

5/7/74

It is a real pleasure for me to join you here in Wichita for the annual convention of the Kansas Bankers Association. I am especially delighted because this is my first state association convention since becoming president of the Federal Reserve Bank of Kansas City just two months ago. This meeting is just the first of many ^{that} I plan to attend here in Kansas and throughout the Tenth Federal Reserve District in coming years. I'll be meeting this way with bankers as often as possible because I firmly believe that we at the Federal Reserve should strive to improve our communication with all segments of the banking and business community—not only to convey our ideas on various policy ^{matter} issues, but ^{also} to seek your opinions and advice on matters we may be considering at the moment.

Dick Agnew - President KBA

W Liddon McPeters - Restructuring Financial Institutions.
 (ABA President-Elect)

Your convention theme—"Caucus '76"—seems particularly appropriate this year.

Getting together to discuss and clarify the critical issues affecting banking is an important tradition for Kansas bankers. And this year, your concerns appear to be even more significant. On the one hand you are facing rapid development of electronic payments technology, with the associated impacts in your markets and operations. On the other hand, the industry is under attack through so-called "reform legislation" in Congress. I know that many of you *are aware* ~~believe~~ that the Financial Reform Act now under consideration proposes to alter many of the fundamental economic and financial relationships in our nation which have developed over a long span of years. While many of you would support the concept of comprehensive financial restructuring, *most* ~~many~~ would also agree that the Financial Reform Act, in its current *form* ~~expression~~, is an erratic package which would be detrimental to the public interest.

Commercial banking and

the most

Recent developments appear to confirm that you have communicated well your concern about this financial legislation. Among the industry's ablest spokesmen this year has been your fellow Kansan and ABA president, Rex Duwe. It is in the best tradition of our representative political processes that many of you have spoken up about your beliefs that the financial reform legislation, if passed, would have an adverse impact upon the whole economy, with particular effects on housing and ^{*Additional Costs*} ~~charges~~ to consumers for ^{*traditional*} bank services. Many of you are concerned that the so-called "reform" legislation could lead to political allocation of credit, and you have ^{*forcefully communicated to*} ~~told~~ your representatives in Washington ~~of~~ your concern.

As you all know, the Federal Reserve also has been under attack this year. These attacks have been incorporated recently into the proposed legislation known as the "Federal Reserve Reform Act," a measure which I believe strikes at the very heart of the traditionally independent Federal Reserve System. Supporters of this legislation claim that it would "democratize" the System. On the contrary, I believe that the legislation would "politicize" the System and ^{ruined} ~~perhaps~~ ^{perennial stimulus} create a dangerous situation for our ^{nations} economy. As one example, this legislation would provide for the appointment of Reserve Bank presidents by the President of the United States, subject to Senate confirmation. The proposal also would remove the current Reserve Bank presidents as voting members of the Open Market Committee until Presidential reappointment, which would not occur until 1981. Such action would seriously undermine the representative and independent nature of the monetary policy process. If this legislation becomes reality, and Reserve Bank presidents become directly responsible to ^{the Administration and} members of Congress, the exclusive franchise to create money ^{currently} vested in the independent Federal Reserve System would be effectively passed into the hands of those who also have the authority to spend money, ^{namely the congress}.

I am sure many of you know -
As ~~you are aware~~, economic history contains many clear lessons of what happens when the money creating process in a nation is taken over by political forces. The creation of money to finance politically desirable projects leads to inflation, the printing of more money, and then rampant inflation. Inevitably the financial structure ^{of the nation} becomes so weak that the economy collapses, and often the political structure as well. *Note: below*

For this reason, I am not in favor of the current legislative proposals as they now stand. This is not to say, however, that changes in the System should not be explored and adopted. The Federal Reserve ^{and the system} must always be receptive to changes that would improve its organizational structure, widen its perspective, and allow it to continue to be responsive to the broad wishes of the American people. However, I believe that any changes that would jeopardize the independence of the System in its conduct of monetary policy, or would weaken the regional and decentralized nature of the System, would be economically unsound and accordingly not in the best interests of the American people.

Fortunately, the provisions with respect to President nomination and senate confirmation of Reserve Bank Presidents - the requirement that the Federal Reserve forecast interest rates were amended out of the House bill by the House banking committee - which is good news - the bad news is that Congressional Reserve is

In closing, I want to say that as inevitable change occurs in banking—whether spurred by technology, ^{new competitive forces} market developments, or legislation—we at the Federal Reserve Bank of Kansas City intend to work with you to accommodate this change, to manage it for the preservation of the finest financial system in the world. As we consider these matters, and as we deliberate about monetary policy and other policies affecting banking, business, and the public, I hope that I—like my predecessor George Clay—will be able to call upon ^{and} ~~my~~ friends in Kansas for advice, assistance, and support.

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Thank you