The Role of Federal Reserve Bank Directors

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and

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Thank you very much, Mary, for that introduction. And like Mary, I would also like to thank all of you for joining us here this evening as we begin our tour of the Bakken oil patch. This is my second visit to Minot [Williston] in about a year. I was here last September for a similar tour and learned so much that I urged our entire board of directors to come out here too. They didn't need much urging: One of our directors, Howard Dahl from Fargo, whom many of you know, has been telling us so much about this land of milk and honey that it was easy to persuade the rest of the board that they should see it for themselves. Having had a good preview last year, I know that everyone will be impressed, and not only with the drilling sites and crew camps, but also with all of the truck traffic that we will encounter as we approach Williston. At one point during my last trip, I was attending a meeting in Sidney, Montana, and we were waiting for a speaker from Williston. He called to say that he would be late, because of traffic. Now, I haven't spent much time in western North Dakota, but my guess is that this is *not* something that I would have heard five years ago! More seriously—as we think about the tremendous economic returns that this area is experiencing, it's important for us to keep in mind too that there are certainly some costs associated with generating those returns. And I'm sure we'll hear more about those benefits and costs tomorrow.

So you've heard from Mary, and I've mentioned Howard. Let me begin by making quick introductions of the rest of the members of our board. As you listen to my intros, you might find it useful to keep in mind that the Minneapolis Federal Reserve district includes the states of Montana, North and South Dakota, Minnesota, and parts of Wisconsin and Michigan. Without further ado, then, here are the directors:

Mary Brainerd, president and CEO of HealthPartners, as you know, is our chair.

Randy Hogan, chairman and CEO of Pentair in Minneapolis, is our deputy chair.

And MayKao Hang is president and CEO of the Amherst H. Wilder Foundation in St. Paul.

Those three directors are what we call Class C directors, which means that they are appointed by the Board of Governors in Washington, D.C., to represent the public.

And then we have Howard Dahl, president and CEO of Amity Technology in Fargo.

Bill Shorma, president of Rush-Co/Strategic Rail Services in Springfield, South Dakota.

And Larry Simkins, chairman, president, and CEO of the Washington Companies in Missoula, Montana.

Those three are what's known as Class B directors. Like the Class C directors, Class B directors are representatives of the public. However, they are not chosen by the Board of Governors in Washington. Instead, they are elected by banks in the Minneapolis Federal Reserve district who are members of the Federal Reserve System.

And you've probably already guessed that our next group of three directors is termed Class A. These directors are elected by member banks in our district to represent those banks. And our Class A directors are:

Julie Causey, chair of Western Bank in St. Paul.

Ken Palmer, chairman, president, and CEO of Range Financial Corporation and Range Bank in Negaunee, Michigan, which is in the Upper Peninsula.

And, finally, Dick Westra, president and CEO of Dacotah Bank in Aberdeen, South Dakota.

Also present today is Jake Marvin, chairman and CEO of Marvin Windows, and our former board chair who served our board for six years ending last December.

I would like to publicly thank all of these people for their public service. Being a board director is a job that demands much and returns little beyond the fulfillment associated with important public service. And this event is a great illustration of what I'm talking about. Like all of you, these are busy people with important responsibilities back home, so for them to take time from their schedules to tour a region of our district speaks volumes about their commitment. I should also mention that we are joined by members of our bank senior management team as well as other bank staff today. While I won't take the time to introduce each of them, suffice it to say that this too is a group of highly dedicated public servants. They provide outstanding leadership and support to the Federal Reserve Bank of Minneapolis and the Federal Reserve System. I do want to particularly acknowledge Barb Pierce and Patti Lorenzen for their tremendous help in setting up the logistics for this visit. We are also quite fortunate to have two expert local tour guides for tomorrow: Loren Kospeng and Ron Ness. Before I go on, let me remind you that the following views are my own, and not necessarily those of others in the Federal Reserve.

As Mary described in her remarks, one of the strengths of the Federal Reserve System that Congress designed nearly 100 years ago, in 1913, is its system of regional banks and branches that ensures representation from citizens in towns and cities throughout the country, including relatively small communities like Springfield, Aberdeen, and Negaunee. What I'm going to do in the remainder of my remarks is describe the decentralized nature of the Federal Reserve, especially as it pertains to monetary policy, and then discuss the role of the directors. After that, I will be happy to take your questions on these subjects or other issues on your mind this evening. In addition, as Mary noted, if you would like to direct a question to her about her role on the board of directors, she also stands ready.

So, to begin, the Federal Reserve Bank of Minneapolis is one of 12 regional Reserve banks that, along with the Board of Governors in Washington, D.C., make up the Federal Reserve System. Our bank represents the ninth of the 12 Federal Reserve districts, and, by area, we're the second largest. As I mentioned earlier, our district also includes the Dakotas, Minnesota, northwestern Wisconsin, and the Upper Peninsula of Michigan.

What do we do at the Federal Reserve Bank? Well, within the Federal Reserve we have clever ways of describing the work we do; for example, we use the highly technical term “three-legged stool” to describe our primary roles. Those three legs include payment services, supervision and regulation of financial institutions, and monetary policy. Very briefly, that first leg means that the Federal Reserve Bank of Minneapolis, along with the other 11 Federal Reserve banks, works to ensure the smooth movement of funds between banks, savings and loans, and credit unions through a nationwide electronic payments system. As for the second leg, the Federal Reserve Bank of Minneapolis supports the Federal Reserve System in ensuring a safe, sound, and accessible banking system, and stable financial markets through supervision and regulation of the nation’s banking, financial, and payments systems. This means that we implement rules and regulations as mandated by Congress. In doing so, we work with other federal and state agencies and regulators to promote safety and soundness in the operations of the financial services industry.

Obviously, I could spend a great deal of time speaking about those two responsibilities, especially supervision and regulation, which has grown in prominence since the financial crisis and the passage of the Dodd-Frank Act. However, I want to move now to the third leg of the stool, monetary policy, as this role is the one that most directly impacts the lives of Americans and is also where the role of our directors is most prominent.

Monetary policy is established by the Federal Open Market Committee, or FOMC. The FOMC meets at least eight times per year and consists of the seven governors of the Federal Reserve Board in Washington, the president of the Federal Reserve Bank of New York, and a group of four other Reserve bank presidents that rotates annually. For example, I was on the FOMC in 2011 and will be a member of the Committee again in 2014. However, all 12 Reserve Bank presidents—whether they vote or not—participate in FOMC deliberations. This is an important point, as it highlights the decentralized nature of the Federal Reserve's policymaking. All of the presidents bring their perspectives on the economy to every meeting, and those perspectives are shaped, in part, by what we learn from our local districts. Our directors play a big role in that information-gathering process. At every board of directors meeting, a number of directors are charged with answering questions about trends in the economy. For example, are firms planning to hire? What are their capital expenditure projections? Are input prices changing? What are firms' expectations for growth in the near and medium term? Our directors don't just answer those questions from the perspective of their own companies; rather, they contact a number of businesses in their regions and industries to gauge broader business sentiment.

This type of information is very valuable to policymakers. As you might imagine, the Federal Reserve is very good at aggregating and analyzing data, but data often lag and do not give a complete description of what is currently happening in the economy. The information that I receive from our directors is important in helping me complete that economic picture. I should also note that the Federal Reserve Bank of Minneapolis has three advisory councils to seek further input from citizens in our district. These councils have members from the agricultural industry, small business and labor, and the financial services industry. As well, we have a branch office based in Helena, and we receive valuable economic intelligence from the members of that branch's board of directors.

So I have described the Federal Reserve's decentralized structure, especially as it pertains to monetary policymaking, and I have also begun to explain the directors' role by illustrating how they contribute to that policymaking. Now I would like to briefly describe some of the other roles of the directors. Directors, as you would imagine, do more than just provide economic intelligence—in particular, they also provide oversight of bank management. In some respects, this is similar to any board of directors. For example, through committees and board deliberations, directors review and approve the bank's annual budget, review the bank's annual performance, and oversee the internal audit program and the bank's control environment. This oversight helps ensure that Federal Reserve banks are run as effectively and efficiently as possible. I know that I speak for all of our management team when I say that we benefit on an ongoing basis from the collective wisdom that gathers in our board room.

I began these remarks by introducing our board and describing the various classifications under which they serve. Those classes—A, B, and C—may seem rather mundane, but they are really quite meaningful. Again, Congress had a good idea about how the Federal Reserve should be structured when it formed the System a century ago, and it has stood the test of time. That first group I mentioned, the Class C directors who serve to represent the public, are appointed by the Board of Governors in Washington, D.C. That last point is key because it ensures that the Board of Governors, which is appointed by the president and approved by the Senate, has a say in the makeup of our board of directors. So in that respect, our local board of directors has a direct connection to the federal government in Washington, which is important. The second group, the Class B directors, are also chosen to represent the public, but they are elected by member banks from each district. This too is important because it ensures that the public is represented by directors who are chosen locally, and not by Washington. In this way, the framers of the Federal Reserve Act carefully balanced national and local interests in the composition of bank boards of directors.

The last group, the Class A directors, who are elected by member banks to represent those banks, are the ones that have received some attention of late. Since the financial crisis and the extraordinary measures that the Federal Reserve has taken to prevent the collapse of our financial system, some have questioned whether it is appropriate for bankers to sit on the boards of Federal Reserve banks. Isn't it wrong, these critics say, to give bankers power over those who are supposed to supervise them? It would be wrong if that were the case, but members of the board of directors—bankers or not—have no say in how Federal Reserve banks conduct their supervisory operations. Supervisory matters are handled directly between bank staff and the Board of Governors in Washington, D.C. Supervisory matters are not a part of the business of the board of directors.

However, what is a part of board business is the important information that bankers relate about credit conditions in the economy, about issues pertaining to the payments system, and about general business conditions. This is precisely the kind of information that policymakers need to do their job, whether under extraordinary or normal economic conditions.

Our board of directors and our senior management team have made this trip out to western North Dakota to learn more about what makes your economy tick. But I'm glad, too, to have had this opportunity to tell you a little about our board of directors—a group of dedicated public servants whose role is often misunderstood by many. Now, I am sure that you have a number of questions. And I will do my best to answer the easy ones—the tough ones I'll leave for Mary. Thank you very much for your time.