Remarks of Vice Chairman Robertson at Meeting of Chairmen and Deputy Chairmen of the Federal Reserve Banks at the Board on December 3, 1970

Long ago I was the janitor of the Presbyterian Church in my hometown, Broken Bow, Nebraska. Consequently, I knew the minister very well. One Sunday he appeared in church with a bandage on his face, which he explained to the congregation by saying he had concentrated so hard on his sermon that he had cut himself shaving. After church, one parishioner went up to him and said, "Reverend, the next time I hope you will concentrate on your shaving and cut your sermon." Today I am going to take his hint and be brief.

Many experienced people in the Federal Reserve System have given a great deal of thought to the subject of the role of directors. It is certainly desirable that we take a hard and realistic look at our institutions from time to time. One of the obstacles to dramatic progress in any profession is what someone has called "trained incapacity". Experts become accustomed by training and habit to look at problems in their field of specialization in a particular way. Consequently, they may develop blind spots that keep them from spotting new ideas and new approaches that might be perceived by a person with a different background and an active imagination.
None of us can overcome our "trained incapacity" completely, but we can force ourselves to ask questions and try to come up with some new answers about how we can best accomplish our objectives. We may miss the obvious, but we might just come up with some bright new ideas.

In considering the design of any machinery or tool, the first question to be asked is: What is it expected to accomplish? If we have a clear view of what the tool is supposed to do, we can then devote our imagination to devising the best design to do the job efficiently.

This would be the logical way to approach the design of the machinery of the Federal Reserve System, but in the real world, and especially in the world of government, logic does not always govern. We are in the position of having machinery that we know cannot be changed easily - thank the Lord. If we were able to start from scratch, we would no doubt do things rather differently today than they were done over a half century ago, and perhaps not so well. Nevertheless, it might be useful and interesting to imagine that we were in that position. Perhaps in doing so, we can overcome a little of our "trained incapacity" and see how we might get more out of the machinery we now have.
Let us suppose that we want to design machinery to accomplish the following things: (1) to determine and execute the monetary policy of the United States, providing the necessary monetary stimulus or restraint to keep the economy functioning at a high level without inflation or prolonged disequilibrium in our international accounts; and (2) to develop a sound and efficient banking system that would provide essential services such as credit accommodations, collection of checks and currency distribution over the broad expanse of the entire country.

It is not hard to imagine the general outlines of streamlined machinery that would accomplish these tasks. But apart from its technical structure, it would require these characteristics:

1. Because of the strong impact of monetary policy on political developments, the machinery would have to be designed to prevent it from being manipulated for short-range political ends.

2. Because the decisions impinge so forcefully on the well-being of all the people, the machinery would have to be designed to give it maximum public confidence in its integrity and its technical competence.
Assuming that our design called for a highly streamlined central banking structure, with branches rather than regional banks, all responsible directly to Washington, how could it be structured to provide for the independence from politics and the degree of public confidence that would be required to enable it to function effectively?

We would need to devise some machinery that would convince the people (who at the moment are rightly suspicious of excessive centralization of power) that:

1st, the machinery would be in the hands of people who combined high technical competence with scrupulous honesty and dedication to the public interest;

2nd, that the machinery was designed in a way that would prevent its being used for the exclusive benefit of any region of the country or any single economic group; and

3rd, that built-in checks would insure that misuse of the machinery would be exposed and corrected.

The insulation from political influence could be accomplished by localizing the decision-making power in a governing board made up of members appointed for long terms. The representation of the views of all parts of the country and diverse economic groups could be accomplished by requiring that men
appointed to the governing board come from different parts of the country and have different kinds of economic backgrounds. However, this does not really solve the problem. A man who has served for a long term on such a governing board may well lose touch with the local area from which he originally comes - unless, of course, he comes from a place like Broken Bow. If one lives and works in Washington for a prolonged period of time, it is not really possible to maintain as close contact as one might like with the farmers and ranchers of Nebraska, the builders of California, or the manufacturers in Ohio.

This would suggest the desirability of building into the System some regional councils that could serve as the eyes and ears of the people of each region, as well as the spokesmen for local interests. Such councils or boards would clearly have to be composed, at least in part, of people who were willing and able to make some judgments about the technical competence of those who were managing our monetary system. This includes competence in the rather mundane task of managing a large enterprise with thousands of employees engaged in currency distribution and check clearance, as well as competence
in carrying out economic research and utilizing the results to make important policy decisions. It would be helpful to have on the boards men skilled in management who could give useful advice to the System on management problems and new methods for dealing with them. It would probably also be desirable to have on such boards men who were recognized in their region as being knowledgeable about monetary policy, whether they be bankers, businessmen, university professors, or writers. Such men would bring to the board not only a keen interest in the main business of the System, but the ability to scrutinize policy decisions carefully and critically. Finally, the boards should include men of recognized stature who are knowledgeable about the principal economic activities in the various areas, as well as representatives of trade unions, consumers, and retired people. These representatives would not have to be familiar with all the intricacies of monetary theory, but they could bring to the board precise knowledge of economic conditions in their particular areas. They could interpret the effects of broad economic policies on their area, and provide a valuable input of information and judgment.

In designing these councils or boards, we would, of course, want people who commanded respect in their communities.
Since one of their functions would be to indicate whether or not the System was functioning well and in the best interests of all, they would have to be men and women who themselves were trusted for their judgment and honesty.

I would think that another thing that should be required of them is that they be articulate. They should be able to communicate their ideas clearly and effectively to the people running the monetary system. And they should also be able and willing to report to their "constituents", i.e., the people living in their District, on the policies and operations of the System. They would not be performing the functions expected of them if they confined themselves to making observations and never told others what they had observed.

This brief sketch of the kind of machinery we might devise if we could start from scratch is rather different from what now exists. We have regional boards of directors, but they have not in the past been selected to play just the kind of role that I have described. They have not always been selected with regard to the amount of managerial or monetary expertise they might bring to the System. Nor have they always looked upon themselves as the eyes, ears and
tongues of the entire people of their region insofar as the Federal Reserve System was concerned.

On the other hand, the relationship of the directors of the regional banks to the System as a whole is somewhat different than the relationship envisioned in the model I have sketched. If the objective is to give people active in business and public affairs throughout the country an input into the System and the opportunity to represent the System to the people of the various regions of the country, there should, perhaps, be a closer tie between these boards and the Board of Governors in Washington. It is, of course, practical and proper that much of the contact should be through the regional banks. However, if the input of the regional boards has value for the banks, it should also have value for the Board in Washington. I am thinking here of not only tapping the members of the regional boards for technical advice on management problems, but also of providing greater contact and communication between regional board directors and the Board of Governors and its staff. Such contact has tended to be too infrequent, and too formal, for us to obtain full benefit from the knowledge and information that can be obtained from the regional board members. They, in turn, are perhaps handicapped in judging the
performance of the System as a whole when their contacts are for the most part limited to one of the regional banks.

Of course, we have a regionalized System rather than the highly centralized System presumed in my model. I have no doubt that this has been an important factor in maintaining public confidence in the System, even though there has been a greater centralization of power in Washington than the founders of the Federal Reserve System intended. However, there is abroad in the land, a strong tendency to question established institutions, a reaction to excessive centralization of power, and an emphasis on the right of the public to know and understand what is going on.

In harmony with the spirit of the times, I think we should recognize that the form of our System has remained relatively unchanged, but the way of doing business has changed. In actual practice, we are closer to the centralized System with branches than any one of us likes to admit. Perhaps we should adjust to this change by doing what we can do within existing law to have the regional boards of directors fulfill the kind of function that I have described in my model.

This would mean two kinds of changes: (1) a change in emphasis, at least with respect to the role that the directors
play, and (2) a change in the selection criteria for membership on these boards. In this context, it seems to me that directors should not look upon their responsibility as merely the input of information into the vast Federal Reserve machine. They should do that, to be sure, formally as well as through informal contacts. But I would suggest that a more important function is to ascertain whether or not the System is carrying out its responsibilities for the management of our monetary system in a satisfactory manner. As directors, they are in a good position to make this judgment, having access to a greater amount of information about operations and policies than the general public. If, in their view, the System is not performing properly, they should say so. If it is, they should also say so. They should come to regard the public in their region as their constituency, and they should actively transmit their own knowledge and evaluation of the System to their constituents.

The better the directors are at this, the better we can make our System work in a democratic context. This underlies the importance of getting individuals to serve as directors who can articulate the views of a broad spectrum of the community. We need individuals who are not hesitant to
speak up and speak out. It would be desirable, of course that they be the type of individual who is listened to when he speaks.

We must admit that we have made our share of errors, and anyone who reads the papers knows that we do not lack for critics. But what we need is informed criticism, especially from within the System, when we seem to be following the wrong path.

I began by speaking of "trained incapacity". From my point of view, one of the great potential but largely unrealized values of directors is their ability to help the experts in monetary policy avoid errors caused by their specialization and their tendency to focus their sight too narrowly. With the advantage of hindsight, I can think of several occasions in the past when more critical questioning by Federal Reserve directors of the virtue of policies might have had a healthful influence in correcting more quickly a wrong course of action. On the external side, right now we are in a period when public understanding of the need to resist the forces that feed inflation and still avoid unduly high rates of unemployment and underutilization of resources could be crucial. Directors can perform a very
important function in impressing this upon their "constituents".

I would hope that the end result of this would be to help us maintain a strong Federal Reserve System, with close ties to people in all parts of the country. I would hope that we would demonstrate our responsiveness to constructive suggestions and informed criticism. I would hope that we would be aided in this by a body of regional directors capable of communicating both with those responsible for the day-to-day management of the affairs of the Federal Reserve System and with an enlightened public. Working together, we can do our job better and earn the confidence and the support of those we are dedicated to serve.

With staff help, I have spent considerable time over the past few months reviewing the role of Federal Reserve directors and trying to pinpoint areas in which improvement is needed and obtainable. Perhaps I have been in the System too long and become too myopic, but, for whatever reason, all the ideas generated thus far seem to me to be old ones - some with their bones showing. Many of them have been tried and found wanting; others have been deemed impractical. However, we intend to push on with the search, and consequently
I appeal to you to give me the benefit of any ideas that may occur to you. I assure you we will explore them, and where possible, implement them, with the view to perfecting what all of us must believe to be the best central banking system thus far devised anywhere in the world.