# DEVELOPMENT OF FEDERAL RESERVE BANKING

Address by

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# DEVELOPMENT OF FEDERAL RESERVE BANKING

In what I have to say this evening I want to emphasize the contribution of experience to the development of the Federal Reserve System. Experience is a good teacher. It forces people to modify their theories and to improve their practices. Its lessons can of course be resisted, but the quarter century and more of Federal Reserve activities discloses, I think, a consistent and sincere readiness to adapt both the powers and the operations of the Federal Reserve System to the living and changing needs of the banking and business world. With that same readiness the System now faces the future.

For more than a century before adoption of the Federal Reserve Act in 1913 this country had experienced critical difficulties arising from the lack of adequate sources of reserves and adequate machinery of currency supply. The purpose of the Act was to provide for the exercise of powers that experience had repeatedly shown to be necessary. When the Federal Reserve System was established, the emphasis in the popular mind was largely upon its currency function. In a deeper sense, however, as the System's name implies, its reserve function was the more important.

The machinery of currency issue authorized by the Federal Reserve Act has solved the problem of providing an adequate and elastic supply of currency. The supply of currency, in marked contrast to what used to be the case, no longer gives us any trouble. There are aspects of other problems, however -- concerned with bank

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reserves and with the utilization of bank credit -- that continue to arise from time to time.

From 1914 to 1932 there were many minor changes in the Federal Reserve Act and a few of more fundamental nature. In 1917 an amendment excluded cash on hand from the required reserves of member banks and provided that such reserves include only the funds that member banks have on deposit with the Reserve Banks. At the same time the percentage of reserves required was substantially reduced.

The legislation in 1917 also gave greater flexibility to Federal Reserve note issue by providing that notes be issued against gold as well as against commercial paper; and it made membership in the System more attractive to State banks by assuring them explicitly that they might become members and at the same time retain their charter privileges under State law.

In 1927, legislation removed the limitation on the life of Reserve Bank charters, which would otherwise have expired in 1934. Their life is now continuous unless made determinate by Act of Congress.

Meanwhile times and conditions continued to change. New problems arose. Experience is a good teacher and its lessons were taken to heart. In 1932, 1933, and 1935 legislation was enacted which made more and greater changes in the System than had ever occurred before. To these changes the Glass-Steagall Act of 1932 and

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the Banking Acts of 1933 and 1935 each made contributions. Provisions that were tentative or limited in an earlier measure became permanent and comprehensive in a later one. I shall not take time to trace the separate and partial contributions of each of these Acts to provisions in their present form, for the succession of legislative details is of less importance than the main results they eventually brought about. And I shall mention briefly four significant changes these three pieces of legislation effected, without attempting to indicate their relative importance: One was the change in the disposition of Federal Reserve Bank earnings; another was the recognition given to the monetary significance of open market operations of the Reserve Banks; a third was enlargement of the power of the Board over the reserve requirements to which member banks are subject; and a fourth was liberalization of the lending powers of the Reserve Banks.

In respect to Reserve Bank earnings, the Federal Reserve Act formerly provided that the Reserve Banks pay the Treasury an annual franchise tax comprising all earnings above necessary expenses and chargeoffs, six per cent dividend payments to member banks, and the transfers to surplus authorized by the statute. Under these provisions the twelve Reserve Banks, in the course of eighteen years had paid the Treasury $150,000,000, had paid dividends of $120,000,000 to their member banks and had accumulated $280,000,000 of surplus. Of this accumulated surplus, about half

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was paid in 1934, at the direction of Congress, to the Federal Deposit Insurance Corporation and provided the latter with about half of its capital. The surplus was reduced thereby from $280,000,000 to $140,000,000. Since the requirement of a franchise tax was discontinued by the Banking Act of 1933, larger transfers were made possible for restoration of the Reserve Banks' surplus, which is now $150,000,000.

Open market operations were given a new status by the Banking Acts of 1933 and 1935. Originally they had had almost no recognition as a means of Reserve policy, but they have now taken their place among the foremost statutory responsibilities of the Reserve authorities. They were formerly regarded as a matter of Federal Reserve Bank investment policy. The view was that when the Reserve Banks had little or no demand for discounts, they should invest in securities in order to provide themselves with income. Accordingly, each Federal Reserve Bank bought and sold Government securities at its own individual discretion. But experience showed that these purchases and sales disturbed the reserve position of member banks, for when the Reserve Banks purchased securities, the reserves of member banks were found to be enlarged, and when they sold securities, the reserves of member banks were found to be reduced. These results made it imperative that open market operations be coordinated and unified. The statute now recognizes this necessity by giving the Federal Open Market Committee, which comprises the

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members of the Board of Governors and five representatives of the twelve Federal Reserve Banks, full responsibility for open market operations.

I have already referred to the reduction of reserve requirements effected in 1917, when the percentages now in the statute were adopted, namely, three per cent on time deposits for all member banks, and on demand deposits thirteen per cent for Central Reserve City banks, ten per cent for Reserve City banks, and seven per cent for other banks, generally referred to as country banks. Since 1933, these requirements have been subject to change by administrative action, and since 1935 the Board of Governors has had its present power to change the requirements within limitations: It cannot reduce them below the statutory percentages nor raise them to more than double those percentages. Another provision related to reserve requirements in certain of its effects was that of prohibiting payment of interest on demand deposits and therefore barring interest payments on correspondent balances.

Finally with respect to the lending powers of the Reserve Banks, which were formerly limited to the discount of certain restricted classes of paper, the law now provides that Reserve Banks may make advances to their member banks upon any satisfactory assets without regard to the maturity of those assets. The liberalization of Federal Reserve lending powers was made neccessary by the great change that has overtaken bank portfolios with the evolution of business and the means by which it is financed.

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It would be almost futile to limit the discount powers of the Reserve Banks to types of assets that constitute a constantly decreasing percentage of member bank portfolios; so those powers have been broadened to include all types of earning assets. This liberalization has proceeded by many steps, some small, some large, throughout the period of Federal Reserve operations. The present provision marks the largest step of all. Its significance is that any sound asset of a bank is available for conversion into reserve funds at the Federal Reserve Bank.

Experience has clarified and emphasized certain basic principles lying behind the important changes that I have just described. These principles are the following: The Reserve Banks are not operated for profit, the proprietary interest of the member banks in them is little more than nominal, they do not use the funds of their member banks in lending and buying operations, and bank reserves, under the provisions of the Federal Reserve Act, have become less important as an assurance of liquidity than as a means of exercising a regulatory influence upon the availability of bank credit. These principles indicate the essential difference between Reserve Bank operations and member bank operations -- a difference that the member banker is impelled by familiarity with his own bank's operations to overlook. The member banker naturally thinks of the Reserve Bank in terms of his own bank and takes it for granted that the operations of both are based on the same governing principles and conditions. He is led to

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underestimate the importance of the fact that his own institution is operated competitively and for profit, whereas, the Federal Reserve Banks are not. In particular, it is easy for him to assume that since his own bank is dependent upon its depositors for the funds with which it makes loans and investments, the Reserve Bank is dependent in the same way upon its depositors; and that when the Reserve Bank discounts or purchases securities it uses the funds in the reserve balances which the member banks maintain at the Reserve Bank. In brief, he thinks of his reserve balances as playing the same part in Reserve Bank operations that the deposits of his customers play in his own bank's operations.

In fact, however, the two cases are not parallel at all. In terms of bookkeeping, the balances which member banks keep on deposit at the Reserve Banks resemble the balances which customers keep on deposit at member banks; but in function and use the two differ widely. The reserves of member banks on deposit with the Reserve Banks are not used in the lending and investing transactions of the Reserve Banks and do not determine the ability of the Reserve Banks to lend and invest. Furthermore, the purpose of reserve requirements is not at all to provide the Reserve Banks with funds, and generally speaking they are not in fact a means by which funds are acquired. The Reserve Banks are not in a competitive business and are not looking for funds. Quite the contrary, they are a source and origin of funds. They generate funds -- as a dynamo generates electricity.

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They might conceivably be without a cent of reserve deposits and yet might make loans and purchase investments as much as ever.

For the sake of illustration, suppose the Reserve Banks had no deposits. Suppose member banks maintained no reserve balances whatever at the Reserve Banks but instead were required by law to keep their reserves in Federal Reserve notes held in the member banks' own vaults. Then if the Reserve Banks were called on to discount, or if they were called on to buy securities, they would in either case complete the transaction by paying out their notes in exchange for what they received. Under these circumstances, the Reserve Banks, with no deposit liabilities but with note liabilities in their stead, would have the same lending power they now have, and they would have the same assets they now have.

It happens, however, that the Federal Reserve Banks do have deposit liabilities and that these deposit liabilities constitute the legal reserves of member banks. It is the need of member banks for additions to these reserves that gives direct occasion for the Federal Reserve Banks to discount member bank obligations. Increases in these reserves also result from purchase by the Reserve Banks of securities in the open market. When the Federal Reserve Banks acquire either the discounts or the securities, they give in exchange not notes but credit to member banks' reserve balances. Consequently if the Federal Reserve Banks increase their portfolios of discounts and of securities, they equally and simultaneously increase their aggregate

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deposit liabilities, that is, the aggregate reserves of member banks. Obviously, an operation that increases the reserve balances of member banks as a whole is not an operation that uses those balances.

But if the Reserve Banks are not dependent upon their member banks for funds, why the requirement that member bank reserves be maintained as they are? The answer is that the requirement provides a means of restraint upon the use of member bank. reserves. If the Reserve authorities had their present power to furnish reserve funds to banks and had no corresponding power to put brakes on the use of such funds, the situation would be a very lop-sided one. It would be all "go" and no "stop". As it is, the Reserve authorities have been equipped by Congress with both powers. Through the requirement of reserve balances, the member banks are made amenable to Reserve policy. At the same time that means are provided of meeting fully their need of reserve funds, they are kept under a requirement with respect to the institutions whence they derive those funds.

But, as you know, there is not a perfect balance of powers nor any attempt at complete control. The Reserve Banks are not the only source of bank reserves nor was it ever intended that they should be. The basic source of bank reserves was and is gold, and the Reserve Banks were intended as a supplementary source. They were authorized at a time when experience indicated that the stock of gold would fluctuate around three billion dollars, and their powers were such that they could offset those fluctuations and minimize their

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effect. But in recent years member banks have received such a plethora of reserves from the inflow of gold--principally as a result of capital transfers from abroad and payments to this country for our excess of exports--that occasion for the Reserve Banks to be called on as a source of funds has not arisen. The Reserve Banks have become merely repositories of those funds, and so long as the gold remains in this country and bank reserves remain correspondingly swollen in excess of requirements and needs, the Reserve authorities must expect to have little demand made upon them as a source of more funds.

This leads me to refer to the idea sometimes expressed that the Government deficit is responsible for the excess reserves of banks. The idea is fallacious. If the Government's expenditures were financed by issues of fiat currency, bank reserves would, it is true, be expanded thereby. But since the expenditures are financed with borrowed funds, they return to the reserve balances of banks the funds transferred therefrom when the Government borrowed and the only difference is that the reserves are moved around from bank to bank. If you, for example, buy a million dollars worth of Government obligations newly issued, the amount of the purchase sooner or later is debited to your reserve account on the books of the Reserve Bank and credited to the Treasury's account. That means an outright reduction in the volume of bank reserves. When the funds are expended, the Treasury's account on the books of the Federal Reserve Bank is debited

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and the reserve balance of some bank or banks, not necessarily your own, is credited. The net effect is a redistribution of reserves among banks but no change in the aggregate amount one way or the other. The same is true if the Treasury expends the funds first and borrows later to replenish its balance. It makes no difference which comes first, the debit or the credit, for one is sooner or later followed and offset by the other.

Another misconception which study of reserve operations must correct is that changes in the reserve position of the banking system as a whole have the same effect on lending power as changes in the reserve position of the individual bank. If the individual banker has a deficiency of $50,000 in his reserves as a result of adverse balances at the clearing house, he is under the necessity of finding that amount, and if he can not raise it otherwise he may have to reduce the amount of credit he has outstanding--say by the collection of some receivables or by the sale of some of his investment securities. But in any event all he needs is $50,000. Correspondingly, if he gains that amount in excess of requirements, he can expand his loans and investments by $50,000.

But this fact is misleading with respect to the banking system as a whole. In the banking system as a whole a given change in the volume of reserves means a change several times as great in the amount of credit that banks can have outstanding.

How can this be true? How can it be that what is possible for the banking system as a whole is impossible for the individual

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banks that make up that system?

To get the answer to this paradox let us go back to the case of the banker who has gained $50,000 reserves in excess of requirements. Suppose this banker reminds himself that this additional $50,000 would be adequate reserves against additional deposits of ten times as much or $500,000. (The reserve requirement is not ten per cent but that will do for illustration.) In other words if he could increase his deposits by $500,000, he already had the reserves that would be required. Suppose he has customers who want to borrow $500,000, that he lends them that amount, places it to the credit of their checking accounts, and thereby increases his deposits--and his earning assets as well--by $500,000.

What is the matter with that?

The answer is easy, of course. His customers would check out the $500,000, or most of it, and he would have an adverse balance at the clearing house which would take all of his $50,000 of fresh reserves and a great deal besides. Knowing this perfectly well in advance, the banker would not even think of undertaking such a fantastic transaction. Having $50,000, he would think in terms of $50,000, and not of anything more.

But now let us suppose that he has no competition, that there is no other bank to which those funds he lent can be checked, that there is no clearing to be met, and that the most his depositors can do is to check the funds to and fro among themselves. In this

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mythical situation, he would be in no danger of losing reserves. No matter how large his deposit liabilities were, nor how great the volume of check transactions, the aggregate would remain on his books while he busily credited to one account what he debited to another. In fact, he could go on building up his deposit liabilities and his earning assets dollar for dollar without any reserves whatever, and be virtually in the position of the ancient Bank of Amsterdam, which being a monopoly, continued to transact business on its books long after its cash reserves were gone.

But let me remind you that this situation which is fantastic and impossible for any bank that is part of a banking system, is approximately true in principle of the banking system as a whole. The banking system as a whole is a vast unit in which all competition between the parts cancels out. As in a clearing house, the debits of all the banks equal the credits of all the banks, and the total remains unchanged no matter how much shifting there is from bank to bank. Going further, the position of the banking system as a whole is like that of a single bank with no competition and all the banking business in its own hands. Consequently it can experience an expansion of credit on the basis of a given addition to reserves which is beyond the control of any individual bank, and which the individual bank can participate in only to the extent that it shares in the increased reserves. If any individual bank could hold the extra increase, it could have the entire expansion; but that "if" is an impossibility.

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This condition which is within the powers of the banking system as a whole but outside the powers of the individual bank is a governing condition of Federal Reserve operations. Every additional million dollars of gold or of Federal Reserve Bank credit means not merely an addition of so much to bank reserves but a potential increase many times as great in the volume of earning assets and deposit liabilities. Federal Reserve policy is therefore not alone a matter of individual relationships with banks but of potentialities and actualities that are apparent only from the point of view of the banking system as a whole. Moreover, from that point of view they are of the utmost significance.

In other words, what is a fantastic impossibility in the province of the individual banker is an important reality in the province of Reserve banking. In the commercial banker's experience a dollar of reserves is a dollar of reserves, but in the Federal Reserve Bank's experience a dollar of reserve bank credit may mean several dollars of expanded bank credit. Similarly a dollar of Reserve Bank credit withdrawn from bank reserves may mean a manifold contraction of bank credit.

Then there is the different meaning reserves have for the commercial bank and for the Reserve Bank. In the operations of the individual commercial bank, reserves are thought of as those assets most immediately available for use in meeting the bank's obligations. But from the point of view of Reserve banking, reserves are chiefly

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significant because of their bearing on the bank's credit operations. A bank with inadequate reserves is in a tight position. A bank with adequate reserves is in an easy position. Since bank reserves are of this cardinal importance, an ability to influence bank reserves is an ability to impose and withdraw restraints upon credit expansion. And this is the significance of reserves from the Federal Reserve banking point of view: They are the channel through which Reserve banking operations achieve their effectiveness.

Let me dwell for a moment on what this word effectiveness implies and what it does not imply. It does not imply pushbutton control. It does not imply interference with bank management. It does not imply coercion. It implies the correction by governmental means of general conditions over which individual management has no control. It implies the maintenance of such monetary conditions as are most favorable to the general interest. It implies that within the restraints which the authorities try to set upon unwholesome developments, the greatest possible freedom of action is preserved for individual management. It implies the principle that in a democratic economy a proper balance must be maintained between individual freedom of action and the restrictions necessary to protect that freedom.

Before leaving this subject, I wish to mention another respect in which the significance of reserves is greatly altered. In the early days of American banking each bank kept its reserves in

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cash in its own vaults. Like pioneers in general, each bank relied on its own resources. With the change from note issue to deposits, with multiplications in the number of banks, and with improvements in transportation and communication, banks became interdependent. They were able to rely on each other. Under the Federal Reserve System this collective security has been carried still further. A member bank of the Federal Reserve System may procure funds from its Reserve Bank upon any satisfactory assets, regardless of classification. There is still a slight differential in favor of so-called eligible paper, but any kind of obligation, provided it is sound, may be the basis of an advance by the Reserve Bank. When we have facilities for converting any sound asset into reserves, it is apparent that the nature of reserves and the standards by which their adequacy is judged have changed enormously. A hundred years or more ago reserves were of primary importance as a means by which the individual bank maintained itself in good condition. Today reserves are of primary importance as a means by which the banking system as a whole--including the individual bank, which is dependent on the whole--maintains itself in good condition.

A good many bankers seem to feel a conscientious aversion toward the view of the banking system as an organic whole. They feel that if every banker ran his own business properly, the banking system as a whole would never be in trouble. They feel that everything comes back to a matter of individual responsibility.

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The last thing I want to do is minimize that sense of individual responsibility. On the contrary, I want to extend it. I want to make it clear that individual responsibility falls far short of its aims if it confines itself to the individual institution, its assets and its obligations.

Let me illustrate this point by reference to membership in the Federal Reserve System. Most bankers when they evaluate membership, compare what the Reserve Bank does for them with what the city correspondent bank does for them. They think of the Reserve Bank as a place where reserve balances are kept which they might otherwise keep with the city correspondent, and they weigh the relative convenience of handling collections and procuring currency through one as against the other. If it is a matter of borrowing, they weigh advantages of calling on the Reserve Bank as against the city correspondent. It is all reduced to a question of which is more advantageous to the individual bank. The tacit assumption seems to be that the Federal Reserve Bank is simply a competitor of the city correspondent and the local banker is to take his choice between them. This attitude is based on a serious misconception.

To a limited extent what the city correspondent does is comparable with what the Reserve Bank does, but in reality the two are essentially unlike, as I have tried already to show in dwelling on the difference between Reserve System powers and operations and commercial bank powers and operations. The Reserve Banks were established

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for the direct purpose of doing what it had been demonstrated could not be done without a central banking organization. The Reserve Banks do something no city correspondent can do. They advance reserve funds that did not previously exist.

It is true that when an individual bank borrows from a Reserve Bank the transaction from its point of view is practically the same as when it borrows from its city correspondent: In both cases it gets the funds it needs. The difference is that what the city correspondent lends comes out of the existing stock or pool of reserves, whereas what the Reserve Bank lends is created in the act of lending. (This is not a creation of something out of nothing but a conversion of earning assets into cash assets.) Everytime a city correspondent lends, its ability to lend is diminished by that much and if there is general demand, it can not make its funds go round. That happened again and again in crises before 1914, when there were no Reserve Banks and the general demand of banks throughout the country was concentrated on the big correspondent banks in New York and Chicago. But when the Reserve Bank lends, there is no such diminution of its ability to lend. That ability, though under a legal limitation, is for practical purposes unlimited. The price of funds may rise but the funds do not run out. The Reserve Bank is a lender of last resort. It is behind the city correspondent as well as the country correspondent.

The individual banker may say, of course, that it makes no difference to him, when he wants reserves, whether he tightens the

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money market as a whole in the process of getting them and makes the situation more difficult for other bankers. I do not believe, however, that many bankers would say this--most bankers recognize that a system whereby every individual bank is assured of adequate reserves without necessarily tightening the supply of reserves as a whole is to the interest of everyone--to the banker's interest and to his depositor's interest.

My point is that in this respect as in others, it is impossible to see what is really to the individual banker's interest unless we bring into the picture those facts that are not discernible in the individual bank's operations but only in the banking system's operations as a whole. It then becomes apparent that every bank that owns a bond or holds a promissory note is a beneficiary of the Federal Reserve System's operations whether it shares all the benefits and obligations of membership or not.

In the light of conditions that have prevailed in recent years, many of the considerations that I have been discussing so far may seem of little immediate importance. Few banks have needed to borrow. Though the Reserve Banks have had occasion to guard bank portfolios against the effects of disturbances in the bond market, they have had little or no occasion, by discounting for individual member banks or by buying securities in the open market, to enlarge the fund of reserves available to banks. In the aggregate, bank reserves have greatly exceeded requirements. Our estimate is that member banks as a

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whole have excess reserves of nearly seven billion dollars, and that the banks of Chicago alone have excess reserves of about a half a billion. It is obvious that if this situation presents any problem at all, it is a problem of superabundant reserves and not of insufficient reserves; and that if any action by the Reserve authorities will be called for, it will not be action to provide for expansion but to guard against over-expansion. What such action might be one can not say until the need for action develops. There certainly is no such need at present. But beyond that is the important fact that the present situation and its potentialities are such that the powers of the Federal Reserve authorities would not be effective against them. Those powers were based on experience which included no precedent for what now exists. They were based on the assumption that reserves greatly in excess of requirements, practically speaking, would never exist. That assumption in the light of former experience was thoroughly reasonable. There was no ground for any other assumption. The figures, the charts, and the discussions that reflect conditions as they were prior to 1932 show no excess reserves. If any excess had developed through imports of gold or liquidation of bank credit, it could have been readily offset by open market operations, if necessary. At present the most that the Reserve authorities could do by open market operations would be to reduce excess reserves by much less than half.

During the past few years, the superabundant excess reserves have not been put into use and therefore it has been hard to arouse interest in the need of safeguards against over extension of bank credit.

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However, we see bank reserves now forming a potential basis for an over-extension of credit just at a time when the defense program gives occasion for an immense demand for credit.

The uncertainties of the future are indeed tremendous. How long and extensive will the war be, will our participation be belligerent or nonbelligerent, will the victory be partial or complete, will the peace be constructive or vengeful? However events may answer those questions, we may be sure that the central banking functions of the Federal Reserve System will be more and more essential to our economy. We shall have more occasion than ever for a wise regulation of domestic credit, so that it may be readily available for proper use wherever and whenever needed and so that it may not be available for harmful, speculative use. This requires that central banking responsibilities be implemented with effective powers, and not left as at present with powers that the developments of recent years have rendered ineffective. We shall also have more occasion than ever for a strict husbanding of our credit resources against the time when they can be used for restoration of trade relations with other countries. It is in this process, both for our own good and that of the world at large, that proper use for our gold stock must be found, and as the gold now abnormally accumulating here is redistributed, Federal Reserve Bank credit may be counted on to take the place of the gold withdrawn, if necessary to prevent disturbance of the domestic supply of credit.

That is the problem as it presents itself to the central

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banking authorities. If we wait until the problem reaches the doors of your individual bank then it may be too late. If it is met and solved as a central banking problem, it need never present itself as an individual banking problem. That is what we are supposed to prevent. The solution, however, is not for the central banking authorities to devise and apply by themselves. It is a collective matter. It is one that concerns you and demands your participation. Yet it requires more than merely the point of view of the individual bank. It requires that the point of view of the banking system as a whole be taken, that the close interconnection of bank with bank in an organic system be recognized as a fundamental condition, and that the essential purposes of central banking action be understood. For that reason I have taken much of your time and given much of my time this evening to clarifying the relationship between commercial banking and central banking--between the things that stand out from the point of view of the individual bank and the things that stand out from the point of view of the banking system considered as a whole.

Please understand that in emphasizing the point of view of the central banking organization I am not asking for the sacrifice of any other point of view. I am not suggesting that the individual banker give up any of his principles. Instead, I am saying that a solution of the problem requires <u>not only</u> the point of view of the individual bank with its recognition of the facts brought to every banker's attention by day to day experience, <u>but also</u> the point of view of central

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banking with its recognition of the facts that stand out in the operations of the banking system considered as a whole.

Meanwhile it goes without saying that these problems are receiving concentrated attention within the System. At the Board we are constantly engaged in studying them--the problem of idle money, for example, the problem of gold, the problem of trade after the war; and we are studying them not as abstract, theoretical questions but as problems which experience presents and which in the light of experience must be solved. You are familiar with by-products of this study as they appear from time to time in the Federal Reserve Bulletin and other publications of the Board.

In particular you will recall that in its Annual Report to Congress for the year 1938 the Board presented a comprehensive discussion of the existing situation. A copy of this discussion was sent to every bank in the United States, members of the Federal Reserve System and nonmembers. As you know, the Senate last year adopted a resolution introduced by Senator Wagner calling for a thorough study of monetary and banking problems by the Senate Committee on Banking and Currency.

The situation as described in the Board's 1938 Report is made up of many elements of different kinds, some concerning the structure of the banking system and some its functions. Reference is made in the Board's Report to the multiplicity of banking laws and jurisdictions. Reference is made to the confusion of overlapping authority, which makes it necessary for banks to look one way for one thing and another

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way for something else. Reference is made to the inequality of competitive condition between the various classes of banks. Reference is made to the problem of uniformity of bank examination.

These problems constitute one part of the picture. I have had no time to go into them, but then they are matters that I imagine you know too well from experience. In fact, bankers are telling us about them every day. Moreover, they are problems that involve other departments and agencies as much as the Federal Reserve System. I have chosen to discuss instead the problems of reserves and credit policy, which constitute another part of the picture and to which reference is also made in our 1938 Annual Report. In the solution of both types of problem we bespeak your indispensable cooperation.

The Federal Reserve System, of which member banks are a part, operates in the interest of all banks in the country on behalf of industry, commerce and agriculture with just one objective--the public good.

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