

Speech delivered before
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I am pleased - real pleased - to be here. Of course I am more than pleased to have the opportunity of discussing with you a subject so close to my heart - the Federal Reserve System.

For awhile tonight we shall concentrate our minds upon central banking structure in the United States. As citizens we are naturally very much interested in anything that has to do with our country - the United States.

We have another link which joins us and that is our ancestry: I am yours - you are mine. Together we strive to help - to help others - for in that is found our greatest happiness. It is as important for us to do so at one time as it is to do so at another. It is not best to depend entirely upon instinct and band together only in time of defense, as is illustrated in the case of the boy who was about to be punished by his mother for misbehavior, ran away from her and hid under the bed. He stayed there until the evening. In the meantime his father came home from work and the mother explained to him how unruly the boy had been during the day and asked the father to punish the boy, advising him that the boy was under the bed. The father proceeded toward the bed and as the boy heard his footsteps, which were quite firm and hurried, the boy shouted - "Come on under Dad - is she after you too?"

A real happiness in your heart and mine comes to us when we feel that we are doing something constructive for someone else to make them happy and bringing to them a measure of happiness. Another source of real happiness is the realization that you and I have that someone else is interested in what we do. That is why it is such a pleasure for me to be here tonight - such a pleasure for me to know that you are interested in my work as a member of the Board of Governors of the Federal Reserve System, and that your interest is not the usual casual interest that a citizen takes in the work of one who is trying to meet his public responsibility, but it is more than that - it is the interest of one human being who shares in the joys and sorrows - the happiness and the failures of another human being.

Sometimes we take ourselves too seriously, and it is a good thing for us to come amongst those who know us, and know us perhaps better than others - being closely related to us - and ask the all important question: What do you think of my work? Most people will not answer frankly to that question - only those that are very close to us will answer directly. Sometimes, of course, a frank answer is not very pleasant - it is nevertheless very important because it gives us what we need, particularly in a democracy such as ours. It keeps us constantly human - particularly as regards the people from whom we come.

This brings to my mind the story of a Mr. Miller who was Attorney General in President Harrison's Cabinet. After serving a number of years

he went back to his old home in Indiana, filled with a sense of his prominence and importance. As he walked up the street the first person he met and recognized was the old postman. After greeting him, he said, "Well, Bill, do you know where I live now?" "Yes, sir, you live in Washington."

"Do you know the position I hold there?"

"Yes, you are Attorney-General of the United States."

"Do the people here know that I am Attorney-General of the United States and a member of President Harrison's Cabinet?"

"Yes, sir, they know it."

"Well, Bill, what do they say about me?"

"O, they just laugh."

I do not intend to speak to you at very great length, for I don't wish to have you feel unkindly toward me. Above all, no matter what else I do here tonight, I should like to keep your feeling of good-will - if I have it, and if I have not, I should like - by all means - to gain it.

I should not like to be in the position of the old professor who spoke at length on the origin of man. After several hours of a tiresome discussion of a tiresome subject he asked this question - "If man really originates from the monkey, where is our tail?" One of the audience sitting up close to the speaker responded very quickly and very loudly - "We have worn it off by this time sitting here listening to you."

My speech is not very technical; it will be merely a general outline of the more or less physical structure of the Federal Reserve System to serve as a basis for a further discussion of the subject at some future time, for, as you realize this is a mixed group - some more advanced than others on the subject of banking and finance, and therefore I must strike an average and speak to the majority, in which case, of course, I shall say things that will be entirely elementary to some. Again, I shall say things that will be difficult, if not impossible for others to understand.

So bear with me through this discussion of the Federal Reserve System - so that we might be as pleasant at the conclusion of the talk as we are at the opening - so that it will not be said -

The play is done - the curtain drops,
 Slow falling to the prompter's bell;
 A moment yet the actor stops,
 And looks around, to say farewell.
 It is an irksome word and task;
 And, when he's laughed and said his say,
 He shows, as he removes the mask,
 A face that's anything but gay.

The Federal Reserve Act:

The Federal Reserve System began with the passage of the Federal

Reserve Act in 1913 - which was one of the most important pieces of financial legislation ever passed in this country. It was the result of years of dissatisfaction with our banking and currency facilities, and the thorough study of banking in this country and abroad by a National Monetary Commission established by Congress in 1908.

Changing conditions bring changes in laws, consequently the Federal Reserve Act has been changed by numerous amendments in response to new developments, the most recent and perhaps the most important is the Act approved August 23, 1935.

Federal Reserve Banks:

The location of the Federal Reserve Banks was left to the Reserve Bank Organization Committee. The Committee consisted of the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, with authority to designate not less than eight nor more than twelve reserve cities, and to divide the continental United States into a corresponding number of reserve districts. These districts were to be apportioned with due regard to the convenience and customary course of business. There are twelve reserve banks, twenty-five branches and two agencies. The Federal Reserve Bank of New York has a branch at Buffalo.

Federal Reserve Banks do not deal directly with the public - their customers are member banks. Federal Reserve Banks' capital structure is owned by the member banks, which are required to subscribe to capital stock equal to six percent of the member banks' capital and surplus, one half of which is paid in cash and the other half is subject to call.

The management of each of the Federal Reserve Banks is under the control of nine directors. Class C directors, of which there are three, are selected by the Board of Governors of the Federal Reserve System. Six directors are selected by the member banks; three known as Class A directors represent the stock holding member banks; and three known as Class B directors, represent commerce, agriculture or industry in the district.

The chief executive officer of each Reserve Bank is the President, appointed by the board of directors subject to the approval of the Board of Governors of the Federal Reserve System.

Member Banks:

All national banks were required to become members of the System, subscribing to the capital stock of the Reserve banks, and depositing their reserves there. State banks were permitted to become members on similar terms.

About 40 percent of the banks in the country are now members of the System, accounting for about 70 percent of the country's banking business. Member banks include about 5400 national banks and about 1000 State banks and trust companies.

State non-member banks, with certain exceptions, with average deposits of \$1,000,000 or over, must become members of the System after

July 1, 1942, or lose the right of having their deposits insured.

Holding Member Bank Reserves:

One of the purposes of the Federal Reserve Act was to provide institutions which would hold the reserves of the nation's banking System. Prior to the establishment of the Federal Reserve System, national banks were required to keep part of their reserves in their vaults and part on deposit with other banks. All member banks are now required to keep their reserves on deposit in the Federal Reserve Bank of their district.

Reserves:

Required reserves vary with type of deposit and class of bank.

Banks in central reserve cities, which are New York and Chicago, must maintain reserves equal to 13 percent of demand deposits; banks in reserve cities - about sixty in number - must maintain reserves of 10 percent; and all other banks are required to maintain reserves of 7 percent. Reserves of 3 percent against time deposits are required to be maintained by all banks. Reserve balances on deposit with the 12 Federal Reserve banks today amount to about five and one half billion dollars.

Loans to Member Banks:

Reserve banks may supply funds to member banks by rediscounting paper, making advances, or purchasing bills and securities. For many years the type of paper on which loans could be made was confined to short-term, self-liquidating commercial paper, such as notes, drafts, bills of exchange and bankers' acceptances arising out of commercial, industrial, and agricultural transactions; also advances to member banks on their promissory notes backed by paper eligible for discount or purchase, or by United States Government obligations.

Under the new banking act, a Reserve Bank may make advances to member banks for periods not exceeding four months on any security satisfactory to the Reserve Bank.

Currency Issued by Reserve Banks:

Federal Reserve notes are the principal form of currency. These are United States obligations secured by specific collateral pledged by the Reserve banks. Reserve Banks are required to keep reserves in gold certificates at least equal to 40 percent of the notes in actual circulation.

Other Activities of Reserve Banks:

The Federal Reserve System maintains an inter-district Gold Settlement Fund in Washington, through which transfers of funds from one part of the country to another are made without actual movement of currency.

The Federal Reserve Banks act as fiscal agents in connection with issue and retirement of Government debt; also as depositaries of Government funds in administering deposit accounts of the Government in Reserve Banks.

Central Control of Credit Policy:

When the Federal Reserve System was established, it was felt that local conditions could best be met with regional organizations, especially with economic conditions varying so much from one section to another. However credit policy of the different Federal Reserve banks must be coordinated so that policies adopted in one district would not be harmful to another, and that there should be a credit policy for the country as a whole which would cover general business and credit conditions. It is the duty of the Board of Governors of the Federal Reserve System to direct this policy.

Board of Governors of the Federal Reserve System:

The old designation of the Board as the Federal Reserve Board is changed to Board of Governors of the Federal Reserve System. The Secretary of the Treasury and the Comptroller are no longer members. The number is changed from eight to seven with the regular term of a member at fourteen years. No member having served a complete term of fourteen years can be reappointed. The chief executive officer of the Board is now "Chairman".

Board's Influence on Volume of Credit:

The Board's ability to influence the volume of credit rests on three important powers:

- 1) Power to determine discount rates
- 2) Power to change reserve requirements
- 3) Through its majority of members on Federal Open Market Committee, to determine open-market policies.

Discount Rates:

Discount rates are those which the Federal Reserve Banks charge on loans to member banks. Changes in discount rates are made by the various Federal Reserve Banks, but subject to review and determination by the Board of Governors. This gives the Board final responsibility over discount rates, enabling it to keep the cost of borrowing in different sections of the country consistent with general credit conditions for the country as a whole. These rates must be submitted to the Board of Governors every fourteen days, insuring a frequent review of the rates.

Reserve Requirements:

The Board of Governors has power to change the reserve requirements. The amount of reserves which are required to be maintained against deposit liabilities governs the amount of credit extended by a member bank. An increase in the reserve requirements reduces, and a decrease increases the potential volume of member bank credit. The power to change reserve requirements gives the Board a decided means of controlling the general volume of credit. This power could formerly only be exercised in the event of an emergency arising out of credit expansion and then only with the approval of the President of the United States.

Open-Market Operations:

A third means of control over the supply of credit is the so-called open-market operations, a responsibility vested in the new Federal Open-Market Committee. The Open-Market Committee consists of the Board of Governors and five representatives of the Reserve banks, selected by the Reserve banks in different regions.

Open-market operations are the purchase and sale by Reserve Banks of certain classes of securities, chiefly Government obligations, and have the effect of increasing or decreasing the supply of credit available in the market. Selling securities withdraws funds from the market, decreasing the supply of credit, while the purchase of securities puts funds into the market, thus easing credit conditions.

Purchases and sales of securities by the Reserve Banks were unimportant in the early days of the System. By 1922 steps had to be taken to coordinate purchases and sales so that credit conditions for the country as a whole would not be adversely affected. These purchases and sale are now one of the important means whereby the System can take the initiative in influencing credit conditions.

Prior to the passage of the new banking act, the Open-Market Committee consisted of representatives of the twelve Reserve banks, with authority to propose purchases and sales. Such proposals were submitted to the Federal Reserve Board for approval or disapproval. The Board could not initiate a policy.

The new act definitely places responsibility for determining open-market transactions on the new Open Market Committee. This Committee directs the Reserve Banks to carry out the transactions determined by it. Prior to the new banking act, the responsibility for determining what security transactions should be undertaken and the authority for enforcing a program were not clearly defined by law.

Other Work of the Board:

Other duties incident to general responsibility for supervision of the System include examination of Reserve banks, passing on applications of State banks and trust companies for membership in the System, obtaining condition reports from State member banks, administration of those provisions of the Clayton Anti-trust Act which relate to interlocking bank directorates, regulation of the maximum rate of interest to be paid by member banks on time and savings deposits, regulations under the Securities and Exchange Act governing the margin requirements for loans on securities listed on the stock exchanges, and maintenance and operation of the inter-district Gold Settlement Fund.

In order to acquaint the public with information bearing on banking conditions throughout the country and on production, employment, trade and prices, which is regularly collected, the Federal Reserve System issues a Federal Reserve Bulletin. In addition, its Annual Report gives a comprehensive view of current banking and financial developments at home and abroad, and furnishes detailed information on conditions of banks throughout the country and on the business situation.

It is my sincere hope that I have given you some information that will serve you and me in our daily work - enabling us to proceed a little farther along the road of life, for after all, whether we be doctors, lawyers, businessmen or women, or public men or women, we all live on one street, and in our lives there is a sun rise and a sun set, which is the sun rise at the beginning of common street, and sets at the end of common street, but during our everyday life - between the beginning and the end there is much drudgery, much impatience - perhaps because we do not seem to be getting anywhere, and when we are in that frame of mind, the poet advises us to think of the sun set, which is sure to come. The poet wrote:

The common street climbed up against the sky,
 Gray meeting gray; and wearily to and fro
 I saw the patient common people go,
 Each, with his sordid burden, trudging by.
 And the Rain dropped; there was not any sigh
 Or stir of a live wind; dull, dull and slow
 All motion; as a tale told long ago
 The faded world; and creeping night drew nigh.
 Then burst the sunset, flooding far and fleet,
 Leavening the whole of life with magic leaven.
 Suddenly down the long wet glistening hill
 Pure splendor poured - and lo! The common street,
 A golden highway into golden Heaven,
 With the dark shapes of men ascending still.

No matter what the work of the people as a whole might be - no matter how effectively you might work, and no matter how effectively I might work, real effective results can come only from the cooperation of all our efforts joining together - each doing his bit and playing his part. To quote Kipling - "It is not the individual, nor the army as a whole, but the everlasting teamwork of every blooming soul."