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BANKING INDEPENDENCE

Remarks of Wm. McC. Martin, Jr., Chairman,  
Board of Governors of the Federal Reserve System,  
before the 18th Annual Convention of the Independent Bankers Association,  
Minneapolis, Minnesota,  
Monday morning,  
May 19, 1952.

## BANKING INDEPENDENCE

It has often been said that when a man accepts an invitation of this kind, he should have both a purpose and a message; and on the basis of this dictum, I welcome this opportunity to participate in your 18th Annual Convention.

My purpose is to get acquainted with you and to have an opportunity to see you and give you a chance to see me. I have no declaration of policy nor grandiose words nor platitudes nor exhortations -- my only purpose, I state again, is to get acquainted. Your indefatigable Secretary Ben DuBois invited me to come here more than a year ago and in a most courteous but persistent manner has never let me forget it. I am very glad to be here. Furthermore, I have a message and my message is simple and direct. The Federal Reserve Board is interested in you and in your problems, and I want you to be interested in the work of the Federal Reserve System and in its purposes and functioning.

I believe in the independent unit bank, and feel that properly operated it offers more to its community than any other single enterprise and contributes more to what we call the American way of life. I am unalterably opposed to monopoly because its obvious purpose is to eliminate competition and then take advantage of the public. Competition is the life-blood of our trade and the major dynamic in making our business productive, fair, and beneficial to the people. But having made this declaration of faith, I want to take this opportunity to warn you that independence is something that must be merited and earned, not something which comes as a birthright or as a vague cloak for a type of

vested interest promoting the status quo. I like the seal on your program, "INDEPENDENT BANKING, COMMUNITY SERVICE." But the emphasis must be on the community service and the concept must be clear that more service will be rendered in the long run by independence rather than that independence apart from service is a goal in itself.

Many of the banks represented in this Convention are not members of the Federal Reserve System. This I regret, but I am not here to try to sell you on membership in the System. Unless you conceive it to be a real service to you and a badge of honor to be coveted, I want you to feel perfectly free to remain outside of the Federal Reserve. But, at the same time, I think all of you must realize that an independent Federal Reserve System is the primary bulwark of the free enterprise system and when it succumbs to the pressures of political expediency or the dictates of private interest the groundwork of sound money is undermined.

The regulation of the money supply is essential to the stability and progress of all modern countries. That is why a reserve bank is required. This bank may either be a single bank like the Bank of England or the Bank of France, with a number of branches, or it may be a regional system of banking as in the United States where coordinated action is provided by a national governing body in Washington. I am convinced that this regional system with its merging of public and private interest in a national and local organization is a real safeguard to our democratic way of life. But, regardless of how it is constituted, the purpose of all central banking or reserve banking is crystal clear. It is to see that the supply of money is neither too large nor too small

to make possible an improving standard of living for our people. It cannot in itself make possible the attainment of better living but it is an indispensable means by which this may be achieved.

Prior to the Federal Reserve Act there were two basic defects in the American banking community: One, our currency -- a tendency for this currency to disappear when it was most needed and be most abundant when it was least needed, and, two, scattered reserves, that is, an inability for banks to obtain reserves when they needed them most and a tendency to have too many reserves when they needed them least. Both of these situations have largely been corrected through the Federal Reserve System. Money now becomes available so easily when needed that few of us realize that there were times when currency was difficult to obtain. Of course, we may sometimes have shortages of nickels, dimes, quarters, pennies, and even dollar bills, but only for **limited** periods of time -- until we can get more coined or printed, or our distribution system can transfer them more rapidly. But correction of the problem of scattered reserves proves to be more than just mobilizing reserves in such a way that banks which have too many can transfer them to banks that have too few. It involves the power to create money and it is around this money power that your independence and ours revolves.

Our Federal debt is now large and growing. Therefore, it is a matter of great importance that we minimize its monetization. The Treasury and Federal Reserve must work hand in hand to see that we have an active and orderly Government securities market. The Federal Reserve must do everything in its power to see that the Treasury is successfully

financed but neither the Treasury nor the Federal Reserve should succumb to the temptation to ignore the judgments of the market through our price mechanism in arriving at financial decisions.

Inflation can be even more serious to the growth and development of our country than an enemy from without our borders. It penalizes the thrifty and industrious and produces disorders that result in controls and regimentation. It is possible that a group of supermen could make decisions in a sounder way than the market, but such supermen are not likely to be found. Accordingly, the greatest measure of freedom and initiative will be obtained by relying on the changes in price arrived at in an orderly market rather than in attempting to dictate terms. This is the heart of our problem, and it will require the vigilance of all of us to preserve our liberty.