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One hears talk about the banking situation. There are complaints that the banks are not making a living, and that they are over-loaded with Government securities which yield little or no profit and they have no opportunity to function properly in supporting the country's business life. This is a good illustration of how the facts of a situation can be twisted to fit an argument.

On the fourth of March 1933 all the banks in the country were closed. A large part of their deposits had been withdrawn in gold and cash and hoarded by panic-stricken people. Soon after the inauguration of this Administration the banks were reopened with the assurance that only sound banks would be permitted to function, and lo! and behold! money began to pour into the banks because confidence in the banks has been restored. Not only was deflation arrested, but the banks' deposits expanded by \$7,000,000,000.

There are those who believe that the banks should not hold so many Government securities and that this loading up of the banks with Government debt creates an unsound situation. But the facts are that there is nothing to prevent the banks from making other loans or investments. They choose to buy Government securities because they have faith in them and if they did not have Government securities to purchase, their assets would be smaller by many billions of dollars and their earnings would vanish.

That the people are eager to buy Government securities is indicated by the fact that they are willing to take them on a much smaller basis of return than they did before. The average cost of money to the Government

is  $2\frac{7}{8}$  per cent now, compared with  $3\frac{1}{2}$  per cent two years ago. The net result is that while the Government debt has increased, aggregate interest payments are smaller today than they were a year ago.

It is curious that in England the proportion of the banks' assets that is in Government securities is even larger than it is here, and yet we hear no outcry about the unsound position of the British banks.

Our banks have built up a large volume of excess reserves, which is ready to be used for financing recovery. Two billions of excess reserves held by the banks would make possible a credit expansion of at least \$20,000,000,000, if those reserves were used. These excess reserves have not been built up by artificial means through open-market operations of the Federal Reserve banks. The Federal Reserve banks have bought no Government securities for the last year and a half. These excess reserves have been built up through the restoration of confidence, through the return of currency from hoards and the inflow of gold from abroad as a result of capital movements to this country.