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RECENT RELATIONS OF THE FEDERAL RESERVE SYSTEM WITH BUSINESS AND INDUSTRY

The name is difficult. Once I almost lost a place on a college football team because the coach thought that I was playing a practical joke on him when I handed in my name with others who were applicants for places on the team. He called me later and said "You are through." I asked him why. He said "Because you can't play jokes on me. What was it you handed in when I asked for names? It looked like the alphabet thrown together without any vowels." I had to explain to him very seriously that that was really my name. He finally believed me and I stayed on the team.

Illinois is the State of my birth, in which I lived and worked for many years. So you can understand that I was more than pleased to accept the invitation of Mr. H. A. Brinkman, your President, to appear on this program. I was especially glad to have the opportunity to meet you and listen to what you have to say, so that I might return to my office in Washington better informed and better able to aid, even if in a small way, in the solution of the problems presented daily to the Federal Reserve Board.

Let me begin by discussing something known to all of us - and lead slowly to something that may be news to some of us.

As you know, the Federal Reserve Act emphasizes the principle that the System shall be administered for "The accomodation of commerce, industry and agriculture." This is the basic thought of the Act.

The Federal Reserve banks - bankers' banks - are public institutions serving the entire country. In addition to the banks which are members of the System and stockholders of the Federal Reserve Banks, the System consists, first, of 12 Federal Reserve banks, 25 Branches, and two Agencies. There are 9 Directors of each Federal Reserve bank; 6 are elected by the member banks and 3 are appointed by the Federal Reserve Board. Each Branch has 5 or 7 Directors, the majority of whom are appointed by the Directors of the Federal Reserve bank of the district in which the Branch is located.

Second, the System includes the Federal Advisory Council of 12 active bankers - one from each of the 12 districts - elected by the Directors of the respective Federal Reserve banks.

Third, the System includes the Federal Reserve Board. Many powers are vested in the Board, among them being the duty to exercise general supervision over the Federal Reserve Banks.

At the present time the Federal Reserve banks hold larger member bank reserve deposits than at any other time in the history of the System; and the member banks are less indebted to them than at any other time in this history of the System. In 1920, fifteen years ago, the Federal

Reserve banks held the discounted paper of member banks in the amount of nearly three billion dollars; in contrast to this, on February 20th of this year the amount of discounted paper was less than six million dollars. Fifteen years ago, in April 1920, member bank reserve deposits were less than two billion dollars; in April of this year they amounted to nearly five billion dollars. At the present time the excess reserves of member banks amount to more than two billion dollars.

This means that the banks of the country have an enormous amount of funds which are not in use. At the same time in the country as a whole there is an enormous number of men unemployed. We have, therefore, this situation: on the one hand men are out of work, and on the other hand money is out of work. To the average layman, this is difficult to understand.

The Government is finding work for these idle men by embarking on various public activities and projects. A large part of the money required for these work-relief projects is and will be provided by the local banks' purchases of Government obligations. In other words, the Government is using its credit to bridge the gap. Would you prefer to have the Government continue doing this, or would you prefer to lend money directly to local enterprises yourself? I think I know your answer, and that brings me to the one thing I want to emphasize here this afternoon.

The Federal Reserve System has been authorized, and stands ready, to assist you in making loans to local enterprises under Section 13b of the Federal Reserve Act for the purpose of furnishing working capital to established industrial and commercial businesses. When lending activities are resumed through the usual and accepted channels, the Government will, as I understand it, withdraw gradually from its Public Works Program and from the use of its credit for such purposes. Sincerely, therefore, I should like very much to know just what is the attitude of the individual banker toward the loans to industry and business authorized by Section 13b of the Federal Reserve Act. I should like to know any and all reasons why these loans can or can not be made. This information will be helpful, not only to me and to the Board, but to the executive and legislative departments of your Government in Washington. It will also be helpful to you.

Accordingly, I wish to sketch briefly the background of the industrial loans program of the Federal Reserve System, and place before you as clearly as I can the advantages to you and to your communities of loans made under the provisions of Section 13b. These provisions had their origin in the feeling that as a result of long continued adverse economic conditions a large number of small business and industrial enterprises were suffering from depleted working capital.

On March 19, 1934, the President of the United States, the Honorable Franklin D. Roosevelt, sent a letter to Senator Fletcher, Chairman of the Senate Banking and Currency Committee, and to Representative Steagall, Chairman of the House Committee on Banking and Currency. In this letter he suggested the creation of twelve Credit Banks for Industry, to help provide working capital for small industries, and to follow

up the aid given to agriculture, the banks and large business corporations, by doing something for the medium size man in industry and commerce.

On the same day the President wrote the letter, Senator Fletcher introduced in the Senate, and Congressman Steagall introduced in the House a bill "to provide for the creation of credit banks for industry". But Congress decided, instead of creating a new agency, to give the Federal Reserve Banks and the Reconstruction Finance Corporation authority to extend the credit which was required. That is the way the law now stands and the Federal Reserve System is firmly committed to carrying out the added responsibilities which Congress has given it.

The new legislation was adopted June 19, 1934. It amends the Federal Reserve Act by the addition of Section 13b, which provides that the Federal Reserve Banks may cooperate with member banks, non-member banks, and other financing institutions in making loans to furnish working capital to established industrial and commercial businesses, and in exceptional circumstances, may make such loans direct when credit is not available on a reasonable basis from the usual sources.

An Industrial Advisory Committee composed of active business men in the district is created under the law. The law limits funds available for advances and commitments by the Federal Reserve Banks to the total surplus of the banks as of July 1, 1934, or about \$140,000,000, plus certain payments to be made by the United States Treasury, which would bring the total available up to about \$280,000,000.

The Federal Reserve System went to work promptly. A conference of Chairmen and Governors of the Federal Reserve Banks was held in Washington, June 25 and 26, at which the new industrial loans provisions of the Federal Reserve Act were the principal subject of discussion. Regulations had been drafted for the administration of Section 13b, and after they had been considered by the Conference and approved by the Federal Reserve Board, they were issued on June 26. In order to make as easy as possible the performance of the new functions granted to the Federal Reserve Banks, these simple regulations left the broad powers granted by Congress to the Federal Reserve banks wholly unimpaired and prescribed no restrictions beyond those prescribed in the law itself. Any attempt to supply technical definitions was avoided, lest it have the effect of restricting and hampering the operations of the Federal Reserve Banks. The late Governor E. R. Black, who was very much interested in this amendment to the Federal Reserve Act, wrote a letter on June 30 to the Federal Reserve banks, in which he said in part:

"I am certain that you have carried home to your directors our earnest feeling, first, that these new loans will materially aid the Recovery Program, second, that it gives your bank an opportunity to render a real service in your district, and third, that this opportunity entails a responsibility that for the good of the Federal Reserve System must be fully met."

Since then several conferences of Governors have been held in Washington, at which the administration of Section 13b was discussed in detail.

I have visited every Federal Reserve bank, and about 90 per cent of the Branches since July 1, 1934. In fact, I visited some of the districts several times during the course of the last year for the purpose of discussing this subject with all concerned.

On September 27 a conference of the Chairmen of the Industrial Advisory Committees was held in Washington for consideration of the provisions of Section 13b. By this time the administration of Section 13b had been under way for some weeks and it was possible to consider the program in the light of actual experience. Among other things consideration was given at this conference to the report that many member and non-member banks were reluctant to make industrial loans because they were uncertain of the attitude that might be taken by bank examiners toward such loans when found in the bank portfolios. It was recommended that a definite announcement be made as to the policy to be followed by examiners.

In compliance with this suggestion the Federal Reserve Board on October 6 issued instructions as to the manner in which industrial loans should be included in condition reports and examination reports. About the same time the Comptroller of the Currency issued corresponding instructions. The purpose of these statements by the Board and by the Comptroller was to clear up such doubt as might exist as to the classification of such loans and the net effect was to assure member banks that industrial loans with long maturities which were covered by commitments from the Federal Reserve Banks or the Reconstruction Finance Corporation would not be classified as "slow".

Pursuing the administration of Section 13b, Mr. Albert M. Creighton, who is Chairman of the Industrial Advisory Committee of the Boston Federal Reserve District, and who is likewise Chairman of the Committee consisting of the Chairmen of the 12 Industrial Advisory Committees of the System, is now in Europe studying industrial loans in the various countries, at his own expense. He is expected back some time in June with a report of what is being done in this respect by other Banks of Issue by other Governments, and by other banks and financing institutions.

On December 11 and 12 a Conference of representatives of the Federal Reserve banks, the Industrial Advisory Committees and the Federal Reserve Board was held at Cleveland to consider the procedure being followed by the banks and the committees in passing on applications. It was realized that much of the success of the program depended upon a smooth and expeditious handling of applications.

The fact was emphasized that both the Industrial Advisory Committees and the Federal Reserve Banks have given and will continue to give careful and sympathetic consideration to each application, regardless of the amount of money being applied for.

On December 19 another Conference of the Chairmen of the Industrial Advisory Committees was held in Washington to review the work done by the Committees and to consider means of furthering the program.

Also the Federal Advisory Council, which was created in 1913, as you know, met in Washington on September 17-18, 1934 and discussed the subject of industrial loans under Section 13b in detail. At several of the meetings since that date the Advisory Council has, upon the request of the

Board, discussed the cooperation in this matter of member banks with the Federal Reserve Banks.

In addition to all these conferences and to continuous study of the situation the Federal Reserve banks have actively canvassed their districts in order to inform financing institutions and prospective borrowers of the new provisions of the law. Every effort has been made through pamphlets, letters, addresses, personal calls and even by radio to make the new functions of the Federal Reserve Banks widely known.

I have gone into all this rather minute detail, even at the risk of boring you, to give you some idea of the earnestness with which the Federal Reserve System has prosecuted the industrial loans program.

The question naturally arises, what are the results? As of May 8, 1935, the Industrial Advisory Committees had approved 1,676 applications, amounting to \$88,066,000 and the Federal Reserve banks had approved 1,509 applications, amounting to \$84,008,000. Adding the advances actually made (\$29,626,000) and the commitments outstanding (\$18,040,000) for a commitment is equal to an advance, since the money must be kept available for the purpose of taking up the paper - we have a total of \$47,666,000 of credit actually in use. There have also been some repayments, some applications have been withdrawn, and some are awaiting completion by the applicant before disbursement of funds can be made.

The fact that the Federal Reserve banks have about \$280,000,000 available for industrial loans, under the provisions of the Act, and after nearly a year have a little more than \$88,000,000 of advances approved by the committees might suggest either indifference on the part of the System to the program or that there was little demand for the kind of credit made available by the Act. I believe that neither of these conclusions is warranted by the facts. The Board and the Federal Reserve Banks have stressed the program repeatedly and at the same time evidence still exists of a need for such credit for small industry and business.

As you know, there has been a certain amount of skepticism as to the existence of this demand for credit. The skeptics may possibly be right. But I do not know how we can prove what the need is, except by earnestly pursuing the possibilities of extending credit to small industry under Section 13b with all frankness and sincerity. We must at least exhaust every means of informing bankers and borrowers what the opportunities are.

Banks were very sick. They called the doctor. They recuperated. Now they are, as it were, learning to walk again, but they are very cautious. That is human.

Laws, too, are human. They are made by man in accordance with what is considered the need of man. We know of man's needs by the law of averages.

Let me tell you of a human incident by which a clerk in a haberdashery tried to apply the law of averages:

A wife called at the haberdashery and said - "I wish a collar for

my husband." The clerk asked her for the size collar desired. She said - "I don't know, I will go back and ask my husband. The clerk, who thought he knew something of human nature, said, "I think I know the size of the collar your husband wears." She said "Really". The clerk said "Yes I think he wears a size 11 1/2 collar." She said "That is right - I remember now - but how did you know?" The clerk said - "A man who sends his wife out for a collar wears about that size."

I repeat that it is perfectly natural that after their experiences of recent years bankers should feel extremely conservative. It is perfectly natural that applicants should have difficulty in proving their present prospects are good. And it is to be expected that a new provision of law bringing the Federal Reserve System into the field of long term loans should be hard to make generally known and understood. We are working as effectively as we can to overcome these obstacles.

Now, after thus explaining the plans and intentions of the Reserve System, I wish to point out how this law directly concerns you as bankers.

Although it is provided in the law that credit for industry may be furnished to the borrower either by the Federal Reserve bank directly or by the commercial banks with the cooperation of the Federal Reserve banks, the law itself favors the latter procedure. To make this point clear, let me read the first two paragraphs of Section 13b:

The provision of the law authorizing the Federal Reserve Banks to discount or purchase loans made by member banks and other financing institutions is as follows:

"(b) Each Federal Reserve bank shall also have powers to discount for, or purchase from, any bank, trust company, mortgage company, credit corporation for industry, or other financing institution operating in its district, obligations having maturities not exceeding five years, entered into for the purpose of obtaining working capital for any such established industrial or commercial business; to make loans or advances direct to any such financing institution on the security of such obligations; and to make commitments with regard to such discount or purchase of obligations or with respect to such loans or advances on the security thereof, including commitments made in advance of the actual undertaking of such obligations. Each such financing institution shall obligate itself to the satisfaction of the Federal Reserve bank for at least 20 per centum of any loss which may be sustained by such bank upon any of the obligations acquired from such financing institution, the existence and amount of any such loss to be determined in accordance with regulations of the Federal Reserve Board."

In non-technical language, that provision enables the bankers to make loans to furnish working capital to industrial and commercial borrowers on long maturities and at the same time get the promise of the Federal Reserve bank to take over the loan at any time without recourse for 80 per cent of the loan.

In order that the credit may be made available even though the bankers fail to take advantage of this opportunity to put their funds to work with a minimum of risk, the law also authorizes direct loans by the Federal Reserve banks to industry by the following language:

"(a) In exceptional circumstances, when it appears to the satisfaction of a Federal Reserve bank that an established industrial or commercial business located in its district is unable to obtain requisite financial assistance on a reasonable basis from the usual sources, the Federal Reserve bank, pursuant to authority granted by the Federal Reserve Board, may make loans to, or purchase obligations of, such business, or may make commitments with respect thereto, on a reasonable and sound basis, for the purpose of providing it with working capital, but no obligation shall be acquired or commitment made hereunder with a maturity exceeding five years."

As the law was originally drafted these two paragraphs appeared in the order in which I have read them, but for some reason that order was reversed in the legislative mill and to a casual reader of the law it might appear that the emphasis was on direct loans by the Federal Reserve banks rather than on advances or commitments to banks. This is not the fact. On the contrary, the law says definitely that direct loans are to be made only in exceptional circumstances and when credit is not available from the usual sources; there is no such limitation on rediscounts or on commitments covering loans made in the first instance by local banks or other financing institutions.

As a matter of fact, strange as it may seem, up to the present most of the money has had to be placed on direct loans by the Federal Reserve banks. And that needs to be explained. The Federal Reserve banks are not organized to take business away from the local bankers, and they most certainly do not wish to do so.

It is stipulated in the law that direct loans shall be made by the Federal Reserve banks only in exceptional cases and when the required credit is not available from the usual sources. The Federal Reserve Board and the Federal Reserve banks have felt that this stipulation was extremely wise. The objection that the banker makes to these loans is, of course, that they have too long maturities and sometimes may be considered poor risks; but these objections were largely removed so far as local banks are concerned by the commitment which the Federal Reserve Bank will make to take over the loan from the lending bank without recourse except that the lending bank must obligate itself for at least 20 per cent of any loss. This means, of course, that the member bank or other financing institution which makes a loan is able to insure liquidity for the loan, and also to have as much as 80 per cent of it underwritten by the Federal Reserve bank. A long term loan that may be discounted at the Federal Reserve bank at any time without recourse as to 80 per cent of any loss, is, from the point of view of the commercial bank, as liquid as any earning asset it may hold.

You, of course, are trustees of your depositors funds, and it certainly is not, and cannot be our aim to urge you to risk those funds by

loaning on a basis that is not reasonable and not sound. That is plain.

But in times like these when the banks have more funds than they can put to profitable use, and on that account have difficulty in making adequate earnings, it seems to me important that you should understand the possibilities open to you under Section 13b and should make the most of them.

In concrete terms, what the provisions of the law mean to you bankers may be stated as follows:

First: You may make a loan on a reasonable and sound basis with a maturity not exceeding five years to an established industrial or commercial business in your community for the purpose of supplying it with working capital.

Second: If the loan is acceptable to the Federal Reserve bank (which may be determined before the loan is made) you may obtain from the Federal Reserve Bank a commitment to take over the loan on stated terms at any time within the period of the commitment.

Third: You pay the Federal Reserve Bank a small charge for this commitment, the amount paid depending principally upon the length of time covered by the commitment. For the Federal Reserve Districts in which this State is located, the Federal Reserve Bank rates on commitments are from 1 to 2 per cent per annum, which may be called either an insurance charge or a charge for standing by. Having paid it and received its commitment, the bank is assured that the loan which the commitment covers is perfectly liquid.

Fourth: If you subsequently need to dispose of the loan on which you hold the commitment, you inform the Federal Reserve Bank of your desire, and the loan is taken off your hands. The Federal Reserve Bank discount rates on industrial loans in the Districts in which this State is located are from 4-1/2 to 6 per cent.

Fifth: Under the terms of the commitment, the Federal Reserve Bank will relieve you of obligation for as much as 80 per cent of any loss sustained on the loan. In other words, you can sell or rediscount the loan without recourse up to 80 per cent of its amount, but you continue under obligation for the remainder, which may be only 20 per cent.

One banker who has been very active in making industrial loans described in the following words his plan for setting up a special reserve to cover possible losses in such loans.

"The usual participation is, of course, on an 80-20 basis. Generally the entire loan bears the maximum rate of 6 per cent. We look upon the 80 per cent guaranteed part of the loan as a prime investment - to the point that if such an investment were available in the open market we would be willing to buy same on a 1 per cent per annum income basis. We take all the income above 1 per cent obtainable from that part of the loan guaranteed by the Federal Reserve bank and set it up in a special reserve account to provide against any loss sustained in our participations."

I have been talking so far, necessarily, in general terms. Now let me describe a typical actual loan under Section 13b.

A varnish manufacturer with a plant in a medium-sized industrial city needed \$25,000 working capital. He needed it for a longer time than his local bank cared to lend without provision for liquidity. Accordingly, an application was made by the local bank, which was a non-member, to the Federal Reserve bank for a commitment. After investigation of the business and the security offered the application for the commitment was approved. A loan of \$25,000 was made by the local bank repayable in equal semi-annual instalments, the last instalment becoming due in four years. The security comprised a lien on plant and equipment, assignment of stock in another corporation and assignment of two life insurance policies. The loan bears interest at 6 per cent. Covering this loan the Federal Reserve bank gave the local bank a commitment to take over the loan at the local bank's request any time within twelve months. The local bank pays 1 per cent per annum for this commitment. Before the end of the twelve months, it can either procure a commitment for a further period, or ask the Federal Reserve Bank to take the loan off its hands. The local bank is thus enabled to hold a loan of which the liquidity is assured, on which its part of any loss may not exceed 20 per cent, and on which it receives 5 per cent net.

You will also be interested in types of loans which have been rejected. We have had relatively few complaints from disappointed applicants. Those who have complained, however, have had their applications reviewed by the Federal Reserve Banks and every effort has been made to render assistance in accordance with the intent and purpose of the law. There was recently received by one of the Federal Reserve Banks an application from a manufacturing company which had been organized in the last year or so to reopen a plant that had been closed for some time. The plant at one time had apparently been successful, but its former owners had subsequently become bankrupt. The new company was organized by people who had no previous experience in the business and who had insufficient funds. Their business records gave no assurance of ability to succeed and their bankers were unwilling to make the loan nor participate in it. The Federal Reserve Bank was asked to lend them practically all of their capital. There was doubt whether the applicant was eligible as an established business, but even leaving that question aside, the application had to be rejected because there was little prospect that the loan could be repaid from the profits of the business, and the underlying security was inadequate. I notice that in the case of the Chicago and St. Louis banks, the chief reasons for rejections have been insufficient security, unsatisfactory financial condition, for the law requires the loan to be made on a "reasonable and sound" basis, and ineligibility, in that funds were not really required for working capital.

Question has arisen as to whether the law permits loans to be made in cases where the proceeds are to be used for the refunding of existing indebtedness held by member, non-member banks or other financing institutions. The purpose of the loans, in the language of the Act, is to furnish working capital to industrial or commercial business; that is one of the few specific conditions which the law imposes. Obviously, a loan transferred from one creditor to another does not provide the industrial or commercial borrower with additional working capital; nor,

considering the fact that the banks are already supplied with more funds than they are finding use for, can it be said that the transfer of such indebtedness from local banks to Federal Reserve banks gives the local banks funds required by other borrowers. Consequently, applications have had to be rejected where it appeared that the principal effect of the loan would be to transfer certain slow assets from the portfolio of a member bank to the portfolio of a Federal Reserve bank. When, however, the transfer of existing indebtedness is clearly an essential part of a plan of rehabilitation involving new working capital, it seems in accord with the spirit of the law to allow a portion of the proceeds of a given loan to be used for refunding.

Question has also arisen as to the meaning of the term "established", in view of the fact that the law authorizes loans to be made to established industrial and commercial businesses. A new corporation may perhaps be organized to take over an old business, and while the question whether in any particular case the applicant can be regarded as an established business may have to be determined by counsel, it is felt that in general the term should be interpreted as liberally as possible.

I wish to remind you that the Federal Reserve banks are not required to submit each application to Washington for the approval or disapproval of the Federal Reserve Board. The action taken by the Federal Reserve bank in each case is final, although the Board does keep constantly in touch with the Federal Reserve banks on the administration of Section 13b.

In this connection, if I had time, I should like to read you recent letters which the Board has sent to the Reserve banks. They have suggested the expediting of work on applications so as to get funds actually into use more quickly. They have emphasized the need of calling the attention of all banks to the advantages of Section 13b. They have stated the Board's judgment that loans should be made by local banks under commitment from the Federal Reserve banks rather than by the Federal Reserve banks directly.

In fixing their rates on industrial loans direct to the borrower, the Federal Reserve banks have tried to avoid making rates so low as to attract this business away from member and non-member banks and other financing institutions. In general, here in the middle west, commercial banks and other financing institutions appear to be getting from 5 to 6 per cent on such loans. The rates charged by Federal Reserve banks on commitments vary with different conditions, but in general run from 1 to 2 per cent per annum. So, for example, as in the case already described, on a loan which bears 6 per cent interest, a member or non-member bank may pay 1 per cent to the Federal Reserve bank for a commitment, which will leave 5 per cent net to the member or non-member bank.

The loans made either by the Federal Reserve Banks direct or by financing institutions under commitments from the Federal Reserve Banks vary in size from \$250 up to amounts of several million dollars. The maturities range from a few weeks to five years. A wide variety of enterprises is covered.

I might add that the automobile industry is at the head of the list in total amount advanced under Section 13b - nearly \$12,000,000. It may also be worth noticing in the copy of my speech which will be, or has been, handed you, how many of these concerns which have been borrowing under Section 13b are directly or indirectly connected with the building industry. Most of them are makers of or dealers in essential products and necessities of life - 175 loans were made to manufacturers of and dealers in food products, and 162 to dealers in and manufacturers of lumber and builders' supplies.

I trust I have given you a definite idea of what industrial loans should mean to you. I hope that if you find enterprises in your communities which could use additional working capital to an advantage, you will not hesitate to communicate with the Federal Reserve Bank about such prospects.

In this connection, I should like to read you at least one letter, copy of which was received by a Federal Reserve Bank, which shows that real assistance has been rendered under Section 13b:

"We wish to thank you for having permitted the Federal Reserve Bank to make loans to individuals, as the banks that we do business with have refused to help us; had it not been for the Federal Reserve we probably would have been at a great handicap, that is, our farmers would have had to go on the relief. The folks here in the Reserve Bank are the way real bankers should be: prompt, courteous, business all the way through, and very competent.

"Thanking you and trusting that you will leave this avenue of finance open to us, I am

Faithfully yours....."

This loan has already been paid back in full.

I could illustrate cases one after another, but even these would not show all the assistance that has been rendered, for in many cases the Federal Reserve banks and member and nonmember banks have helped the small industry and business without even the necessity of granting a loan, by giving advice - business and financial, by assisting in reorganizations, and in innumerable other ways that cannot be, and are not, recorded in a statement of figures. Through Section 13b the Federal Reserve System has come closer to the public in a tangible and concrete way, though the figures, at first glance, might make the service actually rendered appear rather small.

If certain banks lending under Section 13b find that some of these loans are better risks than they had supposed, and thus decide to lend a little more freely to comparable enterprises, it will be a distinct advance toward putting bank funds profitably to work.

While, of course, there is much more to say about industrial loans, I realize that the occasion does not permit an exhaustive discussion.

wish to have you tell me so. You have been kind and courteous - quite unlike the fellow who was listening to a long speech by a professor on the origin of man. Let me say to the press that this is off the record. The professor, after three hours of continuous speaking, asked - "If man originates from the monkey, where is our tail?" Someone in the audience replied quickly - "We have worn it off by this time sitting here listening to you."

I hope, however, that I have stated enough to arouse your interest in the amendment, at least to the extent of reading Section 13b, which is very short, and the regulations of the Federal Reserve Board and the Federal Reserve Banks of Chicago or St. Louis, in whose districts the State of Illinois lies. These have been supplied to the Secretary of the Association, and he promised to distribute them among the delegates to this Convention.

Senior officers of the Chicago and the St. Louis Federal Reserve Banks are present. They will be glad to meet you to discuss any matters respecting the Federal Reserve System, and particularly participations or commitments under Section 13b of the Federal Reserve Act. The Chairman or Secretary of the Convention can direct you.

Let me conclude by saying that of course we learn by experience. As the years roll by, we look back and find that the big things that we have done - the really big things, in the final account - which helped our communities and our country most - were things that appeared very small at the moment.

Human beings are apt to spend their efforts pushing large boulders when the removal of several small pebbles from under the large boulders would enable the boulders to move of themselves - so with our economic problems.

Of course, we all look for a day when the sun will shine once again on our highway. But the dawn doesn't usually come up like thunder. It often steals upon us almost unawares.

Just when our most strenuous endeavors seem to be ending in flat failure, and our most elaborate and best laid plans seem to be going wrong, we are in no mood to notice the more certain, if less conspicuous results of all our efforts. But why search for words of my own? There's a brief poem that says it all so much better, and it comes irresistibly to my mind these days - perhaps it is familiar to you:

"Say not, the struggle nought availeth,
The labor and the wounds are vain,
The enemy faints not, nor faileth,
And as things have been, things remain.

If hopes were dupes, fears may be liars;
It may be, in yon smoke concealed
Your comrades chase e'en now the flyers,
And, but for you, possess the field.

"For while the tired waves, vainly breaking,
Seem here no painful inch to gain,
Far back, through creeks and inlets making,
Comes; silent, flooding in, the main.

And not by Eastern windows only
When daylight comes, comes in the light,
In front, the sun climbs slow, how slowly,
But Westward, look, the land is bright!"