

Talk by JAMES K. VARDAMAN JR., member, Board of Governors, Federal Reserve System. Given at a dinner meeting of the annual conference of National Association of Supervisors of State Banks at Cleveland, Ohio, on Thursday evening, September 19, 1946.

FOR RELEASE: FRIDAY, SEPTEMBER 20, or after

Mrs. Vardaman and I are happy to be here on this occasion when the Federal Reserve Bank of Cleveland honors itself and the entire Federal Reserve System by being host to a group of men who may well be considered the best friends of the most influential group of individuals and institutions in American life today.

In my opinion the 48 great State banking systems of the respective states form the securest foundation upon which rests our entire structure of private enterprise. Without those banks it is hard for me to conceive just how our present system of political and social and business economy can continue. Without them standing at the bulwark and forefront of individual effort and individual accomplishment, the world trend toward collectivism will certainly sweep all before it in this country as it has in nearly all other countries of the world.

After spending more than 20 years in investment and commercial banking, I absented myself for 6 years to do a job - a purely destructive job - with the United States Navy. On my return I have been fortunate enough to become connected with this great Federal Reserve System which is potentially one of the most constructive influences in government and is the biggest single wheel in our financial and monetary machinery. But there are other wheels in this machinery just as important as the Federal Reserve System and all of these wheels must mesh and work together, else we are certain to strip our gears and find ourselves an immobile wreck along the roadside of human progress.

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There is the Secretary of the Treasury and the Comptroller of the Currency whose efficient and foresighted administration of the National Banking System has made that group of banks strong and powerful and helpful in our economy. Then there is the Federal Deposit Insurance Corporation to which enough credit will probably never be given for the fearless and constructive way in which it has administered and caused to succeed a system of deposit guarantees which many of us not so far-sighted had thought to be fantastic and impossible of sound administration. I figuratively doff my hat to this organization and wish for its continued energetic life to carry on the splendid work already accomplished.

And then there are the 48 wheels consisting of the State banking systems - both member and nonmember banks - and it is to these that I bow tonight in compliment of their achievement and present prestige and their future potentialities.

The future of these all-important State banking systems largely rests with you, Mr. State Supervisor. And whether they live or die is largely dependent upon the manner of your leadership and administration of these systems. If under your administration they continue the dynamic constructive force in their respective communities, if they perform their duties as trustees for their depositors as the sources of sound loans for legitimate enterprise and expansion, if they take to their hearts the interests of their people and carry out their mission as guides of financial and social development in their communities, if they do these things, their future is secure.

But these things they cannot do without a constructive, sympathetic and understanding leadership on the part of their supervising examiners, both in the State and in the Federal Reserve System.

During recent years, in the plague of government securities, government guarantees of all sorts and government participation in loans, the science of rates and risks has been all but lost and many banks and many examiners now hesitate to take a business risk in the making of a loan; but rather prefer to take the easiest way and when in doubt buy government paper or government guaranteed paper. I think this is a bad trend and it is one which will surely lead to the total absorption of our banking system by the Federal government.

The trend toward government participation (as distinguished from government regulations) should be stopped and the local bankers should again take their position as the financiers for their communities, and get as far away as is practicable from eternal government guarantee and participation. Banks cannot do this without the cooperative help and understanding of the examiners and it is to be hoped that all of us in a supervisory capacity will do what we can to help the banks make sound loans outside of the government field.

Gentlemen, I am particularly grateful for this opportunity to have met with you and listened to you talk at this early stage of my experience as a member of the Board of Governors of the Federal Reserve System. At the moment I am rounding out my first 6 months in this position. Being a new man on a very old job, I realized that I had a great deal to learn if I were to serve you constructively, and so I have given all this first 6 months to study, listening and learning. I have traveled many thousands of miles, talked personally to hundreds of bankers and listened to dozens upon dozens of talks in meetings and in private conversation by individual business men and bankers. The more I have listened, the more I have realized how little I know and I hope very much to continue the remaining

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years of my administration of the position in studying and learning as well as in execution.

In my mind there is just one source of accurate knowledge and information and that is the business man, the farmer and the banker, themselves in their own communities. The atmosphere of Washington is so artificial that it is really hard to get direct accurate information there. Even when men come to Washington from the various states for the purpose of expressing their opinions they apparently become somewhat subdued and awed by the atmosphere of the place and I have personally found that I can get more candid impressions on the citizens' home ground than if they come to Washington. Therefore, I have made for myself a schedule which calls for travel about 1/3 of my time, and in following this schedule I hope to visit each one of you from time to time in your respective state capitols and talk with you on the problems as seen through your local eyes of farming, industry and banking.

Because I am a new public servant, I feel that you may be interested because of the position which I occupy in knowing the trend of my thoughts along certain lines and I am going to give you an outline of some of my views. I am doing this because I want you to tell me personally or by letter or by telephone if you disagree with me, and if I get no signs of disagreement then I am bound to conclude that my thoughts are not far out of line with your own. The reason I am doing this is that I believe the soundest administration of this job which I can accomplish will be to reflect as far as I can a consensus of the best contemporary thought. I have very definite ideas about most things but I hope they are not arbitrary and I hope I am not too hard-headed or too stubborn to give weight to contrary opinions no matter from what source they may come; and I shall certainly give weight to any opinion expressed to me from any reliable source.

You notice that I have used the words just now "public servant". I chose those words deliberately as having considerable difference in meaning from the words "government official" and "public official". I am afraid that some of us in Washington may be inclined to forget that we are public servants and remember too well that we are government officials, and as such we are apt to forget the purpose of our presence in Washington, and what is worse, we are liable to inject ourselves into the business life of our country to a degree far beyond that which is necessary or that was intended by the Congress. There has already been too much of that in my opinion and after six years of absence, I am surprised at the complacency with which American labor, business people, farmers and industrialists, and all other classes, have accepted regimentation, government interference and government participation. I am surprised at the complacency with which bankers have permitted their prerogatives to be more and more absorbed by the government.

Some of this regimentation and control and government competition was undoubtedly necessary during the war. Many controls are undoubtedly now necessary and will continue to be so. But only a few instances of government participation or competition were actually necessary during the war and I know of but few instances off hand where they are necessary or desirable.

You probably know, I am sure, that once a board or bureau is created in Washington it is extremely difficult to ever eliminate it and there is always a danger that it may become more concerned with self-perpetuation than in being of constructive help. There is also a danger that some bureaus and boards may bypass the Congress to issue regulations and make orders and take action without regard to Congressional expression or Congressional intention.

I consider the Congress is supreme, and I am in hearty accord with the efforts of this administration to turn the government of the United States back to its people through their duly elected representatives in Congress. I resent and I will always fight any effort that may be made by our Board or any other board to take action on any matter where such action is not definitely authorized by the Congress. I realize that the Congress cannot pass a bill of particulars; in each instance, and that some things have to be left to discretion; but I think these discretionary powers should be few and far between and exercised with great care and deliberation.

Because of my fear that some of the regulations issued as war measures may have outlived their usefulness. I ask that we review such regulations. Certainly no harm can come from a reconsideration of any action. If, in the light of present day circumstances, our regulations should be continued and in their present status and if they are soundly based on Congressional authority, then I shall certainly support them. But if in the light of present day circumstances they are antiquated, I shall certainly hope that they be either brought up to date or dropped. And if there is no clearly indicated Congressional authority for such regulations, then I hope we will ask the Congress for an expression of its desires.

Referring again to the Congress, I hope you will bear in mind that these people are human, just as we are, and that they are subjected to tremendous pressure from organized groups and that they are pushed, pulled and shoved from every angle. But if some twenty five years' experience in and out of Washington does not deceive me, you will find that one good personal conversation with your Congressman will have more effect on him than any memorial or petition.

I advocate personal contact with our legislators. If you believe in the type of private economy which we now have and which has carried us successfully through the trying years of war, and will see us through even more trying years of reconversion, then go to your Congressman, and tell him so personally. Give him your support in his efforts to check the present necessity and status of all these government bureaus and corporations and boards created during the emergency. Ask him to eliminate those which are not necessary and return their functions to private enterprise. But above all, give him your personal contact.

I am proud to be in the Federal Reserve System, gentlemen, and I look forward to the day when all banks which can profitable become members, will do so. But most of all gentlemen, I am proud of our present form of government and our present policy of private enterprise. Therefore, I am a devout believer in the dual or quadruple banking system as we now know it; that is, the national banks, state member banks and state non-member banks, with the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Reserve System, and the State Banking Systems. Ours is the only central banking system which is privately owned (if you can call the Federal Reserve Banks privately owned) left in the world today. All the others have gone the route of collectivism, nationalization, communism or socialism. I hope and pray for a continuation of our present system.

I admit our systems overlap, that they are inefficient to some degree, and that they are irritating in many respects. But all these acknowledged shortcomings are made worthwhile when they are considered as insurance of a continuation of our over-all system of private economy.

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Just as sure as fate, if all our banks are forced into one great system, controlled by one master button, pushed by one master hand in Washington, private banking and private enterprise in this country will find itself in its dying days.

Let us keep what we have and try to pass on to our children and to our grandchildren at least some part of the splendid heritage of private enterprise which our forefathers handed down to us.

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