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Mr. Chairman and Ladies and Gentlemen: I did not know until just the day before yesterday that I would be here this morning. I got in touch with Mr. Brundage, and told him that inasmuch as a member of the Board was expected here, we felt it our duty to send someone. After I returned from the Coast, where I had spoken in Seattle, Spokane, Portland and other places, I was the one chosen, and it has given me much pleasure to come. I am glad to be with you this morning, but I am sorry I cannot stay with you throughout the day, tomorrow and the day following, but have to return immediately to the East.

It is important for members of the Board to attend conventions, especially a Jubilee Convention. It is important for members of the Board to meet with bankers, as well as businessmen and industrialists. It is important for us to get information directly, so that we might be able to prepare ourselves for the various tasks which confront us in Washington from day to day, principally on matters of regulation. It is difficult to adopt regulations of one kind or another in Washington after a law has been passed by Congress, unless one knows something of the actual conditions which face bankers, businessmen, industrialists and farmers throughout the country. That is the reason that we find it necessary, and also very pleasant, to come out and meet you, talk to you and get from you whatever information we can, and take it back to Washington.

There is not anything in what I shall say this morning that will make a front page story. I will express no opinions whatsoever. I shall be purely factual in what I have to say.

It is important likewise for us not only to discuss the different matters that confront us from time to time, but it is important for us also to meet you here, not only you individually, but to hear the other speakers on your program, because in that way we get something of existing ideas and conditions throughout the country, and we are able to adjust ourselves to them.

You know after being in Washington for a certain period of time, one is apt to think or feel that because the laws are made there, and because regulations are adopted there, perhaps we are a sort of a power in ourselves. We are not. Whatever we do must be based upon what you do. Therefore, it is important for us to know what you are doing. Very frequently, too, we hear frank discussions, which are very important for us to hear.

We are much in the position of the fellow who went back to his home town, down in Indiana, after he had served two or three years in Washington, in the Cabinet of the President of the United States, many years ago; and after arriving in his home town, he naturally looked for some of the people that he had known when he had lived there. He saw an old character

coming down the street, and walked up to him and said, "Do you remember me?" The chap said, "Sure, I remember you; you are Mr. So-and-So." "You remember that I left here many years ago?" He said, "Yes, not so many, about three years ago you left here." "Well, do you know where I am now?" This fellow said, "Yes, you are in Washington." "Well, do the people out here know that I am in Washington?" "Yes, the people here know that you are in Washington." "Do they know that I am the Attorney-General, in the Cabinet of the President of the United States?" "Yes, they know that. They all know that." "Well, what do they say about it?" This man looked at him and said, "Oh, they just laugh, that is all."

That is about the size of it.

I have not had time to prepare a speech. I shall, therefore, discuss with you, not off the record, but extemporaneously, the provisions of the Banking Act of 1935.

I am sorry that Mr. Miller is not here to speak to you on "Money." He would have delivered a very fine address on that subject.

Now, if I repeat some of the things that you already know about the Banking Act of 1935, I shall have to ask you to pardon me. But if I mention some of the other things that perhaps you do not recall at the moment, then I do so for the purpose of keeping them in mind constantly.

In the preparation of our regulations, one must remember that we do no prepare them because we want to bind the bankers in their operations. We get out regulations simply because we have to. The laws are passed by Congress, and not by the Board. After they are passed by Congress, we naturally have to send out to the bankers, to member banks, something that is of a specific nature, and has to do with the administration of that particular law. Frequently, therefore, in order to cover nearly every imaginable case that might arise under that law, the regulations are rather lengthy and appear to be complicated, and it is not so pleasant for a banker to have a very lengthy and very complicated regulation. But the regulations cover many possible emergencies that might or might not arise under the law.

On the other hand, if you adopt a regulation that is short, simple, and broad, it, of itself, of course, brings into Washington a great many requests for interpretation. As each case arises, there is a request for interpretation of that particular part of the regulation. So rulings are sent out through the Federal Reserve banks to the member banks, and the shorter the regulation, the more numerous the rulings under the regulation; so that whether you begin with a long regulation in the first place, or whether you begin with a short regulation in the first place, you finally end up with about as many provisions either in the regulation, or in the form of rulings. In each section of the Act we have different conditions, and different practices, and in order to meet these different conditions and these different practices, different interpretations of the regulations are necessary.

Now, that is why it is so important for us to keep daily in touch, through the Federal Reserve banks, with the practices of the member banks,

and the non-member banks, for that matter. That is why the Federal Reserve Bank of Chicago has present here in this room the president of that bank, Mr. Schaller, the Assistant Federal Reserve Agent, now vice president of the Federal Reserve Bank of Chicago, Mr. Young, and Mr. Dillard, also a vice-president of the Federal Reserve Bank of Chicago. I would just like in passing to introduce these gentlemen, Mr. Schaller, Mr. Dillard, Mr. Young; and over to the left of Mr. Dillard is Mr. Buss, the manager of the Detroit branch of the Federal Reserve Bank of Chicago. Also present here this morning is Mr. Geery, of the Federal Reserve Bank of Minneapolis. There are others of the Federal Reserve present, that I have not seen up to this moment. They are here for the purpose of hearing you, and talking to you about these different matters that arise from time to time, and getting from you directly whatever you may have in your minds, and giving to you directly whatever information they have available, so that our relations with you may be as effective as possible, and so that we may all work together for the common good.

In the Banking Act of 1935, there were two principal ideas. The first was to place responsibility more definitely upon a group of men, for the monetary control, or the credit control of the country. And so the Banking Act of 1935 made new provisions for open market operations, which were not specifically referred to in the original Federal Reserve Act. Originally the open market operations of the Federal Reserve System were engaged in by each Federal Reserve Bank independently of the other Federal Reserve Banks; and principally for the profit of each Federal Reserve Bank.

It was soon recognized that these operations had effects upon the credit condition of the country, because as the Federal Reserve Banks purchased large amounts of securities in the open market, they naturally supplied the country with a large amount of credit or funds, and as they sold large amounts of securities, they naturally received from the banks the funds with which the securities were purchased. The operation of buying tends to make money or credit more available; and the operation of selling tends to make money less available. The operation of buying tends to ease the money market as it were, and the operations of selling tends to harden the money market.

Open market operations soon became so important that in 1922 a committee was organized for the purpose of unifying the operations of the Federal Reserve Banks. After adopting the policy, this committee would refer it to the Board in Washington, and the Board would either approve or disapprove it. After this action, each Federal Reserve Bank could, if it wished, proceed with the operation, taking its share of securities, or selling its share of securities; or it had the choice of not participating.

In other words, there were three principal bodies in each and every open market operation. First, there were the twelve Governors of the Federal Reserve Banks. Second, there were the eight Board members in Washington. Third, there were the nine Directors of each Federal Reserve Bank.

Now, it was soon learned that when a certain operation was considered advisable, and a certain policy was adopted, it required a certain amount of time under this form of procedure to consummate the action, and when finally the thing was done, it might be found that the result intended was not obtained, because of the time that had elapsed.

The Banking Act of 1933 gave specific authorization for the Federal Open Market Committee and adopted the following statement of the purposes of open market operations:

> "The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country."

The Banking Act of 1935 made further reference to the Federal Open Market Committee and its powers. It provided that the seven members of the Board of Governors of the Federal Reserve System should be members of the committee and that there should also be five members representative of the 12 Federal Reserve Banks. One of these five representatives is elected by the Federal Reserve Banks of Boston and of New York. Another is elected by the Federal Reserve Banks of Chicago and of St. Louis. The third is elected by the Federal Reserve Banks of Cleveland and of Philadelphia. The fourth is elected by the Federal Reserve Banks of Atlanta, Richmond, and Dallas. The fifth is elected by the Federal Reserve Banks of Kansas City, Minneapolis, and San Francisco. In this connection I should mention the fact that the Banking Act of 1935 also changed the name "Federal Reserve Board" to "Board of Governors of the Federal Reserve System," and made the Board consist of 7 members in place of 8. The Board formerly had two ex officio members, the Secretary of the Treasury and the Comptroller of the Currency, but now all seven of its members are appointive. The 7 members of the Board in addition to the 5 representatives of the banks make 12 members of the Federal Open Market Committee in all.

The Federal Open Market Committee meets in Washington at least four times a year. Frequently, of course, it meets upon call, when there is a condition that must be met immediately.

There is an Executive Committee of five, which has power to do certain things in the absence of the members of the full Committee. They initiate the open market operations. Purchases and sales are principally of Government securities; the Reserve Banks now have about two billion four hundred million dollars of Government securities.

Having decided upon its policy, the Open Market Committee communicates its decision to the twelve Federal Reserve Banks. The Banking Act of 1935 now provides that no Federal Reserve Bank can engage in open market operations except in accordance with the regulations of the Open Market Committee. The Reserve Banks purchase or sell in accordance with the policy adopted. In other words, they do not have the choice they had previously, either to join with the other banks, or refuse to join with the other banks in following any particular policy.

The next thing of importance in the Banking Act of 1935 has to do with the discount rate. Discount rates are dependent upon one particular thing that open market operations are not dependent on; that is, they are dependent on the banks borrowing at the Federal Reserve Bank, whereas open market operations are not dependent upon anybody else initiating anything. They are dependent on the Board, or the Committee, to be initiated and carried through.

Discount rates presume that member banks are borrowing at the Federal Reserve Bank, and when they are borrowing, of course, discount rates have some meaning. The lower the rate, naturally the easier it is to borrow, and the more funds are supplied to the public, through the member banks, and through the non-member banks. The higher the rate, the more difficult it is to borrow, and, therefore, the less funds are made available through the banks to the public.

But banks are not apt to borrow unless they have to. Originally it was not thought that that would be the case when the Federal Reserve Act was passed; it was thought that the banks would borrow, as a regular thing, at the Federal Reserve Bank, and, therefore, discount rates had more meaning, and the rate was the thing that everybody watched for. Today the rate only means that that is the cost of money, and little more.

It has some further meaning only when banks borrow at the Federal Reserve Bank, and banks do not borrow at the Federal Reserve Bank unless they have to. When they have an excess reserve, they naturally will not borrow at a Federal Reserve Bank. When their reserves are just above, they will not borrow, but when they get down to the point where they are below the 13 percent or the 7 percent, or whatever it is, why, then they begin to watch the discount rate. So then your rate does have some effect upon the credit conditions of the country.

The Banking Act of 1935 now provides that the directors of each Federal Reserve Bank shall adopt a discount rate every fourteen days. That is a new requirement. This must be done every fourteen days, and the rates submitted to the Board in Washington for approval.

Now, the purpose of this is, I think, that they may be in constant touch with the rate in each Federal Reserve Bank, so that if conditions change, the rate will be changed as frequently as necessary. The rate will not be allowed to run for an indefinite period of time without reconsideration both by the Reserve Bank directors and by the Board of Governors in Washington.

In addition to that, there is another very important part of the Banking Act of 1935 that I should like to mention here this morning. It has to do with credit control. That is the power to establish an increas of the reserve requirements, and it is pretty important, principally today.

I have just returned from the Coast, where I spoke to the bankers of Washington, Idaho, and Oregon. Six or eight months ago when I was speaking to them, they were in favor of an increase in the reserve requirement. But, today, I understand, they are not so much in favor of it.

The Banking Act of 1935 gives the Board of Governors power to increase, when necessary, the reserve requirements, and thereby to check at any time an excessive use of credit. For example, the requirements may be doubled if necessary, the 13 percent becoming 26, or any point between, and the 10 percent becoming 20, if necessary, or any point between 10 and 20, for Reserve city banks, and the 7 percent becoming 14 percent, if necessary, for other banks, known as country banks, or any point between 7 and 14, and the 3 percent on time savings deposits becoming 6, or any point between 3 and 6. Reserve requirements may be increased for the purpose of taking action against the possible excessive use of credit, all over the country, if necessary.

Of course, the thing that worries the average banker, as I see it, is that power. Perhaps the average banker would not worry so much about the power if the law were very specific about it, stating very definitely that we must readjust our reserve requirements, and, therefore, in place of 13 percent on demand deposits in central Reserve cities, from now on it would be 26, or, let us say 10 more, making it 23, or any point within that figure of 13 and 26.

What worries the average banker is that perhaps if the Board should increase reserve requirements from 13 to, say, in the central Reserve cities, up to 20, or from 13 to 15, making it less than 20, then perhaps in a short while there would be another increase. That puts the average banker in a position of uncertainty.

We have at present about three billion dollars excess reserves -- when I left Washington it was about two billion six hundred million. In spite of the fact that we have the largest amount of excess reserves in the history of this country, certainly no one will say that there is an excessive use of credit. We might say, however, that there is a possibility of excessive use of credit should this money once begin to flow into agriculture, into commerce, into industry, and especially if it should begin to flow into speculative channels.

The Federal Reserve Act originally contemplated that paper eligible for discount would be paper that is called commercial paper, 30, 60 and 90-day paper, and the thought was that the money that originally was loaned on that paper would go back into the same channels when it was rediscounted, but we found that that was not the case. The money may go back into commerce, industry and agriculture, or it may go into speculative channels, nobody knows.

So, therefore, action for the purpose of making an adjustment that is more or less stable, might be considered. But whatever is done naturally must be based on the information we obtain from banks, from business, commerce, agriculture and industry, and from what we see is going on in the speculative market.

We are constantly in touch, through our Federal Reserve Banks, as you know, with the general credit conditions of the country. We have charts supplied us by the Federal Reserve Banks' statistical departments, and we have our own department in Washington, one of the best in the country, which presents the facts and the figures constantly, so that we know what is going on. We also obtain information directly wherever we can.

We have, as you know, one of the best publications of its kind, and that is the Federal Reserve Bulletin, which has all of these facts, all of these figures and trends from day to day, from week to week, and from month to month, and from year to year. We have these not only in respect to the United States, but in connection with foreign countries, because we have to reckon with conditions that are not purely domestic, as you know. We have to reckon with conditions that exist in Europe. We do not know from day to day what will happen in France, for example, We do know that certain amounts of gold have come into the United States from France and from England. We do know that certain amounts of gold are still flowing into the United States. There was a time when these amounts were very large, and they are not as large now. We do not know what will happen in Europe. We do not know what negotiations may be going on, as far as relations between foreign countries are concerned. We have no control over those conditions, as you know.

The monetary situation of the country is a factor in the credit condition of the country. The issuance of silver certificates by the Treasury is a factor in the credit condition of the country. Knowledge of the fact that the Treasury itself has a very large stabilization fund that it can use at almost any time to affect a certain credit condition that might exist, makes us the more careful, because whatever we mete out in that direction may be offset by action taken by the Treasury with its stabilization fund. All of these facts must, therefore, be taken into consideration, and it is very important that the members of the Board and the officers of the Federal Reserve Banks keep an open mind constantly on matters of that kind.

We have refrained, therefore, from expressing opinions on things that we do not know about, and we are quite frank to say that we do not always know what we shall do until the condition faces us at the particular moment. Then when we do it, we must do it because its effectiveness in operation is dependent upon the action that is taken. We depend upon the facts and figures that we have at the particular moment.

The next important thing in connection with monetary control, is the policy of warning banks not to conduct certain operations, or engage in certain credit practices, and asking them to limit the amount of money that they lend for certain purposes, particularly speculative purposes, to certain customers. If they continue to engage in practices about which they have been warned, there is power given to the Board to stop further extension of credit to the bank concerned. And if they still engage in those operations, even after that, there is power granted to effect the removal of the officers who are responsible.

Now, of course, that is something that no Federal Reserve Bank, and no Board of Governors wishes to do, but it is a very direct means of acting in the situation which might arise in a particular bank.

There is still another means of credit control that I must tell you about. It has to do with lending money on registered securities, by brokers, dealers, and by member and non-member banks.

When the Securities Exchange Act was passed, power was given the Board of Governors of the Federal Reserve System to regulate the amount

of credit that would be extended on registered securities by brokers and dealers, and by banks, to their customers, as they come into the bank to borrow money. This is covered by Regulation U.

Now, the principal purpose of Regulation U is to limit the percent of the current market value of the securities that can be loaned by the bank to the customer. When the customer says that he is borrowing the money, in order to purchase the securities, and is pledging the securities that he is purchasing with the bank as collateral, the banker proceeds under present limitations to loan 45 percent of the current market value. That is for the purpose of purchasing. If a customer borrows for the purpose of carrying the securities, the same principle applies.

The question arises, if the customer does not submit the security that he purchases with this money, is the banker still compelled to loan him only 45 percent of the current market value of the security? The answer is, no. Of course, in practice, in ninety-nine cases out of a hundred, the banker will certainly request the security that the man purchases with the money that he borrows from the bank. There are very few cases where the banker will say, "Now, you can go ahead and purchase this security, and you do not need to bring in the collateral."

But suppose this man does not bring this collateral in, or, suppose he brings in a certain collateral, and when the banker looks at it, it is not the registered security in question, and he borrows the money not for the purpose of purchasing that particular security, but he borrows the money for the purpose of building a house. Now, does the banker need to loan him only 45 percent? Does he come under the regulation? The answer is, no. It is only for the purpose of purchasing or carrying registered securities, and only when those securities are the collateral put up behind that particular note.

Now, that, in general, is Regulation U, as it affects the banker. It has to do with a specific means of control and with a certain particular type of credit which does not affect commerce, industry or agriculture. It is a means by which the use of bank credit for speculation is checked. It necessitates our keeping in touch with the Securities Exchange Commission. It is a very important thing, especially at this time.

Well, that much for monetary control. The Banking Act of 1935, therefore, places that responsibility principally in the Board of Governors in Washington, including the Open Market Committee, which consists of the Board of Governors in Washington and five representatives of the twelve Federal Reserve Banks. That is one section of the Banking Act of 1935. The other section of the Banking Act of 1935, has to do with the liberalization of the credit basis upon which member banks may obtain money or funds from the Federal Reserve Bank. As you know, there is a provision in the Banking Act of 1935 that permits a member bank to borrow at the Federal Reserve Bank for a period not to exceed four months on any sound collateral, - not merely on eligible paper, but on any sound collateral. The question does not arise anymore as to the particular paper. It is just a question of soundness. Therefore, the loan may be made for a period of four months on any sound collateral, at a rate not less than one-half percent higher than the discount rate at that bank at the moment of signing the note. That is important only when banks are borrowing at the Federal Reserve Bank.

There is another important matter which has to do with the extension of credit; that is the power given National Banks to make mortgage loans up to fifty percent of the appraised value of the mortgaged property, or sixty percent of the appraised value, if the loan is for a period of ten years, and forty percent is to be amortized during the period of ten years.

Those, in general, comprise the essence of the Banking Act of 1935. There are several other things of minor importance.

There is another matter that I forgot to tell you about. The Federal Reserve Banks are prohibited from purchasing Government securities directly from the Treasury. All purchases of Government securities by the Federal Reserve Banks must be in the open market, and never from the Treasury directly. That is very important.

I am very happy to have been with you this morning, and I wish that I could stay longer, but my 'plane is waiting to take me back. I think that our presence here indicates how much we are interested in what you are doing and saying. I personally do not come far from this particular point, as I hail from Chicago, and I am very much interested in Michigan, naturally, because I expect to be back here again some day. An understanding of the things that we are trying to do is the important thing, and not so much what I have tried to say to you here, because if you do understand them, it is so much easier; if you understand our problems, and we understand yours, it is so much easier to work together, because, after all, we are not trying to work against each other, but we are trying to work together, and the more we understand each other, the easier it is, because, as Kipling wrote,

"It ain't the individual, nor the army as a whole
But the everlasting teamwork of every blooming soul."

I thank you very much.