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**Statement by William McChesney Martin, Jr., Chairman, Board of  
Governors of the Federal Reserve System, for the United States  
Information Agency**

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The well-being of the American people and the ability of our country to assist people in other nations depend in good measure upon the soundness of the American monetary system, because a sound monetary system is vital to a strong and healthy economy.

In our free society, the responsibility of government is not to order the lives of people for them but to provide them a climate of opportunity that will encourage them to apply their energy, enterprise, and ingenuity to bettering the lot of themselves, their families, and their communities, and thus to promote the welfare of the country as a whole.

That general responsibility is one in which the Federal Reserve System shares. The direct responsibility of the System, at all times, is to provide monetary and credit conditions that will encourage business and employment, preserve the value of the dollar, and promote sustainable growth in the economy. By so doing, the Federal Reserve can make an important contribution to improving the living standards of the people as a whole--though it can never do more than that because its powers are limited to credit matters, and business and employment do not live on credit alone.

Clearly, the framers of the Federal Reserve Act were aware that monetary policy would inevitably require an element of judgment. For they took what seem to me some very wise precautions to see that the required judgments would be, insofar as human capacities permit, impartial, informed, and in the interest of the country as a whole.

Great care was taken, when the United States Congress entrusted the power of money management to the Federal Reserve System during President Wilson's administration nearly half a century ago, to safeguard that power from becoming a device that could be controlled either by private interests, on the one hand, or political interests on the other. The framework of the System was designed to reflect in the best American tradition a blending of the public interest and private enterprise, and also to accord recognition to the wide areas of the United States and the local and regional problems that arise out of peculiarly American conditions.

Broadly, the Reserve System may be likened to a trusteeship created by Congress to administer the nation's credit and monetary affairs--a trusteeship dedicated to helping to safeguard the integrity of the currency that is so essential to continued economic progress and to the preservation of social values at the heart of free institutions.

At the base of the System are the Federal Reserve's 6,000 member banks. All banks that have been chartered by the Federal Government--that is, the privately owned "national" banks--must be members; banks chartered by any of the 50 States may become members if they meet certain requirements. Although fewer than half of the commercial banks in the United States are members of the System, they nevertheless hold nearly 85 per cent of all commercial bank assets.

These 6,000 member institutions are served by a nationwide network of 12 regional Federal Reserve Banks with 24 branch offices, each serving a particular part of the United States. The cities in which the 12 regional Reserve Banks are situated are: Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.

Each Reserve Bank has nine directors. Member banks elect six, three of whom usually are commercial bankers, and three more who must be actively engaged in agriculture, industry, or commerce, and cannot be either officers, directors, or employees of banks. The remaining three directors of each Reserve Bank--one of whom is designated as Chairman and one as Deputy Chairman of the Reserve Bank--are appointed by the System's Board of Governors in Washington. None of the three directors appointed by the Board may have any connection with or own any stock of any bank.

At the core of the Federal Reserve structure is the Board of Governors in Washington. It consists of seven members appointed by the President of the United States with the advice and consent of the Senate. Board members are appointed for 14-year terms and are ineligible for reappointment after having served a full term. No two Board members may come from the same Federal Reserve district.

The Board's prime function is the formulation of monetary policy. It has the power to approve changes proposed by the boards of directors of the Federal Reserve Banks in the discount rates their Banks charge for loans to member banks. The Board of Governors also has authority to vary, within specified limits, the percentage

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of deposits that the member banks must keep as reserves; to set margin requirements governing the maximum amount of credit that can be extended for purchases of securities traded on national security exchanges; and to set maximum interest rates that member banks may pay on time and savings deposits. In addition, the members of the Board of Governors also are members of the Federal Open Market Committee, which determines the System's policy governing the provision and absorption of bank reserves through purchases and sales of government securities.

The Open Market Committee has as members not only the seven members of the Board of Governors but also the president of the Federal Reserve Bank of New York and the presidents of four other Reserve Banks. When this Committee meets, usually every three weeks, its twelve members are joined by the presidents of the other seven Reserve banks so that these meetings provide a central forum affording the broadest possible base of information and counsel for System decisions.

The work of the System requires continuous study, alertness to new developments in the economy, and considerable exercise of judgment in order to determine what Federal Reserve actions will best contribute to sustained economic growth. Decisions of this nature are often difficult because of the existence of cross currents in the economy: even in generally prosperous times some parts of the country and some lines of industry and commerce may not be faring as well as others. Credit policy must, however, be balanced to meet the needs, domestic and international, of the economy as a whole.

Through the Reserve Banks and their branches, the Federal Reserve System also performs a variety of services that are vital in the daily life of every citizen. These include the provision of currency and coin, the clearance and collection of checks, the transfer of bank funds by telegraph from one part of the country to another. Because one of the missions of the Federal Reserve is to "establish a more effective supervision of banking in the United States," the System also has broad responsibilities for the examination and regulation of the operations of its member banks, including their operations in the international sphere.

The increase in the volume of world trade and finance since World War II has led to an unprecedented integration of the free world economy, which has become ever more closely bound together by ties of trade and investment, as well as of communication, transport, science, and literature. Financially, the world economy has become coordinated by an international payments system in which the dollar serves both as a major monetary reserve asset and as the most important international means of payment.

The degree of world reliance on the dollar as a financial instrument is indicated by the fact that, at the end of the year 1961 (latest date for which complete information is available), foreign exchange assets held as reserves by the monetary authorities of other countries amounted to \$22.2 billion, of which \$11.1 billion was held in U. S. dollars. Foreign exchange assets held by commercial banks in other countries as working balances designed to

finance international commercial and financial transactions amounted to \$10.5 billion, of which \$5.4 billion was held in U. S. dollars. Thus, monetary reserves and international working balances of foreign countries included slightly more dollars than all other currencies together.

With the economies of the free world increasingly linked by an international payments system based on convertible currencies and open competitive markets, cooperative international efforts are needed to restore and maintain payments equilibrium and to guard against disruptive exchange market developments. Fortunately, the need is widely recognized and the responsibility widely accepted.

During 1962 the Federal Reserve System formally recognized this responsibility by inaugurating foreign currency operations under the supervision of the Federal Open Market Committee. This action put the System in a position to intervene in the exchange markets under conditions of transitional unsettlement of those markets arising from volatile shifts in the stream of international payments. The System has further supported its participation in foreign currency operations by cooperating more actively and directly with the central banks of our principal trading partners and with international organizations playing a coordinating role in the functioning of the world payments system.

Because of our balance of payments situation, the newly inaugurated Federal Reserve operations in foreign currencies have concentrated this past year on the establishment of a network of

mutual currency credits with other central banks, principally on a stand-by basis. At the beginning of 1963, the Federal Reserve had arrangements totaling more than \$1 billion with the central banks of Europe and Canada and the Bank for International Settlements in Basle, which are capable at our call of providing foreign currencies to that amount if needed to meet undesirable exchange market developments.

Closer cooperation among leading central banks has already contributed much to greater resiliency and flexibility of the world's payments mechanism, as was demonstrated on several occasions in 1962. It is our hope that these arrangements will continue to be a useful international device and a symbol of active cooperation in preserving and strengthening the world payments system.

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