President Oct 22 1934

10/22/34 - for President

PROPOSED SPEECH TO BANKERS

Bankers have a three fold duty. They must safeguard the funds of their depositors; they must safeguard the principal and earn dividends for their stockholders; they are charged in very large measure with the responsibility for creating and extinguishing that part of the country's money supply represented by checking accounts. This last duty to the community at large is often overlooked. A contraction of loans and investments which may be desirable on individual grounds, may be undesirable from the viewpoint of the country as a whole for the reason that a contraction of loans involves also a contraction of the deposit currency. In the process of liquidation, 1929 to 1933, approximately one-third of the deposits of the country was wiped out. The process of recovery requires that a substantial part of this lost deposit currency be replaced. This can be done if the banking system will expand its loans and investments. In the event that the banking system fails to do this, the Government will be forced to supply the deficiency either by the direct issuance of currency or by the development of some form of a central bank that will provide the necessary money supplies.

Bankers have insisted, and there can be no question of their sincerety, that they are willing and anxious to make good commercial loans. But that is not enough. We must frankly face the fact that the supply of such loans is not sufficient both to offset the liquidation of old loans and to bring about the requisite expansion of total assets and deposits. Even in 1929 commercial loans eligible for rediscounting comprised only 12.7% of member banks' earning assets. Bankers cannot confine themselves to such loans and still supply an adequate amount of deposit currency. In other words, if the bankers of this country are to perform their money supplying function satisfactorily they must be prepared to increase their earning assets other than commercial loans. It is true that the banks have increased their holdings of Government securities by approximately five billion dollars, however, even with this increase the contraction of all loans and investments has been about eighteen billion dollars since 1929. I should, however, like to see banks increase their holdings of other investments, sound real estate loans and local loans of good security but with a longer maturity than three to six months.

I would not make the suggestion if I thought that it would prove detrimental to the interests of your depositors and stockholders. I appreciate thoroughly the harrowing nature of your experiences with frozen assets in the past. It is possible, however, that wrong lessons are being drawn from our 1929 to 1933 banking experiences. Superficially, the trouble may have appeared to have been lack of sufficient liquidity. But no banking system can be both liquid enough to pay off 50 to 80% of its deposits at a moments notice and at the same time serve the country by providing the supply of money necessary for business stability. Fundamentally the real trouble lay in the circumstances that gave rise to the <u>need</u> of great liquidity. These circumstances are now happily past and hence the need of great liquidity is obviated. The insurance of bank deposits is designed to protect you from runs. You may lose deposits to other banks but as a system you are gaining rather than losing deposits. We in the Administration have the will, and, we believe, possess the power to prevent the recurrence of wide-spread liquidation and the collapse of values that characterized recent years.

October 22, 1934.