

Roger Guffey Speech
Board of Directors Luncheon Meeting
Downtown, Inc.
December 7, 1976

It is a pleasure to be with you today for this opportunity to make some brief comments on matters of mutual interest. I am particularly pleased to be a member of this group because of our shared concern for the economic vitality of our city and our common downtown neighborhood.

As many of you may know, the Federal Reserve Bank has been a part of downtown Kansas City since the fall of 1914, when our Bank opened for business in rented quarters in the R. A. Long Building (United Missouri Bank), on the northwest corner of Tenth and Grand, across the street from our present home. A few years later, when it was more certain that the Bank would survive, the directors and officers set about the task of choosing a permanent home. The choice was merely one of address, not neighborhood. It was clear where this important institution belonged. It belonged downtown, in the financial and business heart of the city. We feel the same way today.

The Federal Reserve Bank of Kansas City serves an area consisting of all or parts of seven states--Colorado, Kansas, Nebraska, Wyoming, most of Oklahoma and New Mexico, and 43 counties in Western Missouri--and there are Branches at Denver, Oklahoma City, and Omaha. We employ approximately 1,750 people, with 850 of those employees located in Kansas City.

The present Bank building--a 21-story structure at 10th and Grand--was dedicated in November 1920. The building was constructed in just 10 months--from groundbreaking to dedication--at a cost of 4 million dollars, and was designed to house the operations and the then 600 employees, as well as to provide for future expansion. In 1967, a 9-story, 5 million dollar addition, facing McGee Street, was completed and dedicated.

As of January 1, 1977--for the first time since the completion of the original building-- will the Federal Reserve be the sole tenant.

We are firmly committed to the downtown area. Just last month we acquired the Benton Building, located on Grand just to the north of our present property. While we have no immediate plans to use the Benton Building, we believe that this property will provide us with the space to accommodate our anticipated needs well into the future.

The Federal Reserve Bank's original arrival on the local scene resulted from passage of the Federal Reserve Act late in 1913--an event Woodrow Wilson called "a Christmas present for the American people." Wilson was pleased with the new Federal Reserve legislation because he believed that the addition of the System--as the central bank of the United States--to the nation's financial structure would hopefully provide order and stability to the frequently chaotic and inflexible conditions that had prevailed in the nation's money and capital markets. The principal purposes of the new System--as set forth in the Act--were to provide for an "elastic currency"--facilities for discounting commercial paper--and improved supervision of banking. Over the years, the role of the Federal Reserve has been expanded and our responsibility now is to formulate and implement monetary policy in such a way as to promote economic stability and growth, a stable dollar, and reasonable balance in international payments.

A unique and interesting feature of the new Federal Reserve System in 1914--and this is where Kansas City comes in--was its decentralized nature. That is, most central banks of the world were established in such a way as to concentrate their policy-making and operations in the national capital as a governmental function. The Federal Reserve System was designed to mix the public and private interests into an independent,

decentralized central bank and to disperse operations and policy determination among 12 regional Federal Reserve Banks. The choice of such a structure was rooted in the traditional distrust by the American public of any undue concentration of economic and financial power. In my judgment, this structure has allowed for independent regional views to be brought forward into national policy forums.

Just as the decision to decentralize the central bank was farsighted in 1914, so was the decision to place one of the 12 new Reserve Banks in Kansas City. While the selection of Kansas City was due in no small part to the efforts of local business and political leaders, the fundamentals supporting such a decision are as good today as they were then.

Even 63 years ago, it was obvious that Kansas City was, and would remain, the pre-eminent commercial and financial center of a major portion of the heartland of our nation. Today, Kansas City remains the hub of a vast geographical region. Within several hundred miles of our city is an immensely productive agricultural and agribusiness system, blessed with a solidly diverse economic base of manufacturing, trade, and services. It is this area, from here to the Rockies, and from the northern plains to the great Southwest--the Tenth Federal Reserve District--which we at the Federal Reserve Bank observe carefully.

Although the Federal Reserve Bank performs many familiar operations in money, checks, and Government securities, our most important responsibility is to participate in determining the future course of the nation's monetary policy. We take part in formulating policies and determining actions designed to achieve a level of money and bank credit in the nation as a whole which we believe most appropriate for the economic and financial environment we see. In light of this responsibility, I think it might be useful

if I took a few minutes to share with my views on the current economic situation.

As you are aware, there is much concern and discussion today about the state of the national economy. The reason for this concern is that ever since the spring of this year the economy has not performed up to its full potential. Indeed, for the past two quarters or so, the economy has been sputtering along at just about half speed. Reflecting this so-called pause in business activity, the national unemployment rate has risen to 8.1 per cent, businessmen have turned cautious in terms of their spending behavior for new plant and equipment, and there is even some talk at the present time that the economy might possibly slip back into another recession.

In looking over the past two quarters, the evidence is now quite clear that the major factor underlying the pause in business activity has been the slowdown in spending by consumers at the retail level. Data show that retail sales nationwide have continued to expand--albeit at a slower pace--since April. This is in marked contrast to the pace in 1975 and the first quarter of 1976 when strong consumer spending at the retail level was the spark that led the economy out of the 1974-75 recession.

With retail sales being weak in recent months, business inventories at the retail and wholesale level have started to pile up. And, as inventories have risen relative to sales, businessmen have tended to cut back on their orders for new goods. This action on the part of retailers in turn has triggered a series of reactions by suppliers and other industries. In brief, the slowdown in retail sales has led suppliers to cut back their production schedules, to lay off excess workers, and to scale down their spending plans for new plant and equipment.

Earlier this year, many people thought that a pickup in business capital spending would now be coming on stream to provide strength to the economy. After seeing what

has happened to retail sales, though, it is not surprising that businessmen have become cautious regarding their spending plans. It is helpful to remember that these decisions are being made by the same businessmen and retailers who were very hard hit by the loss of sales during the recession in 1974 and early 1975. As a result of that experience, it is also not surprising that businessmen are tending to be very cautious about making major long-term investment commitments.

Needless to say, the recent slowdown in business activity has been a major concern to us at the Federal Reserve. We have, I believe, as the central bank and monetary authority, acted to supply an ample amount of money and credit to the financial and capital markets to sustain and encourage the economic recovery ever since it began in the spring of 1975. Evidence that there is plenty of liquidity within our financial system is readily available. Commercial banks, savings and loans, insurance companies, and businesses are in a much better liquidity position than before. Moreover, short-term market interest rates are now lower than at any time since 1972.

Despite the generally improved liquidity conditions, however, news of the performance of the economy over the past few months has not been overly encouraging. As a result, the Federal Reserve has taken certain policy actions during the past few weeks in part to signal our concern about the economy. For example, we reduced the discount rate--that is, the interest rate at which we lend money to member banks--from 5 1/2 to 5 1/4 per cent. This action led in turn to a slight but further easing in interest rates across the board in the money and capital markets.

I should mention here that prior to deciding on that policy action and as a part of a continuing program, we made extensive inquiries throughout the country about the state

of business activity. In our region--the Tenth Federal Reserve District--we contacted a number of large retailers in various cities, including Kansas City, regarding their retail sales and inventory positions. It is clear that--in contrast to the national scene--the information we received on the regional picture was generally very encouraging. Retailers reported that their sales were somewhat better than they had expected, and they believed their inventories were not excessive. Moreover, most of the retailers are generally optimistic about their sales outlook for the Christmas season.

At the present time, of course, we are now well into the Christmas selling season. From the standpoint of the economy, I believe it is especially important for Christmas sales at the retail level to be particularly good. If they are, it would certainly go a long way in helping to remove any inventory overhang that may have been acting as a drag on the national economy during recent months. If Christmas sales are not good, however, it is possible that there could be a strong negative feedback throughout the rest of the economy. Consequently, we intend to monitor very closely the retail sales picture as it unfolds over the next few weeks.

Personally, I am optimistic about the underlying strength of our economy and of the supportive role that improved consumer spending will play in the recovery. In part, of course, my views reflect the basic healthy state of business activity that we see within our own district and particularly here in Kansas City. On the national scene, the pause in the economic recovery presents policymakers--including the Federal Reserve--with a particularly difficult dilemma. That is, what policies are most appropriate to insure the continuation of the recovery at a faster pace in order to reduce the rate of unemployment without, at the same time, rekindling the fires of inflation.

I believe, that, as a nation, we have the experience, capacity, and courage to

find the solution to these problems and that we can look forward to an improved economy through 1977 and beyond. The Federal Reserve stands ready to perform its appropriate role to that end.