

REMARKS OF
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FEDERAL RESERVE BANK OF CHICAGO
AT THE
RECRUIT GRADUATION REVIEW
NAVAL TRAINING CENTER
GREAT LAKES, ILLINOIS
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I AM HONORED TO BE ASKED TO PARTICIPATE IN THE RECRUIT GRADUATION REVIEW HERE AT THE GREAT LAKES NAVAL TRAINING CENTER. I HAVE THE GREATEST RESPECT FOR THE COMMITMENT WHICH YOU AND YOUR COLLEAGUES IN OUR ARMED FORCES HAVE MADE TO OUR SOCIETY. WITHOUT THE WILLINGNESS OF MEN AND WOMEN LIKE YOU TO MAKE THAT COMMITMENT, WE WOULD BE UNABLE TO MAINTAIN, OVER TIME, OUR FREE SOCIETY.

NO ONE CAN ARGUE THAT THERE HASN'T BEEN PUBLIC DISAGREEMENT ON THE IMPORTANCE OF THE ROLE THAT YOU PLAY. COMING FROM AN INSTITUTION WHICH HAS SIMILAR PROBLEMS, I CAN WELL UNDERSTAND THE FRUSTRATION THAT YOU MUST FEEL AT TIMES WITH PUBLIC MISCONCEPTIONS. BUT I KNOW THAT YOU, LIKE THE FEDERAL RESERVE SYSTEM, ACCEPT THE FACT THAT IN A FREE SOCIETY PUBLIC QUESTIONING AND PUBLIC DISAGREEMENT MUST NEVER BE ELIMINATED. WE ONLY WISH THAT OUR CRITICS WERE BETTER INFORMED.

I DON'T VIEW ANY OF YOU AS CRITICS OF THE FEDERAL RESERVE SYSTEM BUT I THOUGHT THAT YOU MIGHT STILL BE INTERESTED IN THE SYSTEM AND THOUGHT THAT I MIGHT TAKE A FEW MINUTES TO TALK ABOUT IT AND THE ROLE IT PLAYS.

LIKE THE MILITARY, THE FEDERAL RESERVE SYSTEM WAS ESTABLISHED BY CONGRESS AND HAS A PUBLIC RESPONSIBILITY. IT HAS A PUBLIC RESPONSIBILITY TO PROMOTE THE NATION'S FINANCIAL AND ECONOMIC GOALS. AS THE CENTRAL BANK FOR THE UNITED STATES, IT SEEKS, THROUGH ITS POWERS AND ACTIVITIES, TO INSURE A SMOOTH FLOW OF MONEY AND CREDIT-- A FLOW CONSISTENT WITH THE NEEDS OF A DYNAMIC ECONOMY AND FACILITATING ORDERLY ECONOMIC GROWTH, HIGH LEVELS OF EMPLOYMENT, AND A STABLE DOLLAR DOMESTICALLY AND INTERNATIONALLY.

THE FEDERAL RESERVE SYSTEM WAS ESTABLISHED BY CONGRESS IN 1913. THAT MAKES US A "CREATURE OF CONGRESS" WHICH CAN AND HAS BEEN MODIFIED AS CONGRESS SEES FIT. WHEN COMPARED WITH A GOVERNMENT AGENCY, HOWEVER, ITS ORGANIZATION AND OPERATION ARE PECULIAR. THE FOUNDING FATHERS, CONCERNED ABOUT THE CONCENTRATION OF FINANCIAL POWER AND DOMINATION BY SHORT-RUN POLITICAL INTERESTS, SET UP TWELVE REGIONAL RESERVE BANKS, EACH WITH ITS OWN BOARD OF DIRECTORS COMING FROM BANKING, BUSINESS, AND THE PUBLIC AND EACH WITH ITS OWN STOCKHOLDERS--COMMERCIAL BANKS THAT "ELECTED" TO BECOME MEMBERS OF THE SYSTEM. CONGRESS ALSO ESTABLISHED A BOARD OF GOVERNORS IN WASHINGTON, CONSISTING OF 7 MEMBERS APPOINTED BY THE PRESIDENT AND CONFIRMED BY THE U.S. SENATE. EACH BOARD MEMBER HAS A 14-YEAR TERM. THE BOARD HAS BROAD SUPERVISORY AND REGULATORY RESPONSIBILITIES OVER ACTIVITIES OF COMMERCIAL BANKS AND THE OPERATIONS OF THE REGIONAL RESERVE BANKS, AS WELL AS RESPONSIBILITIES FOR THE FORMULATION OF MONETARY POLICY-- THOSE ACTIONS TAKEN TO INFLUENCE THE LEVEL OF MONEY AND CREDIT IN THE ECONOMY.

THE FEDERAL RESERVE BANK OF CHICAGO, THEN, IS PART OF THIS COMPLEX ORGANIZATION. IT HAS A NUMBER OF RESPONSIBILITIES. THE ONE MOST PEOPLE KNOW ABOUT IS HANDLING CHECKS--PERHAPS YOU'VE NOTICED OUR FOOTPRINTS ON THE BACK OF YOUR CHECKS. WE ALSO LEND MONEY TO COMMERCIAL BANKS UNDER CERTAIN CIRCUMSTANCES; HANDLE U.S. TREASURY AFFAIRS--THEIR CHECKS AND BONDS, INCLUDING SAVINGS BONDS; EXAMINE AND SUPERVISE MEMBER COMMERCIAL BANKS; PARTICIPATE IN MONETARY POLICY DECISIONS; AND A NUMBER OF OTHER ACTIVITIES. IF YOU'RE INTERESTED, YOU MIGHT WANT TO PICK UP ONE OF THE BOOKLETS I BROUGHT ALONG TODAY. IT DESCRIBES IN MORE DETAIL WHAT WE DO AND WHY.

TODAY, I DON'T INTEND TO COVER ALL OF OUR ACTIVITIES AT CHICAGO BUT RATHER TO TALK BRIEFLY ABOUT TWO AREAS THAT ARE CLOSELY RELATED TO FEDERAL RESERVE SYSTEM ACTIVITIES AND ARE ALSO VERY IMPORTANT TO YOU. THE FIRST CONCERNS THE SAFETY AND SOUNDNESS OF BANKS AND THE SECOND THE ECONOMIC PROSPECTS FOR OUR NATION.

ALL OF YOU ARE AWARE, I AM SURE, OF RECENT CONCERNS EXPRESSED IN THE PRESS AND BY CONGRESS WITH SOME BANKS IN OUR COUNTRY. THE SAFETY AND SOUNDNESS OF FINANCIAL INSTITUTIONS IS EXCEEDINGLY IMPORTANT TO THE SMOOTH FUNCTIONING OF OUR ECONOMY. I DOUBT, HOWEVER, THAT THE PUBLIC INTEREST IS SERVED BY THE RELEASE OF THIS DATED INFORMATION ON INDIVIDUAL BANKS. THERE ARE SOME 14,000 COMMERCIAL BANKS. ALL OF THEM ARE BEING WATCHED BY AT LEAST ONE OF THREE AGENCIES, THE FED, THE COMPTROLLER OF THE CURRENCY, OR THE FEDERAL DEPOSIT INSURANCE CORPORATION. THAT EXAMINATION PROCESS IS DESIGNED AND HAS FUNCTIONED

EFFECTIVELY TO INSURE THAT DEPOSITORS AND THE PUBLIC LOSE NEITHER THEIR DEPOSITS NOR THEIR ACCESS TO BANKING ALTERNATIVES.

PUBLIC CRITICISM OF THE TYPE NOW TAKING PLACE IS COMPLETELY UNWARRANTED. CERTAINLY, BANKS MAY HAVE SOME LOANS THAT ARE IN A SENSE RISKY. BUT TWO THINGS MUST BE KEPT IN MIND. FIRST, BANKS ARE DESIGNED TO TAKE RISKS OF THIS TYPE. WITHOUT INDIVIDUALS OR INSTITUTIONS THAT ACCEPT SOMETHING OTHER THAN "SURE BETS", THE FINANCIAL SYSTEM AND THE ECONOMY COULD NOT FUNCTION. SECONDLY, IDENTIFICATION OF THOSE RISKS OR "PROBLEM LOANS" AS THE BANK EXAMINER WOULD DESCRIBE THEM DOES NOT MEAN THAT THE BANK WILL LOSE THE WHOLE AMOUNT--PROBABLY NOTHING, JUST AN EXTENSION OF TIME FOR REPAYMENT.--NOR DOES IT MEAN THAT THE BANK WILL BE IN TROUBLE.

THE LANGUAGE OF EXAMINERS HAS A DIFFERENT MEANING. PUBLIC MISINTERPRETATION CAN BE ALMOST CERTAINLY MORE DAMAGING TO THE SAFETY AND SOUNDNESS OF THE BANK THAN ANY OF THE BANK'S ACTIVITIES HIGHLIGHTED BY AN EXAMINER'S ADMONITION TO TAKE SPECIAL CARE ON CERTAIN TRANSACTIONS. THE TEST FOR INCREASED DISCLOSURE MUST BE THE PUBLIC BENEFIT. NO PUBLIC BENEFIT IS BEING SERVED AT THE PRESENT TIME.

THE OTHER AREA I WANT TO TALK ABOUT TODAY IS OUR ECONOMY AND ITS PROGRESS. WE HAVE RECENTLY PASSED THROUGH THE SHARPEST DECLINE IN REAL ECONOMIC ACTIVITY IN THE POST-WORLD WAR II PERIOD. NOW WE ARE IN THE RECOVERY STAGE BUT WE ARE COMING OUT WITH THE HIGHEST UNEMPLOYMENT, THE HIGHEST FEDERAL DEFICIT, AND THE HIGHEST RATE OF INFLATION IN THE POSTWAR PERIOD. NO WONDER THEN, SO MANY

ARE STILL UNEASY.

BUT THE RECENT EVIDENCE IS BEGINNING TO PUT A MUCH MORE FAVORABLE CAST ON THE FUTURE. EMPLOYMENT HAS INCREASED 1 1/2 MILLION SINCE THE LOW. INTEREST RATES HAVE FALLEN DRAMATICALLY. INDUSTRIAL PRODUCTION IS REGAINING LOST GROUND. RETAIL SALES HAVE SPURTED AHEAD AND SEEM TO BE SUSTAINING THEIR UPWARD PATH.

ALL-IN-ALL, THE RECOVERY IS CLEARLY NOT ONLY UNDERWAY BUT SOLID. I LOOK FOR THE UPTREND TO CONTINUE THROUGHOUT THE YEAR. PROGRESS WILL BE MADE IN GETTING THE UNEMPLOYMENT RATE DOWN AND THE RATE OF PRICE INCREASES SHOULD CONTINUE TO DECLINE.

ALL OF US WOULD PREFER A MORE RAPID RESUMPTION OF OUR ECONOMIC GROWTH. BUT MORE ACTIVE ECONOMIC POLICY ACTIONS DESIGNED TO MOVE THE ECONOMY AHEAD FASTER WILL HAVE SIGNIFICANT IMPACTS ON THE PROGRESS WE CAN MAKE ON INFLATION. AND AS EACH AND EVERYONE OF US KNOWS, INFLATION HAS HAD AND CAN HAVE SEVERE REPERCUSSIONS ON ALL OF US AND ON OUR ECONOMY.

THE OBJECTIVE, THEN, OF MONETARY POLICY IS TO PROMOTE AS MUCH ECONOMIC GROWTH AS IS POSSIBLE WITHOUT CAUSING AN OUTBREAK OF THE FIRES OF INFLATION. IF WE ARE NOT THROWN OFF COURSE BY EXCESSIVE DEMANDS FOR CURRENT EXPANSION, WE SHOULD BE ABLE TO BANK THOSE FIRES OF INFLATION AND CONTINUE TO EXPAND EMPLOYMENT AND OUTPUT OVER THE MONTHS AHEAD.