern parts of the United States. This Culpeper facility houses the back-up vault capacity for the entire eastern part of the country.

Accordingly, this facility, the vault within it, and the grounds about it, have been provided with all the

protection and security that modern engineering and technology afford. The vault itself rests in solid granite, was constructed according to the strongest vault specifications, is equipped with the most secure protective devices, including a series of gates, doors and guard posts, and is permeated with a redundancy of sophisticated hidden and tamper-proof detection devices. We believe that the security measures which all can see are adequate to deter amateurs or professionals from attempting unauthorized access to the facility, and that the other security measures hidden from view are adequate to prevent the success of any attempt.

As of September 30, 1969, we had 92 per cent of our target supply of emergency currency on hand; with 86 per cent in decentralized storage. When we complete the movement of emergency supplies to this vault, our goal will have been met and this facility will have made another significant contribution to the System and the defense of the nation.

You may wonder why Culpeper, rather than my own home town, Broken Bow, Nebraska, was selected as the location of this facility. Culpeper was selected because it has no foreseeable target vulnerability. It was selected because it is accessible to the protected long distance lines of the major commercial communication systems that serve all parts of the country. It was selected because it is close enough to the currency supply source to minimize the cost of redistribution, while at the same time it is not too far removed from the Philadelphia Mint to serve as an overflow depot for coins needed to prevent coin shortages in normal times.

During my tenure as a member of the Board of Governors - almost eighteen years - it has been my privilege to participate in approving the construction of twenty-five facilities. Of all those facilities, I have had a special interest in this one from its inception. To me, it is unique. It is neither a Bank nor a branch. It is not monumental in design or appearance. It is not located

in one of the great governmental or financial centers of the nation. Rather, by design, equipment, and location, it is peculiarly adapted to aid in maintaining and improving the operation of our money, credit, and banking system in peace and war.

On behalf of all my associates at the Board of Governors, let me congratulate the directors and the officers of the Federal Reserve Bank of Richmond, past and present, for the large part, which they played so well, in the creation of this facility, which is now being dedicated to the purpose for which it was built: to enable the Federal Reserve System to better serve the American people.