

(White Sulphur Springs, W. Va.,
May 30, 1936; D. C. Bankers Association
Convention; reporter's copy)

STATEMENT OF HON. MARRINER S. ECCLES, CHAIRMAN, BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM.

Mr. Eccles: Mr. Chairman, my golf partner and good friend Bob, and fellow bankers:

On behalf of my party and myself, I want to express to the bankers of the District of Columbia my great appreciation for being included again this year in their guest list. I recall with a great deal of pleasure the delightful time I had last year down in Hot Springs, and up to date the time I have spent here has been equal, if not superior, in delight to that last year.

It is always a pleasure for me to meet with bankers in convention, as I feel they have many problems to consider in which I am greatly interested. We are living in a very rapidly changing world, and banking is being forced to recognize many of the fundamental changes which have taken place and which are taking place throughout our industrial, economic and political system.

The future of banking is going to depend upon the ability and willingness of bankers to adjust their ideas and to operate their institutions in line with changing conditions. We all know that industry has rapidly become concentrated into great national institutions, until today approximately 200 of our great corporations own and control over 50 per cent of the entire corporate wealth.

Banking prior to the war was conducted largely on a basis of commercial lending. At the time of the depression in 1929, less than 13 per cent of the total resources of the banking system consisted of eligible paper, and at the present time less than 8 per cent.

It is evident that there has been a fundamental change in the bank credit structure. Business has been able to go to the capital markets and to adequately finance its requirements on favorable terms through stock issues and through bond issues, and that, together with the retention of earnings, which from 1923 to 1929 equalled about 36 per cent of the total earnings of all corporations, put the corporations in a position at the peak of prosperity before the depression commenced in 1929 where they had, if anything, an excess of working capital--I am speaking generally--to such an extent that over five billions of funds were loaned by others, largely corporations, in the call money market.

Today, generally speaking, corporations have less use for commercial or short term credit than they had at any time during the '20's, because they have about as much cash or working capital as a whole as they had

before the depression, with lower prices and less business in many cases.

What does that mean, then, for bankers? With about nine billions of time funds in the commercial banks of the country upon which banks pay some interest, it would seem that if the banks are going to keep abreast of the times and provide the credit, and thus provide the money needed, as money is provided by bank credit, they must get into the long-term capital market to a greater extent than many of them have been willing to do.

Now, they can either do this directly or they can do it indirectly through purchasing Government securities and through the Government providing the long-term credit in the various fields of direct loans to industry—farm mortgage credit, housing credit, and other types of credit.

There is every justification for the banks providing credit in the long term field. The Banking Act of 1935 recognized this fundamental change, and made paper, other than what was termed short-term commercial or agricultural paper, eligible for advances by Federal Reserve Banks to member banks. That creates, in times of emergency, a desirable liquidity. It recognized the long-term mortgage, permitted loans up to 10 years and up to 60 per cent of the mortgage on an amortized basis. The Federal Housing Act provided for a 20-year, 80 per cent mortgage on an amortized basis under Title II of that act, which loans banks are permitted to make.

There is a great challenge to the bankers of America. We have a frontier here. That frontier consists of the needs of 130,000,000 people. Foreign trade is desirable, and should be encouraged so far as possible, but the real market is at home, and so long as you have a population of 130,000,000 people, with 12,000,000 families at a period of our greatest national income receiving less than \$1,500 a year, with 16,000,000 families receiving less than \$2,000 a year, and with 19,000,000 families, or 71 per cent of the population, receiving less than \$2,500 a year, and this in the period of our greatest prosperity, I say there is room in America for a market for the goods and the services which we have the man power and the facilities to provide and produce.

We have hardly scratched the surface of our potentialities. When we consider the housing condition in this country, in that field itself, with the deplorable conditions under which more than half, possibly 75 per cent, of our population live, in a country with all the resources and the facilities necessary to provide comfort, if not luxury, to our entire population, with idle facilities and idle men, I say there is a challenge particularly to the bankers of this country, and if they are going to maintain the position of leadership that they should maintain, they must not think in terms of the past; they must think in terms of a moving economy.

Conservatism means progressivism, and we should not be frightened by changes. Too often the banking and the business leadership of this country have held back, and have resisted necessary economic and social changes. There has been little progressive legislation that they have not resisted--the 8-hour law, the first income tax legislation, the Interstate Commerce Act, and, getting back to the time of the first national banking act in the sixties, it was criticized by the bankers of that date as being unconstitutional, as too much centralization of power. The Federal Reserve Act in 1914 was vigorously fought by most of the business and the banking interests, and if you will look back at legislation which today you are in favor of, you will find that at the time that it was proposed, the banking and business organizations of this country resisted it.

The record is not an enviable one, and, as a result of that resistance, the lack of a sufficient amount of enlightenment to keep pace with the rapidly changing economic and social developments, the capitalistic system was almost annihilated.

Let us be more forward looking in the future than we have been in the past. Let us have a social objective. Let us recognize that we live in a great inter-dependent society, and let us profit by the action taken by our older brother, Great Britain, in dealing with and being willing to accept many of the inevitable changes.

Now, I have talked longer than I had expected to; in fact, I did not expect to talk at all when I came down here, but your good Chairman, the President of your Association, Charlie Doing, was kind enough to ask me to come in and say a few words to you this morning, and I again want to say that I appreciate this opportunity and this privilege.

I thank you.