



PRESS RELEASE

FROM
**FEDERAL RESERVE
BANK OF CLEVELAND**

RELEASE: Friday, July 3, 1964, and after

Athens, Ohio -- A better understanding of our economic system is essential in a democratic society, President W. Braddock Hickman of the Federal Reserve Bank of Cleveland last night told public school teachers attending the 13th annual Ohio Workshop on Economic Education at Ohio University.

"That is why a program such as yours, which is designed to improve the economic understanding of a large segment of our society - our public school teachers and the boys and girls they teach - is so important", he declared.

President Hickman in his talk:

Emphasized the regional nature of the Federal Reserve System as reflected, for instance, in the policy deliberations of the Federal Open Market Committee;

Declared the independence of the Federal Reserve is essential to keeping policy making outside the political arena, and

Asserted the 50-year record of the Federal Reserve is a good one, and added that a sense of modesty and a spirit of self-criticism are crucial to the overall success of any organization.

(Complete text of President Hickman's talk attached)

Talk by W. Braddock Hickman
President, Federal Reserve Bank of Cleveland
13th Annual Ohio Workshop on Economic Education
Ohio University, Athens, Ohio
July 2, 1964

MONETARY POLICY--FACT AND FANCY

In a democratic society such as ours, it is essential that the people understand our economic system, how it works, and what it can and cannot do. That is why a program such as yours, which is designed to improve the economic understanding of a most important segment in our society--our public school teachers and the young boys and girls they teach--is so important.

I am honored, and pleased, to have the privilege of participating with you in this educational effort and to have the opportunity of discussing the Federal Reserve System and the formulation of monetary policy. I am particularly pleased to have the opportunity at this time, because this year marks the Fiftieth Anniversary of the Federal Reserve System. We have now enjoyed in this nation a half century of a unique kind of independent central bank--one that blends private and public elements, that perpetuates our nation's basic precepts of Federalism (that is, a regional structure under a national policy-making body), and that has safeguards to resist political intrusion.

The 50-year history of the Federal Reserve System is replete with instances of change--changes designed to help the Fed accommodate itself to the constantly shifting requirements and objectives of the economy. As our economy has changed, so have the policies and procedures of the

Federal Reserve System. Some of these changes were accomplished through legislation, for example, by amendments to the Federal Reserve Act.

Other changes were accomplished by adjusting our basic philosophy and by widening the scope and the objectives of our operations. An illustration of the latter would be the recent introduction of so-called "swap" operations designed to defend the U. S. dollar in international financial markets.

In my opinion--and I confess my bias--the 50-year record of the Federal Reserve is a good one. Admittedly, we have made mistakes but these were errors made by mortal men whose judgments are not infallible. I hope that the people in the Federal Reserve System will always retain a sense of modesty about their limitations and about the success of their efforts. A sense of modesty and a spirit of self-criticism are crucial to the overall success of any organization.

Structure and Goals of the Federal Reserve System

Now, with these generalities behind us, what specifically is the Federal Reserve System and what are its goals and functions as the central bank of the United States? Some of this has already been discussed with you by Miss Margret Beekel, who is one of the ablest and most knowledgeable of the young economists at our bank. I shall, therefore, touch on these matters only briefly, and only in relation to the main topic of my discussion, which deals with the formulation of monetary policy.

The basic task of the Federal Reserve System is to establish money and credit conditions that will help to achieve the broad economic goals of

our country. You have heard much about these goals during these past three weeks. As you know they are: A healthy expanding economy, stable prices, maximum employment, and a favorable balance of payments. Achieving these goals is clearly a very difficult task, and no one at the Federal Reserve thinks that we alone can accomplish very much in these areas, especially because we only influence the markets for money and credit. On the other hand, we try hard; and I think we have made some modest progress recently towards helping the economy achieve each of these goals.

Why is the Federal Reserve System charged with the responsibility for regulating the flow of money and credit? The reason is that our type of economy has become so complex and so sensitive that someone must regulate the financial mechanism. This is true not only in the United States but in all countries of the Free World. In each country a job such as this is done largely by a central bank, and in the United States the Federal Reserve System has been given this responsibility. In doing the job, the Federal Reserve works very closely with both the U. S. Treasury and the Administration in the formulation and the execution of appropriate national economic policy.

I would like now to give you some idea as to how we do the job-- how we formulate monetary policy to achieve national goals, and then how we implement it. I will touch upon the framework of policy making, how decisions are made, the flow of information that supports the policy-

making process, the role of decentralization or regionalism, and how I, as the president of the Cleveland bank, fit into the general picture. Although my role seems important to me, I am actually a small part of a large organization. What I am about to tell you can therefore best be interpreted as a worm's eye view of central banking.

Federal Open Market Committee

At the center of the policy-making process is the Federal Open Market Committee, which usually meets every three weeks in Washington. The Federal Open Market Committee consists of the seven members of the Board of Governors, the president of the Federal Reserve Bank of New York, and four of the presidents of the other Federal Reserve banks, serving in rotation. Currently, I am a voting member of this Committee, having as alternate the president of the Federal Reserve Bank of Chicago. Next year the Chicago president will be the member and I will be the alternate. (Presidents of banks other than New York, Chicago and Cleveland serve once in three years.) But even when not voting, all of the Federal Reserve bank presidents attend the FOMC meetings. The nonvoting presidents are invited, and are expected, to attend these meetings for two reasons:

1. To keep the Committee fully informed of what is going on in the various Districts, and
2. To assure that the Committee will have the most competent regional thinking on the formulation of monetary policy.

Each president comes to the meetings fully briefed by his research staff; each president has tapped the knowledge and judgment of members of his board of directors and of his branch boards of directors; each president, in addition, regularly talks to business and banking leaders in his area, who often contribute important insights into business and financial developments as they occur, and sometimes even before they occur--in either event, well before they are reported in the national statistics compiled in Washington.

The presidents thus bring a wide variety of background information to the Federal Open Market Committee meetings, where this material is fused with other more global, or aggregative data, to serve as a base for official policy. I might add that each president has his own point of view--whether it is in interpreting current developments or in judging what policy ought to be. When the Federal Open Market Committee finally reaches a consensus--after all the presidents, the governors, and the official staff have had their say--it is, in my opinion, a reasonable and balanced judgment, based on the very latest and most detailed information available throughout the nation. Also, in my opinion, the functioning of the Federal Open Market Committee is an outstanding example of how a decentralized and regional system can contribute to sound and balanced policy making for our vast and complex nation. The presidents are close to the grass roots and have a close feel of the local situation. The national board in Washington is near the processing centers for the preparation of broad aggregative data, and is adept in interpreting these measures. Thus,

policy is formulated on the basis of both local and national information, of both specific and general data. On the whole, this system has worked well and has contributed importantly to our country's growth and stability.

From my own personal standpoint, I feel strongly that I have a very serious responsibility as a member of the FOMC--as do the other presidents, and, of course, the members of the Board of Governors. I feel it is my duty to go to Washington as fully informed and as well prepared as possible, within my physical and mental limitations.

Preparing for the Federal Open Market Committee

The focus of all this might be clearer to you if I told you how we at the Cleveland bank prepare for a meeting of the Federal Open Market Committee. Our procedures at Cleveland are really quite simple to describe. Although we continuously study the course of economic events, about a week before each FOMC meeting we move into high gear. The research staff prepares a comprehensive, up-to-date background report on economic developments--locally, nationally, and internationally. The essence of all of this is simmered down and distilled into a fifteen-page summary, which my staff has dubbed the "tri-weekly" (to reflect the frequency with which they have to prepare it). Special memoranda are also prepared by individual staff members on topics that appear to be of overriding and timely significance, for example, on prices, quality of credit, and so forth. In addition, the staffs of the Board of Governors in

Washington and of the New York Reserve bank send us reports on significant economic developments at home and abroad. Thus we have a comprehensive evaluation of national and international developments, and a close reading of regional developments as well. Our research department makes a particularly detailed analysis of regional industries that are of major significance in interpreting national developments, for example, steel, autos, machine tools, and the like.

The staff is always trying to develop new techniques of analysis and special or new kinds of data to improve our evaluations--sometimes as a result of my "needling", but more often on their own. For example, they have developed, with the cooperation of major steel producers in our district, a special series on new orders for steel. This gives us advance information as to what steel production and shipments will be in the months to come; and you know how important the steel industry is in explaining cyclical swings in the economy, as well as for the health of our part of the country.

In addition to these intensive studies within our shop, members of our staff maintain close contacts and have many discussions with business and banking people outside of our organization, other economists, market research analysts, and the like. Our senior staff members, in particular, attend many meetings with their counterparts in other organizations. Once a week they lunch with 15 or 20 other Cleveland economists, to exchange views on current developments and trends; once a month the five or six commercial bank economists in Cleveland come to our bank to exchange

views on financial and banking developments; once every quarter Fourth District industrial economists spend a day at the bank reviewing in depth developments throughout the region and the nation. There are many other contacts too numerous to mention.

All of these bits and pieces flow together in a more or less steady stream to provide a deep reservoir of information that goes into the making of monetary policy. The various and sundry parts are put into a comprehensive whole, usually beginning on the Thursday prior to the Federal Open Market Committee meeting, when I sit down with the First Vice President and senior research officers to focus on the material that we have at hand. I have my own views, which I test on them. And, of course, I listen to others in the group. In effect, we hammer out (and I use the work "hammer" advisedly) a point of view--a consensus--of what we think the economy is doing and what we feel would be appropriate monetary policy. In the end, of course, I am the responsible party, but I don't reach my conclusions alone.

After the Thursday meeting, a draft of a position paper is prepared. We then reconvene on Friday and work on the draft, arriving at what we hope is a cogent, well-reasoned and analytically sound position paper to be used at the Federal Open Market Committee meeting on the following Tuesday. If new or different information becomes available before then, appropriate changes are, of course, made in the document, sometimes late into the evenings of the night preceding the meeting.

I have discussed our procedures in some detail because they convey, to me at least, the true strength of the Federal Reserve System--the fact that we are dealing with fact, not fancy or fiction. Our procedures allow us to check, to review, and to assess, not only what is happening in the economy, but as well, the impact of Federal Reserve policy on business, banks, and other financial institutions. The lateness of the publication dates of most national statistics is reason enough for us to operate as we do--we need to know about things promptly as they unfold--in fact, even before they unfold, if at all possible. Also, we need much more detail than is provided by the national statistics.

With similar procedures being followed at other Reserve banks and at the Board of Governors, it is not surprising that the deliberations of the Federal Open Market Committee are detailed and enlightening. In my own case, I feel strongly that I am contributing to these deliberations on policy making. If I didn't, I would not be at the Cleveland bank. It is the very nature of what I have described that convinces me of the strength of our regional decentralized system.

In a similar sense, the case is very strong for keeping the Federal Reserve independent. Independence of the Federal Reserve is essential to keeping policy making outside of the political arena. Moreover, the complexity of our economic affairs argues strongly for the type of objective process that we have.

The independence that we have is not absolute, it is only relative, but it is nevertheless essential to the making of sound policy. This view is shared in many high and authoritative places. For example, Secretary of the Treasury Dillon stated recently, and I quote:

"Experience . . . has taught the wisdom of shielding those who make decisions on monetary policy from day-to-day pressures . . . Almost all countries still find it useful to maintain independence for their central banks within the government . . . The necessity to test policy proposals against the views of an independent Federal Reserve is, I believe, the best insurance we can have that the claims of financial stability will never be neglected."

"Independence," of course, does not mean "aloofness." The Federal Reserve is not independent of the Federal Government--but is only independent within the Government. The Federal Reserve has been delegated the responsibility for carrying out monetary policy by the Congress; but that delegation does not cover all phases of governmental activity affecting the economic and financial climate. For example, the Treasury has vast powers in the international field and it is absolutely essential that the Federal Reserve and the Treasury work closely together on matters affecting international finance, the international balance of payments, and our gold position. Furthermore, it is essential that the Federal Reserve and the Treasury both conform to the requirements of the foreign policy of the United

States as established by the President of the United States and his Secretary of State. The Treasury is also the biggest borrower in our country, and in our operations in the money market we can no more ignore the needs of the Treasury than a private bank can ignore the needs of its important customers.

The independence that we have in the Federal Reserve System, our regional structure, and the heavy and sobering responsibilities which the System bears, account for a large part of the successful record of the past 50 years--and our healthy influence on the nation's economic life. It also helps to explain the fundamental strength and resilience of the Federal Reserve System as well as the high caliber of the people who serve it.

Conclusions

I hope that you will attempt to understand more about this complex area of monetary management, and will impart your knowledge to your students. You teachers should assist your students to achieve greater insights into our economy, and should help to inform the public about our major economic institutions. We at the Federal Reserve Bank of Cleveland will continue to try to do whatever we can to help you develop a better grasp of our banking and monetary system and of our economic system as a whole.

The genuine interest of the Cleveland bank in economic education is revealed by the fact that our research staff is always available to talk to groups such as yours--as Miss Margret Beekel has done in this program.

Each summer since I have been at the Cleveland bank, a member of our staff has addressed the Workshop at Ohio University. In addition, a vice president of our bank is currently serving on the Board of Directors of the Ohio Council on Economic Education. From what he says, he is doing an excellent job--or at least that's what he tells me.

Our young people must be taught how and where to locate accurate economic information; taught how to interpret and present facts objectively; and taught how to detect when others either distort facts or misrepresent them to support pet theories. We need to improve the student's ability to distinguish between economic fact and fancy. Economic interpretations and economic policy must be honest and objective.

For all of these reasons, I am particularly pleased to see you take time out of your busy schedules to improve your knowledge and understanding of economic affairs. It is you on whom the real burden of education lies. I am confident you will train our young people well--train them to be accurate and responsible in their economic appraisals.

#