The Federal Reserve Act

And The Place It Is To Occupy In American Finance

BY

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This Address was delivered to an Association of Business Men by

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selected by President Wilson as representatives of professional and business experience, and is couched in non-technical language which we believe imparts to the subject an especial value at the present time.

Should you care for additional copies we shall be pleased to furnish them as long as our edition lasts.

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THE title of the Federal Reserve Act, passed December 23, 1913, states its purposes as follows:

"An Act to provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means for rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

In order to understand the place which the Federal Reserve Bank System is destined to occupy in the life of the nation, one must review the provisions of the system under which the National banks have operated for fifty years and appreciate the fact that, in the new Act, Congress sought to correct and supplement an existing system, with which nearly two generations of our people have become familiar, rather than to supplant it with an entirely new system, built upon a new foundation. Furthermore, it is important to bear in mind that two-thirds of the banking of the country is done by banks and trust companies chartered by the various states, under laws differing widely, and in some cases under charters much less strict than the Federal law. This feature becomes of great importance when it is considered that the ultimate banking reserves of the country are the reserves of the National banks. State banks permit National Bank Notes to be counted as reserves; therefore, unless these were fully secured, the whole fabric would break down.

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RESERVE REQUIREMENTS.

It is an elementary but important fact that the whole theory of banking is based on the principle of averages derived from the results of experience. Banks represent, roughly, two classes of customers—depositors and borrowers. If a bank had to keep in its vaults cash subject to instant demand by all its depositors, no bank could live except by borrowing from its neighbor banks, and if the demand were simultaneous the entire banking system would break down, because there is not sufficient currency to meet the demand. Banking, therefore, depends upon the hypothesis that a large proportion of the funds of depositors will not be called upon simultaneously; that somewhere between 10% and 25% must be kept on hand and on the premises, and that the remainder can be actively employed at interest—that is, earning something; otherwise a bank could not earn its rent, salaries, and cost of operation, to say nothing of a return on the capital invested by its promotors.*

(*) It is proper to explain that while a bank begins doing business by lending its capital and a share of its deposits, each loan that is made goes to swell the deposits because the loan when made is not usually paid out in cash, but is put as a deposit credited to the borrower and subject, like any other deposit, to check by the borrower who has thereby become a depositor. The relationship of deposits to loans and to currency is well illustrated by the aggregate figures taken from the statement of the Comptroller of the Currency for June 30th, 1914, as follows:—

Under the Banking Law of 1863, reserves varying from 15% to 25% were stipulated, but unfortunately that law, (because it permitted Reserve City banks to deposit half their reserves in Central Reserve City banks and Non-reserve City banks, three-fifths of their reserves in Reserve City banks) allowed a great duplication of reserves without any elasticity. A demand for currency attending a panic or loss of confidence on the part of the public invariably found the banks carrying the minimum reserves authorized under the law, and it would at once develop that these so-called reserves were not, in fact, available; they might more truly be called minimum requirements of normal times, not reserves to be drawn upon in case of need.

Gross deposits of individuals and corporations in National banks, State banks and Trust companies $18,517,732,879

Gross loans and discounts by National banks, State banks and Trust companies......$15,288,357,284

Total U. S. currency outstanding same date........ $3,402,015,427

(This report includes all National banks and 95% or more of the State banks and trust companies.)

AN ELASTIC CURRENCY.

It is apparent that this subject of reserves is of immense importance to the country's development. For twenty years bankers, business men and economists have interested themselves in the problem of working out a solution. The fact that other countries were able to adjust their banking and currency methods to the ebb and flow of business, or even to survive considerable recessions without complete stagnation or panic, was constantly referred to. After much discussion it became apparent that this question of reserves was closely associated with that of a suitable currency; that one of the phenomena attending every panic or business disturbance was a demand for currency which, if not satisfied, invariably led to the hoarding of metallic money. It was pointed out that in this respect the currency system of the United States, under the National Banking Act of 1863, was peculiarly rigid and inelastic—far more so than it had been under earlier banking acts or under the central bank systems common in Europe.

The currency provision of the law of 1863 was based on the idea of compelling National banks to purchase United States Government bonds and using those bonds as collateral security for National bank currency. As a plan to create a market for Government bonds, of which there were some three billions outstanding at the close of the Civil War (three times as many as now), the Act was a great success. Under its provisions bonds which sold on a basis of more than 7% reached a basis of less than 2%. Nobody could

complain that this form of currency was not safe.

The complaint came only from the economists and students of the problem, that it was incapable of expansion and contraction with the demands of business. If the amount were increased to take care of maximum requirements, there was no ready means, in periods of slack business, of contracting the amount of currency in circulation except by the clumsy method of returning the currency, redeeming the deposited bonds and converting these into cash again, a manifest impossibility on any large scale, because United States bonds have long since reached a market price, by reason of their circulation privilege, far above their investment value. Our own experience in this country before the Civil War, as well as that of European nations, pointed out a remedy in basing the currency, not upon long time securities such as Government bonds, but on short time loans of merchants, manufacturers, and agricultural producers, loans based upon and representing actual purchase and sale of raw material, produce or commodities, or of manufactured or partly manufactured products. The great advantage of such loans as a basis for currency, lay in the fact that they were self-liquidating, constantly turning over, that they represented largely food or other products classed as the necessities of life, that the currency based on these loans of short maturity naturally increases or decreases in volume directly with the enlargement or diminution of trade requirements, population, etc. The Act fully provides for the redemption of the Notes as well as for their issuance, an important but not always appreciated necessity.

However, in order to leave undisturbed the existing currency, with which every one was familiar, Congress provided that the present bond-secured currency should remain intact for the present, subject to partial replacement and cancellation through a period of twenty years with a new bond-secured currency of the Federal Reserve Banks. This means that the notes of twelve Federal Reserve Banks will gradually displace the notes of 75,000 National banks, and at the same time diminish in volume at a moderate rate per year. In addition to this bank note currency; plus the gold and gold certificates; silver and silver certificates and greenbacks, already in existence, (enumerated in Table A) there was created by the Federal Reserve Act a new form of currency, known as Federal Reserve Notes.

TABLE "A".

In Circulation, February 1, 1915.

Gold Coin (including bullion)	$623,050,364
Gold Certificates	958,448,039
Standard Silver Dollars	67,621,922
Silver Certificates	452,613,274
Subsidiary Silver	160,334,776
Treasury Notes of 1890	2,321,968
United States Notes	319,711,226
National Bank Notes	879,497,881
Total	$3,463,599,450

N. B. This table does not include any gold which is back of gold certificates, or silver back of silver certificates. In other words, there is no duplication in this statement.

These new Federal Reserve Notes, issued in five denominations, ($5, $10, $20, $50, $100), represent the elastic currency of the country. In other words, the previously issued currency already mentioned, amounting in total on February 1, 1915, to $3,463,599,450, will easily take care of average requirements of business, while the new currency provides an elastic, supplementary currency. Thus the plan devised and finally adopted by Congress, not only meets the requirements of an elastic currency, but meets most ingeniously the difficulty in respect to reserves to which I have already referred. Depending somewhat on the diversity of business or the dependence of a community upon a single crop, there is to some extent a seasonal ebb and flow in the demands of every community, exhibiting itself in an increased or diminished demand for currency and banking credit.

The new Act makes a substantial reduction in the reserve requirements, (see Table B) yet accomplishes this without weakening, but actually strengthening those reserves by making them more effective and available. This claim may sound so paradoxical and astounding that it is proper to consider carefully how it is accomplished:

(1) The new law does away with duplication, (See Table B) so that the reserves are in a form where their amount and availability are beyond question.

(2) Instead of being in part very widely scattered, (e. g., two-fifths of all country bank reserves in bank's own vault) and the remainder largely concentrated in three Central Reserve cities, at the end of the three

years, under the new plan, these reserves will be largely marshalled in the twelve Federal Reserve Banks.

(3) The reserves deposited in the Reserve Banks are more than simply so much cash, for it becomes available in an expansive way and, as need develops, each dollar of reserves is capable of expansion, through its note issuing power, into two dollars and a half.

(N. B.—How this is accomplished will be more fully explained.)

TABLE "B".

	Percentage of deposits required as reserves under the old law.	Percentage of active or demand deposits required as reserves under new law at end of three years.	Percentage of time deposits or savings deposits under the new law.
Three Central Reserve Cities	25%	18%	5%
Fifty-one Reserve Cities	25% of which one-half could be kept in a Central Reserve City.	15%	5%
Country Banks	15% of which three-fifths could be kept in a Reserve City.	12%	5%

These reserve deposits must be kept very largely in the Reserve banks, thus the three groups of banks, Central Reserve City banks, Reserve City banks and Non-Reserve City or country banks, must severally keep in the Federal Reserve Bank of their District 7% of their 18% reserves, 6% of their 15% reserves and 5% of their 12% reserves and these percentages may be increased at their own option to 12%, 10% and 8% respectively.

At first blush this might seem an indiscreet use to make of reserves; it might indeed strike one as a wild project of pyramiding on assets, but a study of the Act will satisfy the student that, if the Federal Reserve Board does its full duty, these reserves can be used expansively as suggested, yet be absolutely safe. At this writing, with only two installments of the capital stock paid in and with only one-third of the total reserves (except as to Central Reserve City banks) in the hands of the twelve District Reserve Banks, the total cash deposits in their hands aggregate $281,373,000. The law requires, as cash reserve in Federal Reserve Bank vaults against deposits of member banks, 35% of the said deposits—or, at present, $98,480,550. The remaining 65% of reserve deposits can be used as a basis for the issue of currency in the form of Federal Reserve Notes; in respect to which powers the law requires, first, that each of the twelve Reserve Banks, (except for supervision by the Federal Reserve Board) shall be an autonomous, self-contained an independent unit; and, second, that it may issue currency against approved "commercial paper" or (*) "acceptances" when indorsed by member banks, dollar for dollar, provided it shall deposit as additional protection and reserve against such Notes not less than 40% of gold. From this it will be seen that, after deducting $98,480,550 from the aggregate cash resources of the Federal Reserve Banks, as a reserve against the deposits of its member banks, there remains $182,892,450, which is capable of sustaining a total note currency of $457,231,125; and, obviously this will increase very largely when all the reserves shall have been paid in, and be still further increased if Government deposits are made in the Federal Reserve Banks, or if, as it is hoped, State banks in large numbers enter the system.

(*) By "acceptances" are meant "drafts" or "bills of exchange" drawn upon a purchaser of goods to be delivered, growing out of export or import, and accepted by the buyer or by a banker or accepting house, acting on behalf of the buyer.

HOW THE FEDERAL RESERVE BANKS ARE FORMED; THEIR CAPITAL AND RESOURCES.

Before we proceed too rapidly with the functions of the Central Banks created under the Federal Reserve Act, something should be said of their formation, capital, resources, etc. The capital stock of the twelve Federal Reserve Banks is contributed by the National banks of the District of which it is the banking center by an assessment upon each of those banks equal to 3% of their capital and surplus. Subscription to the capital stock of the Federal Reserve Banks must be paid in gold and is obligatory on all National banks, but optional on State banks which are permitted to join the system if they desire to do so... The required minimum capital stock of the twelve Reserve Banks, which must be paid in gold within six months, now aggregates about fifty-five million dollars, an amount which will, of course, increase as the number of banks increase, or as they increase their capital and surplus, or, as State banks enter the system.

The capital stock of a Federal Reserve Bank is expected to pay its owners (the member banks) 6% dividends, and these dividends are made cumulative. After this dividend has been paid any remaining profits go to the United States as a franchise tax, provided that one-half this amount must be used to build up a surplus fund until such fund shall have amounted to 40% of the paid-in capital of each Federal Reserve Bank.

The remaining net profits may be used, at the discretion of the Secretary of the Treasury, to supplement the gold reserve held against the United States notes ("greenbacks"). Incidentally these Federal Reserve Banks are exempted from all taxes, except on real estate.

In addition to their capital resources the Federal Reserve Banks are explicitly made the depositaries, as already explained, of a large share of the reserves of their member banks, and, in addition to the reserve deposits, member banks are permitted to keep excess reserves with the Federal Reserve Bank. Federal Reserve Banks are not permitted to accept deposits from individuals, firms and corporations, but are permitted to accept Government deposits and to act as fiscal agents of the Government.

OPERATIONS OF THE RESERVE BANKS IN ORDINARY TIMES.

It might be assumed from what has been said that these twelve Federal Reserve Banks exist solely to take care of unusual, spasmodic, or seasonal demands of business or else those excessive demands which periodically come upon us at greater intervals of time. That alone might well be called a worthy object to attain, but it would have to be admitted that a ponderous and costly machine had been created to serve an occasional demand; and it might be doubted whether a machine thus kept in comparative idleness through two-thirds of the year would operate smoothly and successfully when the steam was turned on. But the framers of the Act had no such idea. They meant that these Reserve Banks should be active undertakings and, among other requirements, imposed upon them the duty of earning for their stockholders (the member banks, aggregating to begin with 7,600) not only operating expenses and all costs by the Government for engraving and printing of notes, the salaries and expenses of the Federal Reserve Board and its staff of employees, but, in addition, 6% on the capital invested by the banks. In order to enable the twelve Reserve Banks to employ their funds profitably in the dull seasons (the seasons of liquidation) and recognizing that in such seasons the member banks would not bring commercial paper to the Reserve Banks for rediscount and the issuance of currency, for the obvious reason that in those seasons the member banks themselves would have ample loanable funds, Congress provided for the purchase and sale of certain readily marketable investments; for example, Government bonds, tax warrants of States, municipalities, etc., acceptances, e. g., drafts or bills of exchange, the payment of which has been guaranteed or promised at maturity, and other similar documents. Investments of this kind, which must be made under restrictions of Federal Reserve Board, are, with the exception of Government bonds, all short time paper, the idea being that they shall mature in advance of the active requirement of funds for crop moving, etc. It is impossible to foretell just what experience will develop, but it is probable that the rediscounting of commercial paper and the issue of Federal Reserve Notes therefor will reach, normally, a minimum in the months of January to March, inclusive; that thereafter it will gradually rise to a maximum requirement in the Autumn, and from that maximum recede again to the low point after Christmas. However, it is to be expected that the demands in the various districts, with a diversity of harvesting seasons, will develop a condition where there may be a scarcity of funds in one region and a surplus in another. With this possibility in view, the Act provides that the Reserve Bank of one District may rediscount for that of another District.

From the foregoing it may be seen that, while the Federal Reserve Act provides a valuable "shock absorber," it is far more than an inert piece of machinery which comes into action in an emergency. It might more truly be likened to an extra "unit" in a large power station, revolving at all times on, say "half load," yet capable of taking on a "full load" at any time or, for short periods, even a considerable "overload."

In much that has been said and written, however, it is evident that in some particulars the true functions of the Federal Reserve Banks have been misunderstood. These great District Banks, each representing a large and important territory, important though they be as the Central Banks of their Districts, are not in any sense wholesalers of money to their member banks who, in turn, dispense or retail it at a profit to their customers. These Central Banks, with whom the public is not directly permitted to deal, are, in a sense, "banks of banks" as has been frequently said; but their gross assets really bear only a small ratio to that of the aggregate of the stockholding banks, and, while their powers and influence are very great, their actual currency issuing power will represent, after all the reserves have been paid in,—at most some 12 per cent. to 15 per cent. of total loanable funds of banks in the country, National and State.

NOTE: Stated in round figures, after deducting the reserves required against deposits, there remains $181,600,000 of gold on hand, which will sustain an issuance of four hundred fifty-four millions of Federal Reserve Notes. This will be increased in three years to, say 700 millions, which is 4½ per cent. of the total loans and discounts of the State and National banks of the country on June 30th, 1914. This will be increased, as already explained, as State banks enter the system and as Government deposits are added.

INCREASED POWERS GRANTED TO NATIONAL BANKS

In order to give National banks a wider scope of operation and a bigger field of usefulness, a number of added powers were given to them simultaneously with the creation of the Reserve Banks. Thus they were allowed, under regulations of the Reserve Board, to start branch banks in foreign countries, to act as trustees, to retain lowered reserves against time and savings deposits, etc. These added powers should go a long way to enable National banks to do an increased business, to enter the field of foreign commerce and to adjust themselves to the growing needs of our people.

However, the new Banking Act not only increases the powers of the National banks in dealing with foreign commerce by allowing them to establish branches in foreign countries, but opens the door to investment of a large part of the resources of the banks in accepted bills of exchange in connection with the import and export of goods, and permits the discount or purchase of these bills of exchange or "acceptances," as they are usually called, by the Federal Reserve Banks. It also permits Federal Reserve Banks to establish agencies in foreign countries for the purpose of dealing in foreign exchange. While these new powers remain to be developed, it is evident that it is destined to play a very important part in the commercial growth of this country.

WHAT THE RESERVE BANKS HAVE ACCOMPLISHED

The benefits of the Reserve Act as thus far developed are evidenced more by the indirect benefits derived than by the actual transactions of the Reserve Banks themselves. For example, there was released on the 16th of November, when the banks were declared opened by the Secretary of the Treasury, something like 450 millions of dollars (the exact amount has not been determined on account of the difficulty of computation by reason of the duplications in previous methods of calculation). This large fund was released to meet the demands of business; its immediate effect was a reduction in all interest rates in every district. The emergency currency issued to meet the panic conditions brought on by the European war was rapidly retired so that, from a maximum issue of $385,-216,655, this emergency currency outstanding has been reduced (at the close of business on the 15th day of March) to $23,879,232 and this is in spite of the fact that a large area of our country has suffered from a most serious setback, due to the unexpected and sudden reduction in the demand for its chief staple product—cotton.

As a precautionary measure, and on the advice of bankers generally, three years are provided by the Act in which to develop the Reserve Banks to their full power. Whether or not this was an unnecessary length of time is a debatable subject; but one thing is already evident, and that is that the country is impatient for more rapid progress.

DECENTRALIZATION OF RESERVES AND CO-OPERATION OF SERVICE.

The Federal Reserve Act sought to overcome what had developed into a serious evil under the old banking system; namely, (1) the excessive centralization of reserves in one city.—New York—, and (2) the use of that money almost wholly in fostering stock market operations, because "call-loans" on stock market collateral were the most readily available form of investment for funds subject to call. This was accomplished in several ways, to wit:

(1) Twelve Federal Reserve Banks were formed; each standing on its own feet; each autonomous and self contained; each the Central bank of its own District.

(2) New forms of bank loans were substituted in preference to call loans on stock exchange collateral, e.g., short time commercial paper based on manufactured or partly manufactured goods, produce, etc., or accepted bills of exchange on exports and imports, cable transfers, etc. These are all short time self liquidating instruments, once much used in this country and always used abroad as a basis for note issue or credit extension.

The act, while aiming to make each District self-sustaining, made it possible for a District with plenty of money to help a District desiring further funds or actually needing help. This was accomplished by permitting one Reserve Bank to rediscount commercial paper for another and, in case of need, authorizing the Federal Reserve Board to compel it.

This therefore provides a basis of management, where each Central bank may operate as an independent unit, but where in time of stress the resources of several can be to some extent merged or at least used cooperatively.

OTHER IMPORTANT FUNCTIONS OF THE BANK

Before closing this paper it is proper to discuss briefly some of the other functions of these Reserve Banks. These lie chiefly in two directions; first, as Government depositaries and fiscal agents; second, as clearing houses for checks drawn within their Districts or, upon such a plan as the Reserve Board may approve, between Districts.

The Act does not abolish the Subtreasuries, but authorizes the Secretary of the Treasury to deposit and the Reserve Banks to receive, Government monies and to act as fiscal agents of the Government. It is for this reason chiefly that the Secretary of the Treasury is made an ex-officio member of the Federal Reserve Board and its Chairman, while the Comptroller of the Currency is also made an ex-officio member; thus giving the Government a minimum representation on the Board of two out of seven members. The framers of the Act argued the propriety of this representation, in spite of the fact that the capital investment was made solely by the subscribing banks, not in order to give the Federal Reserve Board a political (i.e. partisan) complexion, but on the ground that as the Government was expected to become a large depositor, it was entitled to have an influential voice in the supervision.

The argument in favor of the Government thus using the Federal Reserve Banks is strong; first, the general reason that the money of the people (the tax payers) is retained where it will be most effective in promoting trade and commerce; second, that it is safe, because the integrity of the twelve Reserve Banks is assured by the guarantee, individual and collective, of all the member banks; lastly, that the function of fiscal or disbursing agent for all Government drafts or checks, aggregating, in round numbers, more than a million dollars per day, can be performed effectively by these Banks, and doubtless at a saving to the Treasury (even after allowing for the interest paid by National banks on Government deposits) compared with the costly and necessarily cumbersome method of remitting from the Treasury or Sub-treasuries to pay checks drawn on the Treasurer of the United States.

The second important function of the Reserve Bank outside of the chief functions for which it was created is that of its place as a collecting agency, or clearing house, for checks of its respective District. All important cities of the country have had their clearing houses for checks of National and State banks in the community. These clearing houses, formed for mutual convenience by voluntary action of their component banks, have developed important functions quite outside of those originally contemplated. Among these may be mentioned a system of self-examination more rigid and thorough than that previously maintained by the Government; agreed rules for charges

for collections on out-of-town checks, and, in times of panic, such as 1907, and 1914, the rediscount of paper and securities of its members, issuing against these, clearing house certificates, which have been used not only in transactions between banks but in some cases even in public transactions.

There is little doubt that this development of the clearing houses, adjusting themselves as they have, through many years of experience, to the demands of business, provided a valuable and effective suggestion to the framers of the Federal Reserve law. So it is not to be wondered at that the Federal Reserve Act, in adopting the emergency function of the clearing houses in the rediscount of member banks' paper, saw the desirability of adopting, at the same time, the chief feature of these clearing houses; namely, the check clearing idea. And so, in fact, the Act did embody a scheme for the clearing of checks within and finally between the Districts, subject to the rules to be framed by the Reserve Board, and, at the same time, authorized the Reserve Board, in co-operation with the Comptroller of the Currency, to raise the standard of the examination system co-ordinate with the examination by the Federal Reserve Banks and by the Federal Reserve Board.

FEDERAL RESERVE BOARD, FEDERAL RESERVE BANK DIRECTORATE, FEDERAL ADVISORY COUNCIL

A description of the new banking system would not be complete without some reference to the Federal Reserve Board, the make-up of the bank directorships and the Advisory Council.

As is generally known, the Federal Reserve Board consists of seven members, the Secretary of the Treasury and the Comptroller of the Currency "ex officio" members, the other five, nominated by the President and confirmed by the Senate, two of whom shall be men "experienced in banking and finance," and the other three being men of general professional or business experience. Of the appointive members, no two may be selected from any one District and the terms of service expire one each two years. After the terms of those now in office have expired, their successors will be appointed for ten year terms. The salary of each member of the Federal Reserve Board is $12,000 per year, paid by the Federal Reserve Banks.

Each Federal Reserve Bank is governed by nine Directors, three representing bankers, three representing business men and three representing the Government. In respect to the first two groups, each is divided so as to represent, first, the larger banks of the District; second, the medium sized banks and, third, the smaller banks. The term of office of one of each group of Directors expires each year, and when the terms of those now in office expire, their successors will be elected for three-year terms. Of the three

Government Directors the leading one is designated as Chairman of the Board and Federal Reserve Agent, acting, with his two colleagues, as official representative of the Federal Reserve Board. With the exception of the Federal Reserve Agent and the Deputy Federal Reserve Agent, the Directors receive no salary, but each receives a Director's fee for the meetings he attends, plus actual expenses in going to and from meetings. It is not expected that the fee shall fully compensate these men for the service performed, but that the position shall be regarded as one of honor and dignity, and that it will be readily possible to get men of high character to render the service.

There is another feature of the Federal Reserve Act which is important: The Directors of each Federal Reserve Bank elect someone, either from within or without their number, as a member of the Federal Advisory Council. This Advisory Council of twelve is given broad authority under the law to advise with the Federal Reserve Board, to interrogate the Board and to make suggestions to it. As the Advisory Council may be counted upon to represent a fine type of banking experience in the country, it should be of great value in the administration of the law and in keeping the Federal Reserve Board in touch with the experienced banking sentiment. While it is admittedly a move in the direction of conservatism, it must also be recognized that the influence of this Council, because it is simply advisory, will depend almost wholly on the character of its personnel and its methods of approach.

CONCLUSION.

Thus briefly I have endeavored to state in simple phraseology the salient features of the Federal Reserve Act and the place it is likely to have in the financial structure of our country and of our business life.

The reason the Federal Bank System is great is that it has been evolved by the patient study and adaptation of our own best banking experience, the experience of Europe, the clearing house certificate plan, all ingeniously engrafted upon an existing National Banking and Currency System with which the country was familiar. The result is a system far better suited to American needs and American methods and prejudices than a Central Bank or a Branch Bank system.

There have been created under this Act twelve Central Banks, each as nearly as possible autonomous units, but each under centralized supervision of the Federal Reserve Board on matters of joint and common interest. If the plan works out in practice as well as it should; if the Federal Reserve Board does its full duty; if petty or partisan politics are laid aside, we shall have reached one ideal of scientific management — "local self-government and centralized supervision"; we shall have accomplished the object of all good organization—local incentive and enthusiasm with only enough centralized supervision to compare results; to measure men, methods and costs; and to insure the necessary co-operation on all matters where joint co-operation is necessary, either for the good of the country or of the banks themselves.

The President has drawn the apt parallel of the relations of the various Reserve Banks to the central authority (The Federal Reserve Board) and the relation of the various states to the Federal Government.

As a servant of the public, one of those employed to administer the law, it is to be expected that I should be enthusiastic as to its possibilities. At the same time, not having been a banker, my views as to what this Act really does mean to the public may be questioned. I will, therefore, close my remarks by quoting from the recent paper of Vice-President Herbert R. Eldridge, of the National City Bank of New York, so that you may know what a practical banker of large and varied experience has to say:

"The Federal Reserve Act marks the greatest step forward this country has ever made in its financial advancement. While it leaves much to be desired, and will undoubtedly be subjected to several revisions, it remains the greatest constructive measure Congress has given us in many, many years."

The wonder is not that there are some imperfections in the Act, but that from the great melting pot of conflicting opinions a problem so difficult and so technical should have been successfully worked out.