

Address of Wm. McC. Martin, Jr.,
Chairman, Board of Governors of the Federal Reserve System,
on the Occasion of the Opening of the New Building
of the Federal Reserve Bank of Boston,
Boston, Massachusetts,
Eight p. m., May 6, 1953.

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It is most fortunate that the Secretary of the Treasury could be here on this occasion. The magnitude of the public debt and its importance in the economy today make more imperative than ever a close working relationship between the Treasury and the Federal Reserve System. We are allied in a common purpose to serve the public interest. I am sure you all know that in performing our respective tasks we work together as partners in a spirit of mutual understanding and respect.

All who heard or read Secretary Humphrey's address at the Associated Press meeting in New York will agree, however, that it would have been far better had your program tonight scheduled him for the address and me for the greetings.

I could perhaps have taken my cue from a late New Englander who carried into the White House those sturdy virtues, including frugality even in words, for which this part of the country deservedly is noted. I am reliably informed that a group of Amherst men, attending a conference in Geneva, decided one evening, in a spirit of fiesta, to form the Amherst Club of Geneva. It struck them as a good idea to send a cable to President Coolidge informing him of this notable

achievement and suggesting that he, as a loyal alumnus, might wish to send greetings. He did. They received in due course a one-word message in reply. It said, "Greetings".

The responsibility for the assignments on the program is yours. I shall not take advantage of it, however, to detain you with anything so formidable as the word "address" suggests. I do want to touch on a few matters of concern to the Federal Reserve System, particularly the role of the individual Federal Reserve Bank today. This new building which you have opened is a symbol, not simply of growth, but more especially of the function and responsibility of the Federal Reserve Banks in the nation and in the communities they serve directly.

Central banking--or, more accurately, reserve banking--in the United States has been adapted to the requirements of a free people with a minimum of Government interference. The genius of the framers of the Federal Reserve Act--as I have emphasized before--lies in the creation of regional banks, knit together by a national governing body in Washington rather than in the establishment of a central institution with authoritarian powers. Each Federal Reserve Bank and each branch office is a regional and local institution as well as part of a nation-wide system. Through their boards of directors, the banks are

in a position to represent the views and interests of the particular region to which they belong and, at the same time, they are the administrators of nation-wide banking and credit policies.

Instead of functioning from the center outward, we function through an interdependence of all our parts. The vitality of the Federal Reserve System is in its members. The health of each member affects the whole, and it is only through the work, and the conviction, and the determination of the members that the whole has life. Within the framework carefully outlined by law, the Federal Reserve Board is charged with the responsibility for formulating national credit policies and supervising their execution. The Federal Reserve System is not perfect, but it is unquestionably the main bulwark of our private banking system. Without a strong and independent reserve banking system, private banking must inevitably lose the initiative it now possesses.

It is well always to bear in mind that the Federal Reserve System is a service institution, and that the more than 250 directors of the 12 banks and 24 branches, the 20,000 officers and others who work in them, as well as the Board and staff in Washington, are all serving as trustees of the money of all of the people of this vast country, not any one group, or faction, or section.

Although the Federal Reserve Banks sometimes are referred to as bankers' banks, that describes only a part of their function. The various services which the Federal Reserve Banks perform for the banking community, such as supplying currency, transferring funds, and collecting checks, are an essential element in keeping the mechanics of modern commercial banking in step with the financial needs of a growing and changing private enterprise economy. But the overriding purpose of this Reserve System is to serve the interests of the general public in business, industry, labor, agriculture, and all walks of life.

This institution is the fountainhead of credit--of the great bulk of our money supply. It is the medium for distributing the pocket money in daily use, but that is of subordinate importance. The ebb and flow of pocket money is determined by day-to-day needs of the merchant, the shopper and all who use cash. Of far greater importance is the System's responsibility for creating or extinguishing credit. For credit--bank credit--is the life blood of our economy.

The trusteeship to which I refer is carried out in the exercise of the System's responsibility for influencing the volume, availability, and cost of credit. The purpose is to see that, so far as Federal Reserve policies are a controlling factor, the supply and flow of credit is neither so large as to induce destructive inflationary forces

nor so small as to stifle our great and growing economy. Now that is a very great responsibility. By its very nature it must be carried out in the interests of all of the people. And if it is not so executed then the country would demand and deserve a new and faithful trusteeship over the creation and flow of credit.

Some critics have charged the System with failing one of its fundamental purposes--protecting the value of the dollar--because, in the four decades since the System was founded, the value of the dollar has been cut more than in half. The truth of the matter is, of course, that in these years we have had two world wars. We are still in the cold war. The resultant economic upheavals could not have been prevented by monetary policy alone. And this is not to say that monetary policy has always been as timely or effective as it might have been. The fact remains that without an appropriate and effective monetary policy there is no adequate safeguard against the distortions and distress that can be brought about either by much too little or much too much money. The ideal would be enough to meet the growth needs of the economy, without either inflation or deflation.

For most of the postwar period, the aim of monetary policy and action has been to prevent inflation. The war ended with a money supply which was so excessive in relation to the available supplies of goods and services as to result in a strong upward pressure on prices,

and a rising cost of living. We had more than a taste of that when the harness of price, wage and other controls, which temporarily held back the war-created flood of money, was removed and the tide of unchecked funds inundated the market places. Following Korea, there was a sharp resurgence of these upward pressures. These quite recent experiences should have taught us, if the long history of monetary excesses in other parts of the world did not, that there are no sound substitutes for intelligent fiscal and monetary policies and measures. And it illustrates once more than when an economy is running at peak levels of production and employment, creating more money will not create more things to buy. It can only bid up the prices of available supplies.

Inflation is a sneak thief. It seems to be putting money into our pockets when in fact it is robbing the saver, the pensioner, the retired workman, the aged--those least able to defend themselves. And when deflation sets in, businessman, banker, worker, suffer alike, as most of us here know from the early thirties.

All of that is an old story, to most of us, yet there are voices being heard even today that seem to say that just a little more inflation won't do any harm--or that the price of even a few ounces of prevention is too high. What we are seeking to prevent in the end, of course, is deflation. In these past two years we have had the almost

ideal economic situation--we have had a remarkable degree of economic stability at record levels of employment and production. We have not had another round of inflation. We have not had anything resembling a deflation. This desirable state of affairs cannot be ascribed to monetary policy alone, of course. But I do not believe it would have been achieved without the monetary policy and actions of the past two years. I do not think it would have been possible had the Federal Reserve System let the creation of credit go on unchecked in this period. The transition to free markets, as I have called it, made possible the adjustment of the money supply during this period in the orderly growth of the economy, without further inflation or speculative excesses. And this has been accomplished despite the diversion of economic resources to the defense program.

All of us here tonight have been affected in one way or another in this transition. Member banks have not had unrestrained access to Federal Reserve credit by the sale of Government securities at known prices. In many cases they have had to come to the Reserve Bank discount windows to borrow reserves--and pay the cost of the borrowing. The officers and directors of the Reserve Banks have had to shoulder again the very important responsibility for

these discount operations. The use of discount facilities has been termed a privilege. It is one of the privileges of membership in the Federal Reserve System. It is not an automatic privilege, however. The Reserve Banks are authorized to extend credit to each member bank with due regard for the claims and demands of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture.

When a member bank experiences unexpected drains on its reserves, it may appropriately apply to a Reserve Bank for credit. As it adjusts its operations to these new conditions, it is expected that the member banks will promptly repay these temporary borrowings. Member banks are expected to anticipate normal seasonal requirements and be in a position to meet them by adjustments in liquid assets with a minimum reliance upon borrowing at the Federal Reserve. The Reserve Banks, of course, stand ready to meet exceptional, or extraordinary needs for funds by member banks. All of the Reserve Banks are now authorized in a period of general stress to lend on any acceptable paper, not merely on so-called eligible paper.

These, I think, are the appropriate uses of the discount privilege. Clearly they do not contemplate misuse of that privilege for the purpose of enlarging a bank's capital base, or earning a rate differential, or facilitating speculation of any kind.

The initiative in the determination of discount rates is placed by the Federal Reserve Act in the boards of directors of the respective Reserve Banks--and this is a very important responsibility even though final determination of discount rates rests with the Federal Reserve Board. Similarly, the responsibility for granting or withholding loans to individual member banks is also vested in the directors and officers of the Federal Reserve Banks. They must be the judges. They are on the ground and are presumed to be familiar with local conditions, as well as the state of the economy nationally.

The Reserve Act, as I have said before, is an ingenious blending of public and private participation in a public institution created by the Congress to regulate the money supply. The ingenuity is exemplified, I think, in the composition of the boards of directors of the Reserve Banks. They represent a broad cross-section of industrial, business, banking, agricultural, and professional activities, both large and small--and they in turn are called upon to act in the national interest and not for the special advantage of any group or faction or section of the country.

They have a duty, also, to foster a wider understanding of the role that monetary policy should play--what it can and what it cannot accomplish.

The universal desire for orderly, steady economic progress, and a constantly improving standard of living, certainly cannot be achieved without flexibly administered monetary policy and action-- with restraint on creation of excessive credit in a boom and a policy of liberal monetary ease when inflationary dangers no longer threaten stability.

Criticism of Federal Reserve policy and performance has mainly sprung from ascribing to monetary action an omnipotence that does not and would not exist--even if there were men omniscient enough to devise and execute monetary policy perfectly. I am not objecting to criticism--we should and I think we do sincerely welcome critical appraisal of our performance. But critical analysis and comment that can be useful in guiding future action, though it cannot rectify past mistakes, has to be well informed and understood.

The Federal Reserve Banks recognize, I know, the special responsibility they bear in their respective areas for gathering economic information and making it available. They have a duty to explain what they do, and why, in carrying out their part in the trusteeship over credit. The report on "Steps to Maintain Economic Stability" which was issued by the Committee on Economic Stabilization of the Board of Directors of this Bank is a commendable example of informed discussion of economic affairs.

Your task is more than ever an exacting one--but it is an inspiring one. The trusteeship which this System and its member banks share is vital to the preservation of our system of private enterprise.

The System, I am certain, has made a notable contribution to the attainment of the sustained economic progress of the past two years. It can, I am confident, continue to make an important contribution in the years ahead.

That confidence, I deeply feel. I was asked the other day in Detroit what would happen to us after a few years of a genuine peace--and I can do no better, in concluding these remarks tonight, than to give you the reply as I made it then:

"I can only give you my philosophy on this. To me the most heinous statement that is made by some people is that war leads to prosperity, or that war is prosperity. I can't conceive of an economy based on war that can ultimately be prosperous. We have to go through certain readjustments to have an intelligent peacetime economy. We've got to have our business based on initiative and competence and salesmanship--on raw materials and products--and not on dependence upon spending for war purposes. I believe that this country has the flexibility--and the capacity--and the character--because it requires character--to unravel this ball of twine that we've wound up, and to do it in a way that will lead us to a higher, a more expansive, and a better standard of living for all of the people. I have that faith."

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