

"What can directors of the Federal Reserve Banks do to promote a better understanding of the System's monetary and credit responsibilities and their relation to other functions of Government?"

Extemporaneous Remarks
of
Chairman Martin
at Chairmen's Conference, December 8, 1953.

I don't think we here at the Board can tell any of the directors what is the best way for them to explain or help in the education or re-education of the public, as Mr. Burgess referred to it last night, on the role and functions of the Federal Reserve System. I am personally convinced that the rank and file of the public are not deeply interested in very many things except those things that directly affect themselves. That goes for every line of endeavor. I used to talk every morning to a group of bond salesmen. I was appalled to discover that the individuals I was sending out to sell bonds were interested in nothing but the commission they might make from sales of bonds. No matter how much I tried to explain what this bond was, they still were interested only in the commission on selling the bond. We might as well face up to that in thinking of the way people react.

Now when we come to the Federal Reserve, we can start with the banking fraternity. You could expect the banking fraternity to understand fully the workings and functions of the Federal

Reserve System. Without casting any reflections on any of them, my contacts with bankers in all parts of the country have convinced me there are not many who have any real interest in the Federal Reserve System except when it affects them. That is not because they are bankers, but because they are people. I suppose if you carried this on further you could say that in everything people react in much the same way.

However, there are certain concepts that are basic and it is around those concepts we can hope for good public relations of the System. The first concept which I want to touch upon requires our recognition of the fact that we have an institution here. We have to recognize that the institution as such must be related to the community, and that each of the directors has a responsibility in his own way to think of that institutional concept. Sitting around the table here there are a good many different kinds of personalities. If I tried to be someone other than myself and to explain my feelings in his terms, I would fail. In discharging our responsibilities in the role of Chairmen of the Federal Reserve Banks or as members of the boards of directors, the things to be done and the way they are done must be related to the individual. The very finest type of people differ in their makeup and the way they would handle different situations. But fundamentally, there is a dignity that

must attach to an institution like the Federal Reserve System. You cannot go out and really convey what it is except on a dignified basis. I think that dignity is a part of the over-all character of this institution. It is something we cannot put down in black and white. It is, nevertheless, an inherent ingredient of the kind of institution we are concerned with here. Even so, there is not a pattern that can be followed in the same way in all parts of the System. One sort of endeavor might work in one community and might be very productive, but in another community it might be quite the reverse. That is a matter of the individuals and the different conditions confronting them. It demonstrates one of the advantages of having the twelve regional boards of directors and the different individuals composing them.

In starting with that institutional concept, I am only throwing out an idea that has developed in my thinking over the past two years. I think we ought always to emphasize the public character of the Federal Reserve, and the partnership character of its relationship with the public. But I think we make a mistake if we suppose we can explain the technique of central banking to the man in the street. I don't believe he is interested. I am not averse to spending time with him if he thinks he is interested, but fundamentally I am convinced he does not care about those techniques. There are, however, certain things we can stress which the man in the

street will understand, because they are part of his heritage. First, he has some conception of the institutions around us. Second, he has some understanding of the constitutional basis and background of our society. Third, he has an understanding of the dignity of man. And fourth, he has some understanding of mass reactions. Now I think he can get that relationship.

You may have gotten tired of my use of "trusteeship". I believe the public understands fundamentally what a trustee is. That is a concept. There may be good or bad trustees but I think the rank and file of people over this country understand what a trustee is. Whether it is because he is actually using an individual to look after his funds or to look after a member of his family, or whether it is because he simply feels he does not himself have time to look after all his affairs, I believe the man in the street understands that concept of a trustee. So I have continuously stressed in my movements through the System that we are in a trustee's relationship and that we are also in a partnership relationship. If people don't want us in that relationship--this System is part of a democracy--they can change it. But that is the relationship we hold.

I think the physical and structural makeup of the Federal Reserve System has been in line with that concept of the trustee and partner. I think the more that people visit the Federal Reserve Banks the easier it is for them to understand what the System is,

in its relationship to them. In other words, there would be mutual benefit if more individuals would visit the Federal Reserve Banks--voluntarily, of course, and not by our bringing them in to "sell" something; the effectiveness of the approach is lost when you do that. But if they see the Federal Reserve Bank as something that is fundamental in its relationship to their needs, if they see that money is something that affects all of us--and also if they see that it has been one of the most mismanaged things of all time--then I think they will get that concept we are talking about.

The historical approach to understanding comes in here. I think it would be well for all of us to review some of the answers to the Patman questionnaire, particularly those that bring out the role money has played in the life of our country, and the lives of the people themselves.

The historical approach is good, and is one we can use. The story set out in our answer tracing the movement of the public, not the private, interest through the first Bank of the United States, the second Bank of the United States, and on to the Federal Reserve System--I think that is a part of the subconscious understanding of the man on the street, and I think something is touched there when people hear the phrase "phony money", even if they don't fully and consciously know everything that phrase implies. That subconscious sense is a safeguard against the inroads that would

be made either by private interests gaining complete domination of our money system, on the one side, or political interests on the other. I believe the public would understand the Federal Reserve's relationship to them, in terms of public responsibility. And I believe that, if you tapped it, you would hit a vein of gold in that concept of public responsibility. I believe it was that concept we were aiming at when we prepared the Patman questionnaire answers.

People will always differ on how wisely that relationship we have been talking about, that trusteeship, is being carried on. We should not be smug. Bryan ran three times for the Presidency and was defeated. But I believe Bryan was partially right, at least in one sense: we should not be smug in thinking that money is a rigid thing, a rigid standard that is going to be upheld regardless of the effect upon society. That has been the weakness of the gold standard--its operation regardless of human values. Stable money is quite another thing. In human values, there is nothing that has contributed so much to society as stable money, granting that you cannot define it precisely. I think that is a point on which we can make a good deal of progress--trying to get people to understand the benefit to them of stable money and how harmful, yet easy, it is to abuse our currency, as Alexander Hamilton undertook to say a long time ago. I believe many of the people already know that, instinctively. And so I feel that type of concept is something we can develop.

Now the other type of concept we have is the one John Coleman mentioned yesterday in his excellent statement on the role of the Federal Reserve System in a period of business readjustment. It is one we have mentioned at different times; that is, flexibility. That is what the Federal Reserve Act was designed to give us. It was because of scattered reserves, inelastic currency, that the Federal Reserve came into being.

The more I read of the Federal Reserve in its early days, the more I am convinced that there was no intention to place in the hands of the Federal Reserve Board or the directors of the Federal Reserve Banks the ability or responsibility to determine what the market ought to be, per se. We were to operate with the maximum flexibility, giving market forces the chance to come into play as largely as possible, recognizing that we were not to follow any given rule.

There is a relationship here between flexibility and freedom, and also a principle I have spoken of in connection with the community, "the greatest good for the greatest number". I believe that is inherent in what we sometimes refer to as the American way of life.

A while ago I expressed the feeling that money is not a rigid standard that is going to be upheld regardless of the effect upon society. Now I would like to point out once more, as I have

repeatedly, that private property rights and the private or free enterprise system have always been modified by human needs. Indeed, there may be in monetary policy something I like to describe with the word "humanities".

Yet, there remains a proper point of balance, and flexibility is necessary to attain it. The Federal Reserve--"the bulwark of the free enterprise system", as it has aptly been called--can use "free markets" or "open markets" where the law of supply and demand, putting it simply, provides flexibility and balance, reflecting as it does the free and independent judgments of countless individuals. I think that "the greatest good for the greatest number" will be more surely attained by accepting that composite judgment than by substituting for it the judgment of any small group of men, including the members of the Federal Reserve Board.

I don't want to belabor this point, but if interest rates are to be fixed--at 2-1/2 per cent or 3 per cent, or whatever it is--by Government policy or by agreement among the banks, instead of being left to move up or down with the forces of demand reflected in the open market, a time will come when there won't be any interest--or money--at all. That is taking it to the ultimate. I don't say you can take things to the ultimate, but that is the trend, if you start to "fix" the interest rate, and you keep it up very long.

I don't have to emphasize that security, if it is the objective, can lead to insecurity. Risk, if properly accepted, is the greatest opportunity in life. But we have to recognize that all these are matters of degree, just as the Federal Reserve System, in dealing with the money market, must recognize that it is a central banking system, unfettered by rigid rules.

As to the rest, I doubt if there has been any change in our basic problem of central banking over the years. I was given this morning by Mr. Thurston a copy of the Annual Report of the Board for 1923. I want to read a paragraph from it which seems to apply just as well today as it did then to the job of the central banking system. The modus operandi for achieving the goals of this paragraph is still indistinct but nevertheless is developing along sound lines:

"The more fully the public understands what the function of the Federal reserve system is and on what grounds and on what indications its policies and actions are based, the simpler and easier will be the problems of credit administration in the United States. For this reason it has been the policy of the Board to inform the public, either through its official monthly publication or by statements to the press, on matters in which the public has an interest and to which its attention should be drawn. By this means the Board presents to the public a statement of the problems confronting the system and of the attitude of the Board toward current banking and credit developments. The public is a partner in the Federal reserve system. The cooperation of the public based upon an understanding of the broad outlines of Federal reserve credit policy is of the greatest advantage to a good functioning of the system."

That has long been our policy and objective. We have not been very successful in it, as evidenced by the fact that we are having this discussion this morning. If we had been completely successful we would not be having this discussion. But I think that is still the policy of the Board.

What I wish to say in broad summary, and then I will stop, is that the heart of our problem lies in the nature of money and credit. We here--Mr. Thurston and his associates here in the Board's public relations work and all of the Board Members and their staff--ought to be as helpful as we can be, but I don't believe we can make an outline, except in the broad way I have been sketching, that can be followed with respect to what is the most satisfactory way for a director of a Federal Reserve Bank to discharge his responsibilities.

Take this little booklet, "The Purposes and Functions of the Federal Reserve System": I think I have read it about five times, carefully. There are still two excerpts that I don't understand clearly, completely. I don't mean that I don't have a glimmer of what they are about, but there are certain aspects that sometimes I see, and then I don't see. This matter of reserves is one. I don't mean to say that I think I have a good mind, but I think I have an average mind. Sometimes you see it and sometimes you don't, but this question of reserves is a problem, in one sense so simple that you appear to have the answers; in another sense it is

as deep as human nature itself. That, in essence, is what our basic problem with money and credit is. That is why, as a science, economics will never get very far except as it is related to the social sciences and to the problems of humanity and to the recognition that change exists.

I was given one other statement by Mr. Thurston which I might read in conclusion. It is by Doctor Goldenweiser who was one of the top thinkers of the System and it seems to me to be interesting and worth reading:

"As one reviews the System's history, one is impressed by the aptness of the French saying that the more things change, the more they remain the same. While economic and political conditions change radically from decade to decade, certain basic elements of monetary developments survive, notwithstanding wars, depressions, and revolutions. The essential facts which constitute the monetary climate and must be taken into consideration by monetary authorities deal with the same elements: volume of money and currency, gold movements, demand and supply of short- and long-term credit, interest rates, and fiscal developments. All over the world and over the decades it is out of these elements that monetary policy must evolve. The world has known many kinds of monetary developments; conditions today are not so different or unique as at first glance one is inclined to think."

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