



LOOKING FORWARD:
ADDRESS DELIVERED BY GOVERNOR BLACK
BEFORE AMERICAN BANKERS ASSOCIATION
CHICAGO, SEPTEMBER 5, 1933.

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Name Index

Instead of an address I prefer to make a report to the Bankers of America, embracing present stockholders in the Reserve System, and those I trust may be considered prospective stockholders.

Six months is a short time in the life of any nation, and yet we have to look back but six months to see the end of an old order and the beginning of a new order. This fundamental change is emphatically true of our banking system, and this report will be confined to events pertinent to that system and the fundamental changes following those events.

The story of the thirty days prior to March 4th is tragically known to every banker here -- but must be referred to without enlargement, as vitally introductory of the events following that date.

The last two weeks of February witnessed disturbances in the banking world which denoted -- first, a complete loss of confidence on the part of the depositing public and second, a natural demoralization of the morale of our banking fraternity. In an effort to obtain time in which to arrive at some remedy in the banking situation and to avert a nation-wide bank catastrophe state banking authorities declared state-wide banking holidays, so that on March 4th practically all banks in the United States including Reserve Banks were, under the protection of these holidays, closed and all banking functions stopped. The continuance of such a situation for any appreciable time spelled destruction to our finances, with resultant destroying effects upon our commerce, industry and agriculture -- and -- so far as the banking world

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knew there was no remedy for this situation.

I have purposely refrained from picturing the experiences and feelings of Reserve Bankers, National Bankers and State Bankers during this period. That experience and that feeling are known to every banker in this hall and are referred to now only that they may be later contrasted with the feelings of the same men today.

On Saturday March 4th President Roosevelt was inaugurated. On Monday March 6th he issued a proclamation declaring "that from Monday the sixth day of March to Thursday the 9th day of March 1933, both dates inclusive, there shall be maintained and observed by all banking institutions and all branches thereof located in the United States of America, including the territories and insular possessions, a bank holiday, and that during said period all banking transactions shall be suspended".

What had been a haphazard holiday became a national holiday with full protection to the banks of the National Government. On March 9th the President sent his message to Congress in which he declared, "Our first task is to re-open all sound banks" -- and in which he asked of Congress "The immediate enactment of legislation giving to the Executive branch of the Government control over banks for the protection of depositors; authority forthwith to open such banks as have already been ascertained to be in sound condition and other such banks as rapidly as possible, and authority to reorganize and reopen such banks as may be found to require reorganization to put them on a sound basis".

In this message the President stated -- "I cannot too strongly urge upon the Congress necessity for immediate action -- A continuation of the strangulation of banking facilities is unthinkable -- The passage of the proposed legislation will end this condition and I trust within a short space of time will result in a resumption of business activities". The President also stated in this message -- "In addition, it is my belief that this legislation will not only lift immediately all unwarranted doubts and suspicions in regard to banks which are 100 per cent sound, but will also mark the beginning of a new relationship between the banks and the people of this country".

Through this proclamation the sound bankers of America knew -- first, that a banking remedy had been found and second, that there was the beginning of a new relationship between the banks and the people of this country.

At the same date of this message the Congress laid aside all politics and patriotically passed the Emergency Banking Act providing --

- first, authority in the Secretary of the Treasury for commandeering all gold into the Treasury of the nation;
- second, authority for licensing banks;
- third, for the conservation of bank assets;
- fourth, for the rebuilding of capital structure of banks through the issuing and sale of preferred stock;
- fifth, for the issuance of Federal Reserve Bank notes to supply ample currency;
- sixth, for the enlargement of the lending power of the Reserve banks to its member banks;

seventh, for the lending to individuals, partnerships and corporations by Reserve Banks.

The passage of this act gave assurance to the bankers and depositors alike that a complete remedy had been enacted into law.

On this same March 9th by proclamation the President continued the bank holiday until further proclamation. On March 10th by Executive order the President empowered the Secretary of the Treasury to license banks for reopening acting through State authorities and Reserve Bank authorities. On March 11th the President through the press stated the procedure under which the banks of the country would be opened progressively -- Monday, Tuesday and Wednesday of the following week, and the banks and the depositors then knew that under the protection of licenses the sound banks would reopen. The bankers took heart -- courage was engendered -- and preparations were remade for the reopening of the banks -- still with the element of uncertainty as to the attitude of the depositing public towards banks in general and towards each bank in particular.

Then followed the memorable address of the President to the people of America at 10 o'clock on the night of March 12th. This address was heard by the millions of America. Its simplicity went straight to the heart of America. Some of its statements:- "I want to talk a few minutes with the people of the United States about banking". "First of all let me state the simple fact that when you deposit money in a bank the bank does not put the money into a safe deposit vault -- it invests your money in many different forms of credit -- bonds,

commercial paper, mortgages, and many other kinds of loans. In other words the bank puts your money to work to keep the wheels of industry and agriculture turning around." "It is possible that when the banks resume a very few people who have not recovered from their fear may again begin withdrawals. Let me make it clear that the banks will take care of all needs and it is my belief that hoarding during the past week has become an exceedingly unfashionable pastime." "I do not promise you that every bank will be reopened or that individual losses will not be suffered, but that there will be no losses that could possibly be avoided and that there would have been more and greater losses had we continued to drift. I can even promise you salvation for some, at least of the sorely pressed banks. We shall be engaged not merely in reopening sound banks but in the creation of sound banks through reorganization." And in conclusion this statement -- "It has been wonderful to me to catch the note of confidence from all over the country. I can never be sufficiently grateful to the people for the loyal support they have given me in their acceptance of the judgment that has dictated our course, even though all our processes may not have seemed clear to them. After all there is an element in the readjustment of our financial system more important than currency, more important than gold, and that is the confidence of the people. Confidence and courage are the essentials of success in carrying out our plan. You people must have faith. You must not be stampeded by rumors or guesses. Let us unite in banishing fear. We have provided machinery to restore our financial system. It is up to you to support and make it work. It is your problem no less than it is mine. Together we cannot fail."

The next day the first banks opened -- others followed -- until on March 15th, or within 9 days of the first proclamation, 5077 member banks with deposits of \$25,554,287,000 had opened fully, and by April 12th 7392 non-member state banks with deposits of \$6,341,370,000 had fully opened. By August 30th member banks fully opened had increased to 5715 with deposits of \$26,767,224,000 and non-member banks had increased to 8301 with deposits of \$5,084,508,000. And it must be remembered that six months earlier every bank was closed and every banking function paralyzed.

This report is given without comment. It represents the banking situation today. Confidence restored and courage engendered had succeeded where conferences, legislation, and money had failed.

This banking history has entailed heavy responsibilities --

- (1) as to closed banks,
- (2) as to open banks,
- (3) as to banking policies,
- (4) as to Reserve policies,
- (5) that faith be kept with the people.

These obligations have required and have had the closest co-operation and co-ordination of effort between the financial departments of the Government upon whom the obligations rest -- the Treasury Department, the Federal Reserve System, the Comptroller of the Currency, and the Reconstruction Finance Corporation. We hear a lot about politics in Washington. I'd like to testify that these departments have faced these obligations without political thought, that hours have meant

nothing, and that the task has been approached almost in a consecrated way.

Our first task was our obligation to depositors in closed banks. These banks must be reorganized on a sound basis or funds based on their assets must be by dividends paid to their depositors. 1650 member banks were not licensed to open with deposits of \$3,124,591,000. This has been reduced to 957 with deposits of \$987,778,000, or a decrease in number of 693 and in deposits of \$2,136,813,000. 2959 state non-member banks were not licensed to open with \$1,321,309,000 of deposits. This has been reduced to 1746 with deposits of \$943,323,000, or a decrease in number of 1213 and deposits of \$378,086,000. These figures as to these two classes of banks must be clearly understood as embracing certain ones of each class that could not be reorganized and went into liquidation, but even so the picture portrays substantial progress towards the release of impounded deposits.

This picture will never be satisfying until it is completed and full faith is kept with these depositors in closed banks that they shall speedily have their banks reorganized or receive dividends justified by assets. This picture also presents a large monetary and social problem -- monetary because the funds frozen in these closed banks affect any monetary effort because of their deflationary aspect, and socially because of the deprivation suffered by these depositors. May I just pledge that the financial agencies named will continue their earnest efforts in the full solution of this problem.

The second question involves every effort in behalf of the banks that are opened, -- a maintenance of their capital structure, and

a furtherance of their liquidity to enable them to meet their demands and to properly serve agriculture, commerce and industry. Every effort is being directed towards these ends.

The third and fourth questions covering the commercial banking policy and the Reserve Bank policy may be considered together. We've got to work together to make any policy successful. The sufficiency of currency for all needs is no longer involved. The law as it now stands guarantees an adequate supply. During all the depression and during the last six months of recovery the supply has never been lacking. Money in circulation, covering all money outside of the Treasury and of the Reserve Banks, has been ample to meet every demand. Money in circulation to be effective must be money at work. During the period of fear and hoarding there was \$2,000,000,000 more money in circulation, that is, money outside the Treasury and the Reserve Banks, than there is now -- but it was frightened or hoarded money, locked up in the safety deposit boxes or in the vaults of banks -- idle money, ineffective money -- not money at work. Circulation ought to be and will be increased just as soon and just as fast as recovery gives it a job to do -- building, renovating, permanent improvements, installation of machinery and equipment, business upbuilding, increased payrolls and employment, enlarged factory output, the movement of crops and the financing of such movements -- all these put the dollar to work, and circulation for these purposes will meet every demand. What we do need in this country is a credit expansion demanded by an expanding business.

Mighty efforts have been made by the Government to drag us out of the mire of the past five years and mighty strides toward this end

have been had. One third of the cotton crop has been plowed up and \$120,000,000 paid to Southern farmers for this cotton. We may not understand or believe in that plan but the price of cotton is today 100% higher than it was six months ago. 5,000,000 pigs and a million sows have been bought by the Government in aid of the hog raiser. We may doubt that plan but it has disbursed \$50,000,000 to the Western hog raiser. Great efforts have been made in behalf of wheat and we may be skeptical as to them but wheat last fall was stationary around 40¢ and today it is twice that. \$3,300,000,000 has been apportioned to public works. You may not agree about that but it means dollars at work -- material sold in vast quantities -- employment of laborers and artisans on a gigantic scale. Farm mortgages to the extent of \$2,000,000,000 may be exchanged for bonds or bought. This brings relief to the distressed farmer, relieves the banks and insurance companies of frozen assets, gives the landowner a low rate of interest and a long term of years to save his farm. It's dollars at work. Home owners' bonds to the extent of \$2,000,000,000 may be used to the same end. It's dollars at work.

The National Recovery Administration is synchronizing industry, replacing destructive competition with intelligent co-operation, shortening the hours of labor to provide more employment, increasing wages to create more purchasing power, correlating industry into the whole program of recovery, calling patriotically for a nation-wide effort to put industry and business back on their feet -- it's putting dollars to work.

I have narrated all these efforts to prove that we are in a new era. If you don't like that term change the term -- but it is here. The banks and the Reserve Banks must realize that they are operating under conditions never existent before and with forces that are new and controlling and if they are to succeed they must accord themselves with these conditions and these forces. If our function is peculiarly a credit function we must perform it under these conditions and in line with these forces. There is nothing hidden about Reserve Bank policy. We are trying to force money to seek investment, to find employment, to go to work in behalf of industry, commerce, and agriculture -- our open market operations are all to that end. We are trying to keep step with every legitimate demand for credit within the realm of the full recovery program. I think the bank's problem is the same as ours and the bank's policy should be the same. I wouldn't ask any bank to make any loan that in the judgment of its officers it should not make -- but I do think that in the new era we must get away from an exclusive investment or collateral lending policy and get back to a basis of commercial lending.

The period of fear is gone. The hysteria is past. The banking system has been largely purged. Confidence has returned. Now courage must make successful our banking policies and if we fail in supplying the legitimate demands of credit the recovery program must fail and we'll fall with it. I have absolute faith that this will not happen but that the new banking system will do its full part.

I have reported on the procedure for licensing our banks and on four of the problems following -- and the legislation and other problems

have been before us. The enactments as to Gold Embargos, gold obligations, the Thomas bill and the Glass bill have each presented problems. I would be unfair to you if I did not report specifically on the Glass bill.

It has been my province to accept the Glass bill as the law. It greatly enlarges the powers of the Reserve Board to curb excessive speculation and those powers will be fully employed. It gives the Board jurisdiction over relations with Foreign Banks and that jurisdiction will be maintained. It gives the Board discretionary powers on the matter of certain procedure of investment affiliates and those powers will be exercised. It instructs the Board to prevent payment of interest on demand deposits, and it will be prevented. It instructs the Board to fix the interest rate on all time and savings deposits; this has been done by fixing a national maximum rate of three per cent upon both time and savings deposits and leaving free the autonomy of each bank in fixing its own rate within that limit.

Much discussion has been had as to the guarantee of deposits provision. I do not care to dodge that discussion -- as far as the Board is concerned it is the law. Its success or failure in the purpose for which the law was made admittedly must depend upon the quality of its enforcement. If it is administered ably and honestly, as I deem it will be, it should be a menace to no bank or group of banks and a protective measure to all banks. The law fixes the condition of membership upon the possession by each applying bank of assets adequate to meet its liabilities to depositors and other creditors. In fairness

to each member of the fund no bank should be admitted to membership unless its assets meet this requirement. With this condition applied losses in the corporation should be held at a minimum and this condition must be applied if the corporation is to succeed. With this condition applied such minimum losses will be a small price to pay for the sound unified banking system that should follow from its operation by July 1st 1936. I can only speak for the Board and for it I am free to pledge you that banks admitted by it into this corporation will comply with the required condition. And I have faith that the other agencies passing upon this question will exercise the same degree of integrity.

I have reported fully to you our problems and I bespeak your help in their solution just as I pledge you our best efforts in the solution of yours, and together we may with confidence look to the day when banks doing their full part will have regained their first place in the regard of America.