

THE ROLE OF PRIVATE ORGANIZATIONS
IN MAKING PUBLIC POLICY

Remarks of

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before

The Second National Governmental Affairs Conference

of the

American Bankers Association

July 19, 1972

Washington, D. C.

THE ROLE OF PRIVATE ORGANIZATIONS IN MAKING PUBLIC POLICY

Some suggest that we live at an unusual time of involvement described in various ways depending on the vantage point of the viewer. It is called consumerism by some -- a type of involvement that has already been emphasized here today. Some call it a time of relevance, when what we do and say should increasingly relate to our problems and our opportunities. To some, involvement means a participatory society, in which more of us should take an active part in making and administering the laws, the regulations, the institutions and the organizations of our society.

I agree that Americans are living at a time of involvement. And that involvement began in the year 1619 when the Virginia House of Burgesses, the first representative assembly in the New World, met at Jamestown, Virginia. Ours has been a strongly involved, highly participatory, and consumer conscious nation in the three and a half centuries since. There have been many other landmarks along the way of which I will take time to cite only a few typical examples:

- in 1773, when there was a tea party in Boston;
- in 1776, when the involvement of the American people with the idea of forming an independent union produced the Declaration of Independence;

- in 1787, when the American people produced a Constitution that led the world in formalizing those still revolutionary aims of establishing justice and promoting the general welfare as the basis of government, not only of, but -- as President Lincoln noted -- for the people;
- in 1791, when the Bill of Rights was added to the Constitution;
- in 1875, date of the first Civil Rights Act;
- from 1890 to 1914 which saw legislation to protect the consumer, including the Sherman Anti-Trust Act, the Federal Trade Commission Act and the Clayton Anti-Trust Act;
- in 1946, when the Congress passed what Federal Reserve Board Chairman Arthur F. Burns has called an American "economic constitution": the Employment Act of 1946, which put the full force of the Federal Government behind the aims of "maximum employment, production and purchasing power" in the United States.

I need not bring the record into more recent years to make my point -- although the record of the last decades would make it even more sharply. The point is that one comprehensive name for consumerism, participatory government, relevance, and like forms of involvement is the American way of life.

I do not suggest by the foregoing that we have solved all our problems or that there is not much yet to do, or that we do not have need to reemphasize what is best in the American tradition. My object is, rather, to bring out the fact that the grappling with issues and the accelerating change we see going on around us -- that has been going on at a rapid pace for years -- far from being something new for Americans, is the current manifestation of one of our oldest traditions. We have been making and we will continue making our way toward what Americans have always had in mind since that first meeting of Virginia burgesses in 1619: the building, by peaceful, legislative means, of a society of laws offering more and more of its people greater and greater opportunity to make the fullest use of their abilities.

But there is another reason for citing examples of our long tradition of concern for participation of Americans in our national life. The current intensity of this concern is reflected in the activities of many new consumer and environmentally oriented organizations. They speak for people and causes that have been neglected and, for that reason, they should be heard. Nevertheless, there is a strong tradition that American government is accessible and open to persuasion. This has brought into being institutional means for expressing private views about public policy and impressing those views on policymakers.

Nearly every American professional, business, political, occupational, environmental, educational or other association has headquarters in Washington, to be near the makers of public policy. One need only look in the yellow pages of the Washington telephone directory to learn that it takes seven pages of close-set type to list all the organizations in this city. In the regular pages, there is nearly a column of commissions and committees, a clutch of societies, leagues, institutions and conferences, plus uncounted scatterings of organizations not alphabetically corralled.

This may seem like an excess of involvement. If you read through the list of associations, you may be convinced that it is. But it does suggest that the Congress, the regulatory agencies, the departments of the government, and all concerned with making public policy, have available to them -- or thrust upon them -- the knowledge, the opinions and the insight of specialists in almost any field of knowledge or belief, reason or unreason, endeavor or leisure.

The mainstays of this list are the associations representing the principal professions and fields of business, and featured among these is, of course, the American Bankers Association (ABA).

**A PEOPLE'S DIALOGUE
WITH GOVERNMENT**

The volunteer, privately sponsored organization that concerns itself with public policy, such as the ABA, performs a singular service in this society. It does so by stimulating a dialogue between private citizens and the institutions and government. The more thorough the dialogue between policymakers and the public, the better the resulting policy is likely to be. One of the principal characteristics of American capitalism has been a growth of associations, societies, committees, leagues, institutions and the like, such as may be found in fullest flower in Washington. These private organizations are watchdogs which set off a warning alarm when officialdom is about to restrict or rechannel private decision-making. They bring down on officialdom's head grievances that are real, or, as is too often the case, imagined, or the consequence of misunderstanding or unwillingness to comprehend. It is officialdom's role to sort out public need from public clamor. The net result is often better public policy, made in the light of all the genuine objections that can be brought to bear. In this process, public policy will assert the general well being in the face of particular complaints where that is necessary and over-riding. But the proposed policy -- which may be pending law or regulation -- will be modified where specialized advice

received from the public demonstrates sound reasons for admitting, however painful it may be, that infinite wisdom does not in every case come with the elective or appointive mantle.

I believe that the flow of opinion, information and insight provided by private organizations interested in public policy is among the more valuable of those assets that have made free enterprise capitalism the successful instrument it is for producing and distributing wealth. In the case of the private organization attempting to influence public policy, there are several rules that suggest themselves. Three of the more important, and somewhat general, rules are as follows:

1. It is proper and beneficial for the private organization to retain its identity, as lawyers, doctors, farmers, businessmen, bankers, manufacturers, or whatever. This is entirely consistent with speaking in the general, rather than the narrow, interest. Businessmen, as the Committee for Economic Development has demonstrated over the years, can keep their identity, make their advice all the more respected because it proceeds from a base of practical information, while expressing their policy views in the national, not only business, terms.
2. Private influence on public policy making should be brought to bear where all can see it, with no reward sought or expected other than better public policy. For what is good for the nation will also be good for business, banking, labor, agriculture or other parts of the nation.

3. **Sufficient resources should be available and used by the private organization in formulating testimony given to the Congress, or in participating in the hearings on policy matters held by regulatory and administrative agencies, or in otherwise tendering private advice to government, so as to insure that the advice is as broadly based as the subject requires, that it is up to date, that it correctly portrays the proposed policy or regulatory stance, that -- to state it in general terms -- the advice is careful, responsible and timely.**

These are margins within which private enterprise or other private bodies can -- and should -- usefully carry on a continuing dialogue with government. Of course, such a dialogue cannot be useful if it takes the form of harassment, unfocused and highly particularized complaint, ill-prepared or untimely assertions, or if it represents narrow professional, occupational or business interests at the expense of the paramount public interest.

**ABA'S DIALOGUE WITH
THE FEDERAL RESERVE**

Against this background, and in the setting of this conference on national governmental affairs, what can and should be said about the dialogue that some of the nation's bankers maintain with the central bank, through the medium of the ABA ?

Put differently, the question is: How can the ABA help the Federal Reserve in carrying out its public responsibilities ?

Let me distinguish three areas of concern, because I think the kind and scope of ABA involvement differs among them. They are:

1. The Federal Reserve's technical responsibility for providing the nation with a well functioning and economical payments mechanism.
2. The regulatory and supervisory responsibilities of the Federal Reserve.
3. The Federal Reserve's responsibilities for monetary policy and the domestic and international implications of that policy generally for the economy of the United States.

Relative to the first point, the ABA has shown leadership, has expended very considerable resources, and has exhibited a clear sense of responsibility in helping us to discharge our technical responsibilities. Three decades ago, the ABA helped the Federal Reserve develop the modern system of routing symbols that began modernization of the check payment system. Through special arrangements, ABA has made itself a convenient repository and source for up to date information about the Federal Reserve routing symbols.

Later, ABA took the lead in securing universal bank usage of magnetic ink -- MICR -- encoding of checks, to permit machine sorting of checks. Without this advance, and without the considerable resources ABA poured into making its use general, the check payments system would before now have foundered

in a sea of paper that would overwhelm any imaginable amount of manual handling. ABA cannot be too roundly complimented for its crucial assistance in the development and promotion of MICR check encoding.

During the last several years, the ABA has continued to make a responsible record in this area. The studies done by, or financed by, ABA through its Monetary and Payments System Planning Committee put in place a statistical basis on check usage, and developed projections of future usage, that have become benchmarks from which more comprehensive work by the Federal Reserve has proceeded. I should add parenthetically that some confusion has arisen from the handling of the report's conclusion that the present check system would be viable throughout the 1970's because it was not made sufficiently clear by ABA that this was so only if increasing costs were ignored. In some cases, this has needlessly complicated Federal Reserve efforts to move in a timely fashion toward, first, a modernized system of check handling, and, subsequently, substitution for most checks of an electronic transfer of funds.

At the same time, ABA has participated actively in preparing the way for eventual large scale electronic handling of funds transfer through Special Committees on Paperless Entry -- SCOPE projects -- with a newsletter on

developments in this fast moving area, establishment of an information center to help groups trying to get SCOPE projects going, and organization of symposia on paperless entry.

The Federal Reserve has long looked to ABA, and still does, for valuable assistance in setting and coordinating standards in the banking industry, such as, for example, the standards developed by ABA and widely used, for credit cards, and the formation this year of a Bank Data Communications Standards Coordinating Committee.

More recently, ABA has taken a constructive interest in, and has shown leadership in gaining bank acceptance for, the Federal Reserve's plans to speed check clearing through Regional Check Processing Centers, and through revision of Regulation J to place all banks on an immediate payments basis. ABA supported the Regulation J revision, although it would not be to the immediate financial advantage of every bank, and ABA made constructive suggestions for easing the transition to the new check collection procedures. Although ABA's suggestions did not comprise the transition plan finally adopted by the Board, those suggestions were valuable as indications of how this important reform could be carried out with the least impact on bank loans and investment, but without sacrifice of the public's interest in being served by a more efficient and economical check payments system.

I think it can be fairly said that ABA has, on the whole, been a positive force for beneficial change in the technical area. It is to be congratulated for leadership and for its characteristic attitude that the banking industry should improve its productivity even though this has required almost continuous and costly re-equipment of banks, and the acceptance of regulatory and operational changes in the public interest that have not always been painless. This provides a sharp and favorable contrast to the breakdowns that have occurred elsewhere, where such leadership was lacking. So without going into other valuable ABA efforts of a technical nature, I will turn to the ABA's role in helping the System discharge its heavy regulatory and supervisory responsibilities.

It would seem to be the nature of a bankers' association to deal warily with the bank supervision and regulatory agencies. It is probably sufficient, so far as day-to-day work is concerned, that the association be an honest broker between the Federal Reserve and the banks affected by Federal Reserve regulation or supervision. It is of value to provide an informational tool, such as ABA's newsletter, CAPITAL, which informs banks quickly and accurately of developments in bank supervision and regulation as these take place. At Federal Reserve hearings into bank holding company matters, ABA has responded predictably and narrowly according to the interests of its constituents. But it has responded expertly, as well, answering the questions

posed and providing, where it has suggested changes, draft texts for revised regulations that show precisely what is intended. During periods for comment on proposed regulatory changes, the ABA national office has handled many questions from its members in a positive spirit, easing the Federal Reserve's workload and providing education to banks that might otherwise not have been reached.

But, I think that there is a broader type of response that might have been expected from an organization such as ABA, representing a community so important as most of the nation's banks and bankers. It is a type of response that would indeed be of benefit to the Federal Reserve Board and System, as well as to the public at large. I have in mind, for instance, that we have heard nothing from the ABA, in terms of a broad gauged study, focused on the general, long term public interest, of the 1970 Amendments to the Bank Holding Company Act. These amendments raise a great many questions, reaching deep into such subjects -- to name a few -- as, how the public benefit may be served, or damaged, by bank holding companies or their acquisitions; what, in a broad sense, is a business so closely related to banking as to be a proper incident thereto; how future as well as current competitive or public benefit considerations can and should be weighed; and, perhaps most

important of all, what the bank holding company, as it may be envisaged under the 1970 amendments, is likely to mean to banking, and to the American economy in the future.

Let me now turn to the third field of our responsibilities -- monetary policy. I should say to you without disguise, and speaking quite personally, that I have been disappointed in ABA comments in this critical field. I find a disturbing lack of study and presentation anywhere near to being adequate to the subject. Let me take as an example written and published comments submitted by letter dated March 6, 1972 to the Joint Economic Committee of the Congress "on the economic issues which concern the nation and our organization."

This letter betrayed a sang froid which would be admirable, were it not damaging, by tackling so vast a subject in less than two single-spaced typed pages.

The ABA found that the Federal Reserve had moved to ease monetary conditions substantially, that interest rates had fallen dramatically and that an effort to make credit conditions much easier as the economy moved upwards has "certain disturbing implications." Farther on, this all too brief letter was critical of the Federal Reserve for "failure to achieve a steadier pattern in monetary policy."

This letter was a disappointment in many respects. It did not impart an awareness of the fact that there are definite lags in the effects of monetary policy, and that the Federal Open Market Committee must often be easing or tightening well ahead -- months ahead -- of the expected effect. It did not convey an understanding of the fact that there is a reciprocal effect upon interest rates if the monetary authority acts to raise or lower the money supply, and vice versa, and that it is not possible to have the one effect without the other. It did not impart an awareness of the fact that many studies have shown that variations in the rate of money supply, if temporary and reversible within six months or so, do not have significant effects upon the economy but that short run changes of this kind may be necessary to counteract other pressures making for unnecessary and counter-productive financial market developments. It did not take account of the fact that the period of rising money supply and falling interest rates balanced an earlier phase of rising interest rates and little money supply growth. Nor did it note that expansion in the money supply, although not a smooth curve over the past two and one-half years, has on the average been a relatively moderate 6.5 per cent a year. That is well below the average growth rate in the nominal gross national product.

My effort, and my message here, is not to hark back in any petty spirit of criticism to a particular instance. I would repeat that I find much to praise, as I have done here, in the history of ABA cooperation with the Federal Reserve in many aspects of our relationship. But I do find a void that I believe can and should be filled. This is a lack of in-depth study and research of a broad public-oriented character that should be typical of an organization of ABA's breadth and resources. It would be helpful -- and in the tradition of the great volunteer associations that have so long mediated in free enterprise capitalism between government and the private world -- if ABA were to take a long hard look at the question whether it is doing as much as it should, as well as it could, to fulfill its general as well as its industry responsibilities.

I do not have in mind here occasional pieces of research, magazine articles, or testimony on isolated subjects before Committees of the Congress or before hearings held by regulatory agencies, although expression of opinion in these forms is necessary, valuable and would be given additional depth and reliability by what I am suggesting.

I suggest that the ABA decide to contribute to knowledge in the field of finance and financial institutions, as they relate, among other things,

to the economy at large and to such particular subjects as the need of the public and of the business community for economical and reliable financial services.

In short, I am suggesting that ABA rise to the level of its resources, and provide the nation with a responsible research organization, mingling the practical expertise of the banker with the insight and theoretical wisdom of the scholar. A number of excellent models of this type of amalgam, which have contributed and continue to contribute genuinely to the well being of the nation, are at hand. And their processes can be adapted to the particularities of the research needs and potentials of the banking community as represented by ABA. Such an institution is particularly needed at this time of search for new international monetary mechanisms, at this time of transition from paper to paperless accounting and funds transactions, at this time of change for banking under the Bank Holding Company Act, at this time of re-emphasis of the American tradition of public involvement, of consumer orientation, and of increased need for relevance to our problems. ABA has the resources to provide it.

This would be disinterested assistance, over the long-term, of the type that would be particularly helpful to the Federal Reserve in the discharge of

its ever heavier responsibilities. A further highly beneficial result would be the interest in the public's well being that banking would show in this way. But, I suggest, the most enduring and perhaps the most useful result of all should be what banking would learn about itself: its role, its potential and its responsibilities to the American economy.

Certainly there would be forthcoming a self-disciplined answer to the question -- How can ABA help the central bank? -- an answer resting on a realization that for the Federal Reserve, the public interest is paramount. And it would rest as well on the view that the well being of private banking lies in recognizing that the public interest is paramount.

As a leader in the continuous dialogue between government and the people, and as a constituent part of the permanent American revolution that began in 1619, the ABA has a growing responsibility to serve the nation. I am confident that the ABA will respond to this challenge with the commitment of time, talent and funds that are necessary if it is to fulfill its potential.

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