Speech delivered before
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Mr. President, Ladies and Gentlemen: You were expecting to hear Governor Eccles, who is Chairman of the Board of Governors of the Federal Reserve System. Governor Eccles was expecting to have the privilege and honor of addressing you this morning. He planned to be here and it wasn't until last Saturday that he found himself unable, because of his other duties, to come here today to address you.

At that moment I was in New York. I received word to come to French Lick, Indiana, to take the place of the Governor.

My talk will be factual; it will be purely objective. With your kind permission, therefore, I shall say a few words about that law which was recently passed by the United States Congress, namely, the Banking Act of 1935, and in the Banking Act of 1935 that particular title, Title II, on which there was a great deal of discussion in recent months, perhaps more discussion than on any other banking legislation in recent years.

When in New York, about two months ago, speaking upon the subject of the Banking Act, I learned from the bankers that a great many of them were reading the Federal Reserve Act, so, therefore, if the Banking Act of 1935 did no more than just perhaps persuade a great many bankers and business men to read the Federal Reserve Act, then at least that much good has been accomplished by the Banking Act of 1935.

There are so few people who really understand the Federal Reserve System. As you know, there are twelve Federal Reserve Banks and some twenty-five branches and two agencies. In addition to these twelve Federal Reserve Banks, there is a Board in Washington, which, until recently, was known as the Federal Reserve Board, consisting of six members appointed by the President of the United States, with the advice and consent of the United States Senate, and two ex-officio members, the Secretary of the Treasury and the Comptroller of the Currency.

With the coming of the Banking Act of 1935, this board is reorganized. On February 1, 1936, the Board will consist of seven appointed members, in place of six, and the two ex-officio members, the Secretary of the Treasury and the Comptroller of the Currency, will cease to be members of that Board, so that on February 1, 1936, the Board of Governors of the Federal Reserve System will be seven.

There is to be continued the Federal Advisory Council which consists of twelve men from the twelve different Federal Reserve Districts of the country. They are elected by the directors of the Federal Reserve Banks. At the present time all of them are active bankers.

This Federal Advisory Council meets in Washington at least four times a year and, going over the economic and financial conditions of the country, proposes certain suggestions to the Federal Reserve Board in Washington. The organizations I have mentioned, together with the Federal Open Market Committee and the member banks, constitute the Federal Reserve System.

On February 1, 1936, the seven appointive members will be appointed for fourteen years. The first appointment, of course, won't be for fourteen years, because it is so provided that every two years one member will leave the Board, but thereafter each and every member will be appointed for fourteen years and cannot be reappointed after he has served a full term of fourteen years.

The important part of the Banking Act of 1935 is the new Federal Open Market Committee. The Open Market Committee, as you know, is that body which has to do with the buying and selling of securities in the open market. Through the purchase of these securities, credit becomes loose in the country; through the sale of these securities credit becomes tight. Therefore, the Open Market Committee is an essential part of the credit control in the United States.

Heretofore, the Open Market Committee consisted of twelve men selected by the twelve Federal Reserve Banks. These men adopted certain open market policies and referred them to the Board in Washington. The Board would approve or disapprove and then the policies were referred to each of the twelve banks to be approved or disapproved. Each Federal Reserve Bank could refuse to participate in a certain open market operation adopted by the Open Market Committee as a policy.

In accordance with the Banking Act of 1935, on March 1, 1936, the Board of Governors of the Federal Reserve System, on which will be seven men, together with five men selected by the twelve Federal Reserve Banks regionally from the various sections of the country will constitute the Open Market Committee. In other words, the Board of Governors and five representatives of the Federal Reserve Banks, altogether twelve men, will constitute the Open Market Committee.

In addition to that, the Banking Act of 1935 provides that all the policies adopted by the Open Market Committee must be published. The vote thereon and the reasons for the vote must be published in the annual report of the Board of Governors of the Federal Reserve System, so the public will know how each member of the Committee has voted, and why. This is very important because the public will know constantly of the operations of the Open Market Committee and reasons therefor.

In addition to that, the Banking Act of 1935 provides a very liberal loaning policy. Heretofore only certain paper, known as eligible paper, short term paper, was eligible for discount at a Federal Reserve bank. In accordance with the provisions of the Banking Act of 1935 any sound asset of a member bank in accordance with the regulations of the Board of Governors of the Federal Reserve System may be offered by such bank as security for an advance by a Federal Reserve Bank. Thus the loaning policy will be very liberal so that we shall not have to declare an emergency, as was the case heretofore, for other paper in that particular member bank to be discounted at the Federal Reserve Bank when the need arises for a liberal loaning policy.

Further, the Banking Act of 1935 provides that there be a liberalization of the loaning policy in the provision which increases with the national banks the percentage of the value of real estate that a loan may cover, from fifty to sixty per cent, and the term of the loan from five to ten years provided the loan is on an amortized basis requiring that at least forty per cent of the loan be repaid in the course of ten years.

Real estate loans may be made by a national bank in a total amount up to one hundred per cent of the unimpaired capital and surplus of the bank, or sixty per cent of its time and savings deposits, whichever is greater, as compared with previous limitations of twenty-five per cent of the capital and surplus or fifty per cent of time and savings deposits. The Banking Act of 1935 also provides for the elimination of the requirement in a previous law that loans may be made by a national bank only on real estate situated within its regional district or within one hundred miles of its location.

These changes should help greatly in the financing of building activity, the resumption of which is an essential factor in recovery. It is also a recognition of the fact that it is as proper for a member bank having a large volume of time and savings deposits to make mortgage loans as to purchase long-time bonds. The danger for banks is not in making real estate loans as such, but in making poor loans of any kind.

The Banking Act of 1935 liberalizes loaning policy and makes for a better administration of the Federal Reserve Act. This should be helpful in its own way to business conditions of the country.

There are many other provisions in the Banking Act, some under Title II and the rest under Titles I and III, which are of a more or less technical nature, and I shall, therefore, refrain from discussing them at this time. If, however, you are interested in obtaining further information on Titles I, II, and III of the Banking Act of 1935, I suggest that you write the Federal Reserve Bank of your district or the Board of Governors in Washington, and such information will be furnished you without delay.

And now as to business conditions in the country. Let me say that it is very difficult for us, to say the least, to appreciate the true nature of business conditions. It seems human to appreciate the present only after it becomes the past. This is true for two reasons: First, it requires some time for the data and the facts to be compiled throughout the country to give a complete picture of business conditions; and second, once we have made up our minds that conditions are bad, we keep thinking of them as bad, just as once we have made up our minds that conditions are good, we keep thinking of them as good. We do not seem to realize that in order to make conditions good or better, we must begin to appreciate fully the fact that conditions are improving; and that fact in itself makes for a betterment of conditions, for nothing succeeds like success.

An indication of a certain improvement in business conditions is the fact that business is critical. The patient who is dangerously sick does not criticise the doctor or the nurse; it is when the patient becomes improved that he begins to criticise those who started him on the way to recovery.

Now let us study some facts: The Federal Reserve index of industrial production, which reflects the output of our factories and mines, is compiled on the basis of years 1923 and 1925 as 100. That index struck a low point of 58 in July, 1932, and this low point represented a drop from 125 three years earlier. Our basic production had been more than cut in two in the course of three years. Since that time we have had four attempts at recovery.

The first one, in the autumn months of 1932, did not carry us very far and did not last very long; and by March, 1933, we were down close to the low point. Next we had a very rapid spurt which carried the production index up to a level equal to the base of 100. But that was a false start, reflecting uncertainties, fear of inflation, and attempts to beat the gun before the industrial codes and the processing taxes went into effect. By the end of 1933, much, but not all, of this gain was lost, for the low point of this decline was fully fifteen points higher than the previous low level.

The third attempt at recovery was in the year of 1934, when we had a rapid rise which was not sustained, but again the low point reached was above the low point of the depression. Finally, a rise began in the latter months of last year and has been much better sustained than any of the three other attempts. During 1935 the level attained at the beginning of the year has been maintained with only slight fluctuations. The index is now at 86 compared with the low of 58.

This affords an interesting reflection on the extent to which progress has been made. However, it represents only work in factories and in mines; it does not include the vast number of men employed outside of our factories and mines. Materials produced for construction are in the figures, but actual building activity is not. As you and I know, the high prosperity of the middle 20's was achieved by and rested primarily on two lines of activity: First, construction; and, second, the automobile.

The automobile industry has recovered to a surprising extent, and in many of the months of this year the output of the automobiles has been as large as in any other year, except the banner year of 1929. While it has been low in recent weeks, that fact is explained by the preparation for the introduction of new models. Therefore, the automobile industry has been the first to show a real sustained recovery from the depression.

In the building industry, from the beginning of this year, there has been a steady rise in residential construction, which is not directly influenced by public expenditures, but represents the increased ability of many people to acquire homes of their own or to improve the homes they already own. Cheaper money and better conditions in the mortgage market have contributed to this recovery in the construction industry, which, however, is very far from complete. But with a good start now made, with no lack of funds for mortgage financing, and with increased employment and returning confidence on the part of our people, there should be a steady and rapid growth in residential building. Construction creates a demand in nearly every kind of goods, and, therefore, stimulates an infinite variety of enterprise.

The figures show that there has also been an advance in employment particularly in industries producing durable goods where employment had declined the most during the depression. Steel plant operations, which for several months in 1932 were at only about fifteen per cent of capacity, are now at fifty per cent! Lumber production has also shown a marked increase. While employment has been obtained for several millions, unemployment is still a problem. But needs, new conditions, new inventions gradually assert themselves. There may be discomforts we have suffered so long that we do not question their legitimacy; and yet some one will come along and find a way to overcome them and we will all flock to him to get the benefits of his invention.

There is a great industry which is rapidly developing for the regulation of the heat and temperatures of our homes and business structures - air conditioning, we call it. That bids fair to develop on a very large scale indeed. Also we are still far from having bathtubs in all houses, to say nothing of having an electric or gas ice box and all the other electrical devices. Improved methods of manufacture and lower costs of production make it possible for more people to enjoy the products of industry. These, therefore, offer possibilities of increased employment.

At different times there has been a great deal of discussion about the price level, with the belief that our prosperity depends on restoring prices to the level of some previous year. During the depression there was a decline in the general level of wholesale commodity prices amounting to perhaps thirty-five per cent. The decline in the wholesale prices of farm products amounted to sixty per cent, with the consequence that there was a terrible gap between what the farmers received for their products and what they had to pay for the things they required in order to live. Since that time there has been a general rise in prices, but the advance has been much greater for agricultural commodities than for other commodities so that at the present time they are in close relationship when measured on the basis of 1926 as 100. The reestablishment of a better adjustment of prices is one of the elements in our economic situation which is encouraging.

Great improvement has been shown in the field of banking. With the establishment of the Federal Deposit Insurance Corporation and the work of bank rehabilitation conducted by the Federal Reserve Board and the office of the Comptroller of the Currency, as well as the Federal Deposit Insurance Corporation, our banks have been placed in a position to contribute their full share to the upswing of business.

While there has been only a relatively small increase in the loan activities of the banks, this has been due in part to the fact that people have been paying off debts incurred during the boom period and that the liquidation of these debts has been equal to the new loans extended by the banks. It should be remembered, however, that this liquidation improves the position of the borrowers and makes them more ready to embrace future opportunities.

Demand deposits at the present time are higher than at any time in history, while time deposits are still below their high levels. With this volume of deposits available to the people and with a large volume of unused reserves at the disposal of the banks, the banking system is prepared to finance a much larger volume of business than is now being done. Deposits, however, are still turning over in a much more sluggish way than they did in normal times. As business increases the deposits will be used more vigorously and the circulation of money in the form of checks will be resumed at a rate sufficient to carry on the country's business.

This depression has demonstrated beyond any doubt that the creation of money does not at all times insure its use. It takes ability and willingness to borrow as well as to lend to create a loan, and it takes ability and willingness to buy as well as to sell to bring about a transaction.

Bond prices have risen. This brought about a resumption of capital flotations - largely of a purely refunding nature, but to some extent for the raising of new capital. The refunding, as well as the low level at which new borrowing can be made, has reduced the cost of debt that had become excessively burdensome. The debt burden has also been reduced through the refinancing of a vast number of mortgages at low rates, both in agricultural and urban communities.

These, then, are the facts. I have purposely refrained from expressing any opinions; I have purposely refrained from expressing any preferences. You, as men of experience and ability, prefer only the facts. From these you will draw your own conclusions. This much is certain, however, we are all aware of a definite and sincere realization that we must understand the facts in order to cooperate in the direction of an improved condition for the general good of our country and the specific good of each and every one of its citizens.