SPEECH OF
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PUBLIC OPINION AND THE CREDIT SYSTEM

While I do not recall ever attending a meeting of the Montana Bankers' Association during the fifteen years I lived in your State, nevertheless I know so many of you that this feels like a return to home pastures to me. As is always the case in a home-coming, there is much to talk about, - so much that a choice isn't easy. To be sure, my subject is laid out for me. But it would be unthinkable to meet with this audience and ignore the critical condition in which farmers over a considerable part of the state find themselves.

Montana is a state of marvelous diversity. No general statement that is true of one section will be true of others. One of its greatest assets is the courage and bull-dog tenacity of its sturdy citizenry. They have been tried to the limits of human endurance by conditions over which, as individuals, they have little control.

A man who has made a close study of weather conditions in the northern Great Plains told me the other day that this continent gives no precedent under the White Man's civilization for the kind of a thing which Montana has suffered for the last fifteen years. There is no point in reviewing the record. Everyone in the line of responsibility, from Montana to Washington, is studying what can be done about it.

There is no quick magic to make these problems disappear. Readjustments in types of farming are going on, and will have to go much farther. They will take time. Meanwhile, the public responsibility
for economic casualties cannot be evaded. It can be assumed that
drought-stricken families will be assisted through work relief and
through grants. Of course I am in no position to speak with authority
or from inside information, but I see no reason to suppose that the
work relief program will not be directed toward permanent and helpful
projects in the areas affected -- small flood irrigation districts,
dams, and farm-to-market roads. The prospect will clear up speedily
when the pending relief bill passes.

Naturally, we all want to see Montana's agriculture founded on
practices that will afford reasonable stability and safety even when
weather conditions are bad. The institutions of the State of Montana
are to be congratulated because of their foresight in preparing, proba-
ably more completely than any other state, the information which is
essential to development of a sound land-use program.

There are stretches of Montana, plowed up within our times, which
will have to be assisted to return to livestock range -- and that takes
time. In the non-irrigated general farming districts, some signifi-
cant practices have been developed which, when generally adopted, will
mean a great deal to this state. I have in mind particularly the use
of contour dykes which hold all the rainfall on farm land so that it
will not run off at all. Then, strip farming is being developed to
prevent soil blowing.

There are definite ways in which federal and state governments
can cooperate to secure district-wide adoption of these practices. I
am told that progress along this line in the Southern Dust Bowl has
been more rapid and has yielded better results than in the area of
which Montana is a part.

The experience of recent years has taught many lessons. After
all, it isn't safe to judge a region from the top of the peak, or from
the bottom of the trough. No one knows what kind of weather is ahead.
It is best to do everything possible to get along under the weather, no
matter what it may be.

I have faith in Montana, and in the strength of her people. The
hard-hit sections of the Northwest are like the man in the bottom of the
well, with no place to go but up - but they won't go up except through
joint effort of nation, state, and individual. And no matter how much
ground is regained, the scars of late years will be with us for a long
time.

I turn somewhat reluctantly from the vital problems that must be
faced in fitting Montana's agriculture to meet its hazards, to the
domain of money and credit, which concerns you directly and to which
the title announced for my talk commits me. It is still much easier
for me to think in the old terms than to deal with the words and ideas
of the new field to which I was transferred just one year ago today.

When I left the Agricultural Adjustment Administration, I felt that
I was sailing from a storm-tossed sea into a comparatively smooth and
protected harbor. Now that I have had a chance to survey the new scene,
I am not so sure. You want to make credit and money safely serve the
common good. So do we. But it isn't as easy as it sounds. My short
experience has convinced me that the greatest difficulties have their
roots in the general lack of sound information in the public mind. There are certain fundamentals in money and credit policy which must be understood before public opinion can exert its influence in the direction of orderly and uninterrupted progress. In the last analysis public opinion controls the policies of a democracy.

Occasionally a friend asks me, "Well, what are you doing now?" I tell him I am connected with the Federal Reserve System. Usually he responds with a blank look, and that part of the conversation ends lamely with his asking, "Well, how do you like being a banker?"

It isn't strange that the Federal Reserve System is a thing of mystery. We live in a complex world. We haven't much time to spend in study of a subject not plainly seen as a part of our daily life and interest. And while a thing remains a mystery, it is easy for it to become an object of some suspicion—especially when a persuasive voice tells us we ought to be suspicious.

The fact that only 66 out of Montana's 117 operating banks are members of the Federal Reserve System tempts me to open up and talk to you about its functions. That subject, however, will have to wait for another opportunity, and a better qualified speaker. If I spoke on it, I am afraid the main point I want to drive home here today would be lost. But before I state that main point, there is one announcement I am privileged to make, which concerns primarily a Federal Reserve System matter.

The Board of Directors of the Federal Reserve Bank of Minneapolis,
with the approval of the Board of Governors at Washington, has taken steps looking toward the construction of a new building in Helena which will adequately, and I hope permanently, house the activities of the Helena Branch Bank which serves this state.

The central thought I want to engrave on your minds is this. The laws and rules under which the vital functions of money, credit and banking are carried on are written by the Congress and the several legislatures. In the long run, Congresses are responsive to public opinion. Yet how can public opinion exert constructive force in a field in which there is so little general understanding and thought? And what are the bankers of the United States — the bankers of Montana — doing about it?

One year ago a distinguished member of your profession, in an address to your annual convention, urged bankers to inform their depositors "in regard to money, credit, and the elements of sound public finance upon which rests to so great a degree the banking structure." I am in entire agreement with that advice, even though I totally disagree with the conclusions which the distinguished speaker wished you to carry to your depositors.

I may be wrong, but it has seemed to me that many if not most great meetings of bankers in this country are addressed by men whose chief concern seems to be to get us back to the status quo ante.

The depression from which we are emerging paints the condition which I want you to see as the background for my discussion. Surely the man is an incurable optimist who believes our problems are settled, or
can be settled, without continued action by people through their government, perhaps along unprecedented lines. Surely the man cannot read lessons of history who believes all will be well if we of the United States can only turn the clock back to the feverish late 'twenties.

We live in an unfinished house, to which we are constantly adding, or from which we are taking away. The chances are it will never be finished. In a democracy, the people themselves select the architects and pass on their changing plans. My point is that the people of a democracy must have complete light while the building to meet changing conditions goes on. Otherwise, the plans will be those demanded by articulate and influential men who, even though sincere, may have been hopelessly misled and deluded upon vital issues.

It is no indictment of their sincerity if they reflect the views of their economic group and their associates, or if they merely repeat dogmas and theories that have been dinned into their ears in former days when conditions were vastly different from those of today. As Mr. Keynes, the British economist, has said, "Practical men who believe themselves to be quite exempt from any intellectual influence are usually the slaves of some defunct economist."

Particularly, men are likely to believe that all is best in this best of worlds and that the sum total of the self-interest of individuals composing a society must work for the greatest good of the greatest number. What we must all learn firmly is that the so-called doctrine of laissez-faire, which may work for a rough measure of justice and public welfare in a young society with an unexplored frontier, does not work advantageously
in a highly organized society. There all the frontiers are internal frontiers, and the good of the greatest number can be attained only by the surrender of that portion of individualism that is inconsistent with steady progress of the group.

We are not very far removed from the day when disease and pestilence were regarded as acts of God, which only the godless would seek to avert or eliminate. Many of us appear to be in the same attitude of mind yet today regarding attempts to control and minimize the harmful effects of the business cycle.

Speaking historically, I believe that has nearly always been the attitude of governments. Quite recently Mr. Keynes, whom I quoted a moment ago, introduced a series of articles in THE TIMES of London on the subject of "How to Avoid Another Slump," by saying:

"This means that all of us - politicians, bankers, industrialists and economists - are faced with a scientific problem which we have never tried to solve before. I emphasize that point. Not only have we never solved it; we have never tried to. Not once. The booms then the slumps of the past have neither been courted nor contrived against."

Today we are asking ourselves: Is it not possible that we can so shape our future course and so direct our policy that the government will serve in effect to counterbalance the cycles which private enterprise, left to itself, has inevitably generated in the past and undoubtedly will continue to generate with increasing intensity in the future unless we
devise better methods of managing our broad economic problems? Is it not necessary to have the government prepared to check speculative inflation and to intervene as an offset if deflation threatens in the future?

When business was local and commerce small in volume, the cycles spent themselves before too much momentum gathered on the swing toward the top or to the bottom. Now that agriculture, finance, commerce, and industry are closely interwoven and in delicate balance, these cycles assume different proportions.

There comes to my mind Victor Hugo's vivid story of the battle between men and the cannon that had broken loose in the ship hold during a storm at sea. With each lurch and sway the cannon gathered more destructive momentum until it threatened to batter the ship to pieces. Men captured and chained it.

The main economic problem of our generation is to devise a system wherein the flow of money will be steady and uninterrupted, increasing only in proportion to our ability to produce more goods. I have remarked elsewhere that farmers, perhaps more than any other class, suffer from the alternation of floods and drouths in the money flow - in the ups and downs of the business cycle. But what cycles have done to depositors and stockholders of banks is appalling. From 1921 to 1929, bank suspensions tied up $1,565,000,000 of depositors' money, and from 1929, through the bank holiday, tied up an additional $3,600,000,000, while altogether more than 11,000 banks went to the wall. Vast swings over which individual bankers had little or no control created this havoc.
Banks went under which had administered their affairs wisely according to all existing standards, whose responsible leaders thought, at least, they had been making good loans and avoiding bad ones.

When these swings are under way the individual banker is about as potent to influence or direct them as a toad under the farmer's harrow. Fair-minded men will agree that, while many bank failures were caused by poor management, the banker is not responsible in every case for the failure of his bank. To quote from an American economist who works for the Federal Reserve System, "In an economy like ours, where nine-tenths of the money is in the form of bank deposits, a drop in the national income to less than one-half of its normal level must inevitably result in the destruction of a considerable part of the value of bank assets. And since the bank's liabilities are not thereby reduced, the total value of the assets would no longer equal the total of their deposit liabilities. With full recognition of the fact that a part of our banking trouble arose from mismanagement and speculation, it is nevertheless certain that the major part of the catastrophe, particularly after 1929, was not due to mismanagement alone and in many banks was not due to mismanagement at all, but represented the effect on the banks of a collapse in the value of national wealth and income."

And again, further on, "Management, no matter how prudent, could not save a bank in a community whose income had been destroyed. And that is particularly true of a bank which has served the needs of its community adequately when the skies were clear. The answer is, therefore, that some of the banks that have survived are not banks at all, but pawn
shops or open market investment houses. But there are others which have served their communities conscientiously and generously and have been managed wisely, and have survived. We congratulate them, but it is probable that their survival has been due in part to the element of luck. There never has been a battle in which all the participants were killed, and those who have survived have not always nor necessarily been the bravest or the strongest. They may not only be the ones who ran away but they may also be the ones whom the enemy fire happened to miss."

We all know what happened after 1929. It was not due either to the wickedness or greed or blindness of the bankers as a class, but they, like all the rest of us, were overtaken by supposedly natural forces which indiscriminately destroyed the prudent along with the imprudent, the good along with the bad bankers. Of course, the banker always was and, I presume, always will be an ideal scapegoat. He is supposed to know something about money, and in about every depression that I ever heard of the first mass conviction that rises out of the disaster is that it is the money mechanism that has gone wrong.

If we are going to convict anybody for past money and banking smashes, let's line up the rest of the defendants along with the bankers. On second thought, that's too much of a job. I imagine most everyone free to move under his own power would have his place in the panel. At any rate, if we are going to get anywhere, we will have to admit for national and state governments their share of guilt. To hold the banking system alone responsible would be like saying that the homesteader and
the settler were alone guilty of the radical transformation which changed
the permanent grass ranges in vast areas to hazardous annual crops, with-
out adequate knowledge of the risks ahead of the new undertakings. Surely
most of us were equally guilty. The national government with its home-
stead laws; the states and railroads with their high-pressure land set-
tlement drives; the chambers of commerce down to the individual - they
all took a hand.

So it has been in banking. The fever to get new banks chartered
in this or that system developed a competition in laxity which couldn't
escape disaster. Even today, there is such diffusion of public respon-
sibility, such lack of unity, such diversity of regulation in the Amer-
ican banking system that it falls far short of the workable ideal. These
are public shortcomings for which bankers as individuals and in the mass
are not alone responsible. Yet in the situation there is enough of dan-
ger from the viewpoint of private bank ownership and operation to chal-
lenge the bankers to insist on and lead in progressive and intelligent
reform. If another crisis finds the American banking system disorganized
and ineffective, the American citizenry, inherently conservative though
it undoubtedly is, may nevertheless seize a short cut. Certainly public
opinion at such a time will have scant patience with past timidity and
inertia of bankers, and with petty bickerings for power among official
agencies, when it searches for the causes of disunity and incompetence.

Experience of the past few years has shown that great coordinated
national effort is possible if it is backed by mass thinking. The worth
of what is accomplished depends, as do all enduring efforts of a
democracy, upon intelligent understanding among the masses of the people.
I had some experience, during two and one-half years in the Agricultural
Adjustment Administration, with such a national effort. I know that its
force and vitality, its appeal to Congress as the law-making body, if
you please, sprang from dissemination of economic facts upon which men
based their thinking. Recent observations have made me wish that some
comparable educational force existed in the field of banking, money and
credit.

It is clear to me that we are in a period of far-reaching change and
evolution in our money and credit policies, and in the agencies that are
concerned with them. What is done will affect vitally every man, woman
and child of the nation. Our experiences of the early 'twenties, and
again in the early 'thirties, are still fresh in our minds. Yet it has
seemed to me that in this field there is almost a total lack of the gen-
eral information which is essential to clear and unprejudiced thinking.

Much of our thinking about money goes back to the day when currency
of one form or another, usually with fixed value in gold or silver, con-
stituted the medium of exchange. Today about 95 percent of our business
is settled by bank checks. The banker who extends credit creates money
by an entry on his books or on the books of another bank—money that can
build a house, pay for making a crop, or run a business or a railroad. It
pays the wages of labor, or buys raw material for a factory.

Similarly, when banks restrict credit or when banks fail, they cause
a contraction of our bank currency, of our money, just as truly as though
the government collected bank notes and destroyed them. This is why credit
control must be exercised by a public body representing the interests of the whole nation.

The power to create and destroy money is a gigantic power and a heavy responsibility. No thread of common policy runs through the banks that possess this power. Nearly two-thirds of them in number are not members of the Federal Reserve System, although 36 percent of the volume of checking accounts is carried by System banks. The more than 15,000 banks are chartered, supervised or examined by at least 51 separate and distinct authorities.

There are many questions about which people ought to be thinking. What is the function of gold in the future monetary system? Shall we again pin our faith to gold or some other metal or combination of metals as a sort of automatic regulator of our money system? Or is the world going to move still farther in the direction of what is called managed money - that is, managed by human agencies rather than by theoretically automatic gold or some other disembodied mechanism? What steps shall be taken to bring unity into the banking system, and with what agency or agencies shall public responsibility be placed? What can be done to make credit as available to the farmer and the small business man, and on as reasonable terms, as to the large urban borrowers? Have we taken adequate steps to avoid future waves of bank failures and financial liquidation? What is the inter-relationship of our banks and other investors with the public debt? Should the government abandon the almost universal practice of issuing interest-bearing bonds when it borrows on credit, and turn to the issuance of non-interest bearing notes in their stead?
I could add to these questions indefinitely and so could any of you. I would not attempt to answer them to your satisfaction even if there were no limits to my time and your patience. I assure you that the questions are not unimportant or remote. Every one of them is in the foreground or background of public consideration today.

I say there's no time for answers here. Perhaps a little comment may be in order, even at the risk of drawing out this afternoon's program unduly. I don't mind your looking at your watches as this talk drags on, but as Sir Josiah Stamp once told an audience, I would feel hurt if you started holding them to your ears to see if they had stopped running.

One very common belief which to me seems a delusion is that transfusion of vast quantities of new currency into the bloodstream of this land would quicken the patient's pulse and speedily make him well. The obvious, though perhaps superficial comment is that, in March 1933, at the blackest hour of the depression, the quantity of money in circulation was the largest in our country's history - over seven and a half billions, in fact, compared with four and a half billion average for the four years 1928 to 1929 inclusive. No matter how much currency is issued, only so much of it as is convenient for purposes of business will ordinarily stay in circulation. The rest moves into banks and finds its way into banking reserves. It is what happens from that point on that counts. Excessive banking reserves that are used for undue and dangerous expansion of credit - for unwise inflation - may indeed quicken the patient's pulse
and make him feel well for a time, but surely none of us, for the sake of the first effects, wants to risk what must inevitably follow when the pendulum has swung the other way.

One other comment. We hear a lot of talk about the nature of the Federal Reserve System. Here's the way it looks to me: The Federal Reserve System was created as a national instrument in which certain powers to influence and, to a degree, control credit conditions and policies have been vested. As such a national instrument, it seems reasonable to assume that the general public interest must be paramount in determination of System policy even if at times it may seem to run counter to private banking interest. One thing seems clear: the policies of such a national instrument should never be dominated either by private or by partisan interests.

You may not like all the things that are being said these days about credit and money and banking, but I hope you will agree with me that it is a healthy thing to have discussion going on. Perhaps much that is said strikes you as biased or incorrect. Let it be a challenge to provoke you, both to think things through yourself, and to help make available in your community the basic facts which alone will aid public opinion to choose that which is true, from that which is not true.

In conclusion, let me remind you that history has not yet answered the gloomy prophecy uttered by Lord Macaulay nearly a century ago who said: "I have long been convinced that institutions purely democratic must, sooner or later, destroy liberty, or civilization, or both." Nor, on the other hand, the conclusions of a present-day Englishman, John
Strachey, that the capitalistic system carries within itself the seeds of its own destruction.

Certainly I do not come before you today with the answers. Nor do I want to echo the customary crop of commencement address in which members of the older and aging generation pretend to inspire the youth to do better the tasks we have done all too poorly.

We live in a swiftly changing world. Governments will play an increasingly important role in assisting their citizens to make adjustments. This will be true of money and credit, as well as of other economic and social factors. In determining what government can do, the all-important thing is the attitude of those to whom you delegate its powers. If they sit tight and inflexible, eyes glued to the past, while the vast mechanism of this country ensnarls, another and more serious explosion may occur. If they combine intelligent understanding with courage - the willingness to act; if they use, change, discard, or supplement existing means as changing conditions or experience indicate; then government may assist its people to direct the nation's boundless energies along the road of orderly progress.