Draft: Guffey Remarks - Kiwanis Club 8/26 and 8/31/76

Thank you very much for your invitation to speak to the Kiwanis Club today. I appreciate this opportunity to visit with you about the Federal Reserve Bank of Kansas City and the Federal Reserve System because I believe it is important that we in the Federal Reserve communicate about our objectives and how they are being accomplished. And here, before our home town audience, we are particularly interested in enhancing your understanding of what we do behind those stately columns at Tenth and Grand.

After six months as president of the Federal Reserve Bank of Kansas City, my observations from that special perspective have more than ever convinced me that what we do there at Tenth and Grand contributes significantly to the well-being of our community, our area, and through the Federal Reserve System, to the nation as a whole. Now, without going into great detail about the organization of the Federal Reserve System, I think it may be convenient for you to think of the Federal Reserve System as a pyramid, with the Board of Governors and its chairman Arthur Burns at the top, the 12 Federal Reserve Banks in the middle, and the 5,800 member banks across the nation forming the base. Today, I'd like to focus my remarks on the Federal Reserve Bank and mention some ways in which our staff is at work here in Kansas City in a rather special form of public service.

As individuals involved in business and professional pursuits, many of you know that Federal Reserve operations are linked to the flow of money and credit in the nation's economy, and many of you may be familiar with some of the functions and services of your Federal Reserve Bank, particularly those involving coins, currency, checks, and U. S. Government securities. Some of you also may be familiar with the Bank's far-reaching regulatory and monetary policy functions. In short, your Federal Reserve Bank is deeply involved in the flow of money and financial instruments which help turn the wheels of our economy. In a sense, we are the regional wholesaler and clearing house for the lifeblood of our economy.

Traditionally, the Federal Reserve Bank's role in regional and national financial flows, and the linkages the Bank maintains with the Government and among financial institutions in a vast area of mid-America and the Rocky Mountain region, have helped emphasize Kansas City's position as a major financial and commercial center. The Tenth Federal Reserve District we serve includes Colorado, Kansas, Nebraska, Wyoming, most of Oklahoma and New Mexico, and 43 counties in western Missouri. Our branches in Denver, Oklahoma City, and Omaha help us provide timely service to financial institutions and the public in the far corners of the District.

Our operations in money, checks, and securities are the most familiar Federal Reserve activities, and the sheer volume and rapid growth of these operations have required us to apply the most modern automated equipment and techniques that we can obtain. I think you'll be interested in a few figures indicating the scope of our activities in these volume businesses of ours.

For example, during 1975, our check collection department in Kansas City processed more than 360 million checks, valued at more than 100 billion dollars. Every working day last year, more than 1.4 million checks passed through our Bank. Our staff works around the clock to move this massive amount of checkbook money to its ultimate destination. In another of our money moving operations, our Bank processed 1 million electronic transfers of funds among Federal Reserve member banks in 1975; those transfers accounted for more than 1 trillion dollars.

As the storehouse and wholesaler of coins and currency for this area, the Federal Reserve Bank paid out 85 million pieces of currency valued at almost 700 million dollars. During the year, we even burned up 100 million dollars worth of worn out currency, as you will see in an upcoming Kansas City Star Magazine article. Coins also are big business for our money department, as almost 400 million coins valued at 40 million dollars were paid out last year.

Another function of your Federal Reserve Bank involves public debt operations in United States securities handled for the Federal Government. Last year, our Bank issued, redeemed, or exchanged 51 billion dollars worth of Government securities. Included were about 10 million U. S. savings bonds valued at 600 million dollars. In all of these operations I've mentioned, similar large volumes were handled by our branch offices.

I've noted these figures briefly so that you can readily understand that the Federal Reserve Bank supports many of the transactions--large and small--which oil the wheels of our national economy. These high volume tasks involve a substantial proportion of the 850 or so staff members of the Bank and a large part of our building. We're proud of the way we have been able to manage the skyrocketing growth in these operations through intelligent application of people and machinery in the public interest.

Partly as a result of Federal Reserve efforts in Kansas City and elsewhere, most of us now take for granted that banks and businesses have on hand the currency and coins for our daily needs, that personal and business checks will move efficiently through the banking system, and even that your savings bonds will be issued on schedule. These routine tasks we do are undeniably important to the continuing smooth efficiency of the nation's financial flows and transactions, but there are other functions of the Federal Reserve System and the Federal Reserve Banks which have a more pervasive impact on the long-run economic and financial health of the nation's economy and on the financial institutions so important to its continued vitality.

It is these other, less visible, responsibilities of the Federal Reserve Bank which are, in reality, at the heart of the Federal Reserve's critical importance to the nation. The non-routine, judgmental part of the Federal Reserve's actions strongly influence developments in banking and the economy, and thus ultimately touch every one of us directly.

One such activity is regulation and supervision of banks and bank holding companies. Because banks play such a key intermediary role in our market economy--by taking the savings and other deposits of individuals and businesses and lending or investing these funds toward productive ends as determined by market forces--public confidence in a sound banking system is essential.

At our Bank, we insure that the regulations issued in the public interest by the Federal Reserve Board are being adhered to by banks in our District. We collect data, we monitor banking developments and trends, and we perform on-site examinations to insure that banks are being managed safely and responsibly in accordance with law and regulation. Our skilled examiners regularly visit state-chartered banks which are members of the Federal Reserve System, while other regulatory agencies examine national banks and nonmember state banks.

As many of you know, banking structure has changed quite a bit in recent years. Multibank holding companies have proliferated in Missouri, for example, and the one-bank holding company form of organization has gained wide acceptance among many bankers. The holding company acquisitions, structure changes, and continuing bank merger activities have required us to develop careful analyses of each application in terms of the convenience and needs of the communities involved, with competitive factors receiving considerable attention. In the period since Congress amended the bank holding company legislation in 1970 and spurred holding company activity, our bank supervision and structure division has grown rapidly to accommodate the need for banking studies and to support the analytical requirements of tracking and making reasoned judgments about an evolving financial structure.

Another element of our work which touches everyone centers on our responsibilities in the area of consumer credit protection. The Truth in Lending Act of 1968 was the first of many laws enacted by Congress to protect the consumer in credit transactions. Other legislation--for example, last year's Fair Credit Billing Act and Equal Credit Opportunity Act--has cascaded from Congress in recent years, impacting borrower and lender alike. After each piece of consumer credit legislation was passed, Congress delegated to the Federal Reserve Board the task of writing and implementing the necessary regulations. Ultimately, this process involves us at the Federal Reserve Bank as the agent for disseminating, explaining, and watchdogging the regulations. Again, our bank supervision and structure division has been forced to gear up for new assignments outside the traditional bank examiner's role.

Without question, these supervisory and regulatory responsibilities are very important parts of the Federal Reserve's work, just as are the routine service activities I noted earlier. However, and also without question, the Federal Reserve's most significant and fundamental role is managing the nation's supply of money and credit--and your local Federal Reserve Bank plays an important part in developing monetary policy recommendations, which lead to System decisions which, in turn, influence money and credit conditions and, ultimately, overall economic activity.

Before describing our involvement in the policy process, I want to make very clear the fact that in implementing Federal Reserve actions, major consideration is given to total economic activity. We are not primarily concerned with who receives money or even how money is spent, but we do try to make sure that the total amount of money in circulation is about right. For example, when the economy appears to need a boost--as during a recession--more bank reserves are provided to support expansion in spending. A contrasting example might be when the economy is overheated, expanding too rapidly and bringing on inflation; in this case, bank reserve growth is restrained, discouraging lending and spending.

There are a number of tools available to the Federal Reserve for implementing policy, such as changes in our Bank's discount rate or changes in the proportion of deposits that member banks must keep on reserve at their regional Reserve Bank. But the most powerful and direct tool available to the Fed is the central bank's operations in the open market for U.S. Government securities. These operations are directed by the Federal Open Market Committee, or FOMC.

Let's examine, for a moment, what takes place every month leading up to the meeting of the FOMC in Washington, D. C., and how our Bank is involved. The 12-member FOMC is composed of the seven members of the Board of Governors and five of the twelve Reserve Bank presidents on a rotating basis, with the other seven presidents as participating but nonvoting members. By instructions to the Federal Reserve's open market desk which manages the Fed's position in the market for U. S. Government securities, the Committee defines the thrust of national monetary policy for the coming period--whether an effort will be made to stimulate more rapid growth or slower growth in bank reserves, for example, which will influence total economic activity in the nation.

So, every month, each member of the Board of Governors and each Reserve Bank president, looking ahead to the Committee meeting, pulls together data and analyses on economic and financial developments, seeking to make the most informed, objective, and independent recommendation possible on upcoming Federal Reserve policy. In our case, here in Kansas City, we gather economic intelligence from throughout the District through a variety of means--banking and economic statistics and contacts with businessmen, bankers, and others with their fingers on the region's pulse.

An important source of information is our board of directors. Two of the nine members of the board are Kansas Citians: Don Hall of Hallmark Cards and Jim Kemper of Commerce Bancshares give generously of their time and experience to aid us in understanding current business and banking conditions. Both men, incidentally, were elected to the board by Tenth District member banks. All of our directors provide for us a direct link into the day-to-day happenings in the local and regional economy.

At the hub of these policy-oriented activities is the Federal Reserve Bank's economic research staff--a competent group of economists and supporting staff. This group constantly analyzes regional, national, and international economic and financial developments, spotting trends or identifying aberrations which may possibly affect or be affected by Federal Reserve policy actions. At the same time, these professionals are probing practical or theoretical economic and financial questions, offering alternate views of policy impacts; for example, or challenging conventional economic interpretations. (Undoubtedly many of you have heard our economists speak in the community or have read their analyses in our Monthly Review and in the press.)

All of these facts, analyses, and impressions come together to create an independent perception of the economic and financial environment and, as a next step, a carefully weighed prescription for future policy actions. When I climb on that plane to go to Washington every month, I'm prepared to deliver our Bank's most refined judgment on policy. The opinion we take to the FOMC--and opinions offered by other Reserve Bank presidents from across the nation--have several elements which are important to you as individuals: Our policy inputs start at the grass roots. They are backed by facts and analyzed and refined by objective professionals. These inputs are not colored by short-run political considerations, nor are they subject to the manipulation by special interests.

It is this independence rooted in the decentralized nature of the Federal Reserve System which bolsters its strength and protects your interests. This independence has enabled the System to be responsive--in the most direct and broadest sense--to the wishes of the American people of this region and every region. At the same time, this independence has prevented the monetary policy process from being controlled by a narrowly based group of individuals, whether in Washington or elsewhere. At its heart, the decentralized nature of the System embodies the traditional unwillingness of the American people to tolerate any undue concentration of economic and financial power.

Recent legislative proposals, wisely defeated in Congress, would have undermined the System by making it responsive to partisan political pressures. Had that legislation passed, and politics and monetary policy become linked, I believe the consequences would have been very serious for our economy. As you know, history is replete with clear lessons of what happens when political forces usurp the money creating process in a nation: excess money is created to finance politically desirable projects, ultimately leading to rampant inflation, a weakened financial structure, and often collapse. Arthur Burns noted recently that the two industrial nations with strong and independent central banks--the United States and West Germany--also have the best records of curbing inflation. Countries with weak, politically dominated central banks have very poor records at controlling inflation.

We all know the perils of persistent inflation and the penalties it imposes on our society. Thus, we in the Federal Reserve have derived particular satisfaction from moderation in the inflation rate during the past two years. That satisfaction stems at least partly from the apparent correctness of our monetary policy judgments during this period. You may recall that some in Congress and others were publicly concerned that Federal Reserve policy would choke off the recovery; the urged rapid rates of expansion in the money supply. But the moderate expansion in money was quite sufficient to support the economic recovery while forestalling credit shortages or interest rate increases.

POSSIBLE SECTION ON ECONOMIC OUTLOOK OR POLICY PRESCRIPTION

In closing, I want to say that I'm proud of the job we're doing and the judgments we're making there at Tenth and Grand. Of course, we can do better and we'll always strive to improve our performance. As we seek ways to serve the public, financial institutions, and our Government more efficiently, I hope you will always feel free to give me--as you did my predecessor George Clay--your candid comments on our operations and policies. We earnestly solicit your concern and support.