



Remarks

by

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Member, Board of Governors

Federal Reserve System

before the

MORRIS PLAN BANKERS ASSOCIATION

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CHAIRMAN BOUSHALL: Gentlemen, it is a pleasure and privilege for us this morning to be honored with the presence of a Governor of the Federal Reserve Board.

We have had the privilege of having other members of the Federal Reserve Board with us.

Governor Vardaman comes from Mississippi and St. Louis. He has had a very distinguished record in banking and public service and in the armed services of the United States. He qualified both as an Army and Navy officer having served first in the first World War as an Army officer and in the second World War as a Navy officer. And I was very much interested to see in his biography that he at one time commanded some amphibious forces, and I don't know anyone who is more qualified to command amphibious forces than one who has been both an Army and Navy officer.

Governor Vardaman was born in Mississippi in 1894 and began practically from the cradle to live a distinguished career, beginning with his graduation from college with the degree of LL.B, so that he set out well equipped as a lawyer to make the conquests that he later achieved.

He entered the banking business after the war, and was a vice president of a bank in St. Louis and then president of a bank in St. Louis.

He entered the Naval Reserve Forces in 1939 and went on active duty with the Navy in June 1941. He served overseas

on the staff of Admiral Stark in London and Scotland and with the amphibious forces in the Mediterranean in the assault and occupation of Northern Algeria and of Bizerte and Tunis. He also served with the amphibious forces in the assault and occupation of Sicily and Italy. After hospitalization for wounds received in that campaign he continued service with the amphibious forces in the Pacific in the campaigns in the Philippine Islands and Okinawa.

His career as a Navy man was climaxed by being made a commodore and in May 1945 he was made Naval Aide to the President of the United States, and in January 1946 he was appointed to the Board of the Federal Reserve Board in Washington.

It is in that role he comes to us this morning to make some remarks.

We are very happy to have him. We welcome him. I am sure you are going to get some pleasure from the privilege of hearing from him. Is Governor Vardaman present?

(Applause)

GOVERNOR JAMES K. VARDAMAN (Federal Reserve System):
Mr. Chairman, President Birnie, Mr. Morris, ladies and gentlemen:
For about twenty years I have attended all forms of bankers' meetings, ABA, Investment Bankers' Association, Reserve City Bankers, state banking conventions and groups, and I say without hesitation that this has been the most constructive bankers' meeting that I

have ever attended. It is the first bankers' meeting that I have ever been to that I didn't contact one single stuffed skirt.

(Laughter and applause) That is a fact.

I haven't written any speech. I don't write speeches. I am always afraid that the pen may say something that the heart doesn't mean. I think too much deliberation in speaking tends to warp a man's thoughts and ideas a bit and probably makes him a little timid in saying what he feels.

I hope I shall always be able to speak my mind freely and spontaneously. The notes which I have here were prepared yesterday during the meeting, while I was thinking through on what I thought you would be interested in.

I am particularly glad to have the opportunity to meet here with so many future members of the Federal Reserve System.

(Laughter) I have been back in the banking field too short a time to have found an explanation as to why you gentlemen, all of you, haven't joined the ten super Morris Plan Banks that are members of the System; but you can be assured I am going to devote a large part of my time from now on to assisting in making the Federal Reserve System so attractive to you that you will want to join it. I don't know, as I say, why you are not already in, but we shall see.

I listened yesterday with a great deal of pleasure to your founder and to Mr. Birnie. The idea of Morris Plan has

probably contributed more to mass production in America and to the physical high standards of the American way of life than any other one element. Without the democratization of banks, without the expanding of banking facilities to the individual, I don't believe that American industry could ever have reached the peaks which it has reached. Without the popularization of banks and the knowledge of their necessity which resulted largely from the expansion of consumer credit loans and other loans made on the basis of the Morris Plan, private banking would not have had as many friends and would therefore have had a great deal more trouble in surviving the staggering 1930's than it did actually have. Without the popular support of the average man it could not have survived; and the average man had little knowledge of banks as an instrument of value to himself until the Morris Plan became effective.

It is a great idea. It has been implemented by some of the ablest people in the banking business. As I have sat here with you these last two days, I have been trying to determine in my own mind which complements the other the most. Does the idea complement the people who implement it or do you gentlemen complement the idea? I think it is about a fifty-fifty draw. And so long as you are able to bring into your organization such men as I have met here you need have no fear about the future of the Morris Plan as a system. It will live forever, and I think it should.

I think we have a good idea in the Federal Reserve System, too; but it cannot be implemented nor reach its peak of effectiveness without the faith and help of all bankers. I don't believe there is a banker present who would like to see the Federal Reserve System abolished, because if we lose this System we will go certainly to a system which would call for even greater Federal control than we now have. As it is, we are the nearest thing to a privately owned central bank left in the world, and if this central banking system does not succeed, then we will probably go to complete government ownership and government direction and government dictation down to the smallest idea and loan policy.

That the present System is a sound and progressive idea is more or less proved by the fact that it has within its membership banks which hold more than eighty per cent of the total deposit liabilities of the United States. If the System is good enough for those banks it is at least entitled to the support of all banks, regardless of size. There may be cases where temporary profits may be increased by remaining outside of the System, but I submit that there is an element of free-riding in any case where a bank is enjoying the benefits of the System without bearing its proportionate share of the costs, inconveniences and annoyances of membership. Such a policy of free-riding on the part of a non-member bank is, I believe, myopic and destructive; and regardless of the intent of the institution involved it is selfish to a considerable degree.

I wish you would think the situation over seriously and remember that in the mind of the public a bank is a bank, and all bankers are equally responsible in the eyes of average people. Non-member banks are charged morally with carrying out the great principles of sound operation just as much as National banks and State member banks; and I think the whole banking structure, in fact the whole system of private enterprise, would be greatly benefitted if all eligible Morris Plan Banks were to become members.

I would like to see your approach, your friendliness, your lack of smugness, your enthusiasm, adopted in more complete detail by all regular member banks, and just as important by the twelve Federal Reserve Banks and their branches. As a matter of fact, I believe that the attitude of some of the Federal Reserve Banks may explain the absence of some of you from their rolls. I am afraid that some of the Federal Reserve personnel may have at one time or another considered the System an end rather than a means to an end. I do not approve such attitudes, and I think they are equally condemned by all present members of the Board and of the staff.

I feel definitely that we are a service organization, and that we should be just as much on our toes as Morris Plan Banks or other banks to secure new business and to serve our customers which are, of course, our members.

Failure of any sizeable group to operate sound banks, failure to recognize and follow sound principles of credit and investment as exemplified in the Federal Reserve and National Banking Systems, may force - and I use the word "force" advisedly - may force the Congress to take action looking for a closer supervision of all banks by Federal agents. I do not believe that private banking in America can survive another 1930's. If we have another such debacle, as sure as fate, we are headed for complete socialization of our banking system; and I do not believe that private enterprise in America can exist for long without private banking. But until the need for complete Government control arises and Congress acts, I oppose any bureaucratic highhandedness or pressure to force any bank to become a member of this System. I feel that Congress is the real boss of this situation.

The members of the Congress, both Senate and House, are the directors of this corporation known as the United States of America and they are elected to that board of directors by the people. I am very much in favor of our going back as rapidly as we can to the old-fashioned Constitutional form of government, that is, the Congress, the Judiciary and the Executive, and let's put those three to their intended use by insisting upon Congressional enactment, Judicial interpretation and Executive enforcement of laws.

(Applause)

When a bill comes out of the Congress that is so fuzzy as to require material interpretation, I would like to see all bureaus and boards go to the courts by ex parte proceedings, if necessary, for interpretation rather than have wildcat interpretations put on such laws by people who are not responsible to the electorate and who are in many cases able to by-pass the Congress, especially if the Congress is inclined to pass the buck.

I think the situation should be laid squarely in the lap of the Congress, and the Congress be asked to reassume its Constitutional liability and prerogative.

I oppose the well-intentioned efforts of those who would merge all of our banking facilities under one great system and consolidate all of our supervisory authorities under one super-bureau. I believe in the continuation as long as the systems are workable of the dual banking system and the dual supervisory authorities we now have.

I believe that regulations generally and credit control particularly should be reduced to a minimum. Because Regulation W and other regulations of the emergency period are before the Board of Governors for consideration and discussion, I do not care to discuss in detail any particular regulation. Suffice to say I am against Regulation W in principle. (Applause) It, along with other consumer credit controls, was probably necessary during the war; but I think its importance even then was probably exaggerated. Some

consumer credit controls may be advisable during this reconversion period; but I think that such regulations as were imposed in wartime emergency should be carefully reviewed and altered or cancelled, should be stripped and streamlined, et cetera, as rapidly as circumstances permit.

I hope the Federal Government will give the individual and corporate population of this country an opportunity for self-regulation, and that we will be allowed to eliminate all bureaucratic and arbitrary controls except those which the Congress, the direct elected representatives of the people, shall decree. (Applause)

These remarks in substance, gentlemen, indicate to you just how I feel about the matters discussed. To avoid repetition I am not going into any great detail because I made a short talk before the State Supervisors of Banks in Cleveland the other day in which I set forth a sort of creed which I hope to follow in the administration of this job. If you haven't read those remarks and you are interested further in the proposed policies of a new public servant, I wish you would read them; and if you disagree, let me know.

I attach to myself no theory of infallibility, I assure you. I am probably in that large group of people who are seldom in doubt but often wrong; at least, I have rather definite ideas on most questions which come within my official jurisdiction. But I am neither stubborn nor contrary, and I do believe that the

best administration I can give is to express in my official actions a consensus of the soundest and most reputable contemporary thought I can get. I am out in the field now getting that thought from all parts of the United States - and believe me, I am getting it strong. (Laughter)

I am going to have to leave you gentlemen immediately to catch a boat from Norfolk. I want to thank you again for allowing me to be here, and to express the hope that we will get along as well together when I say and do things you do not approve of as well as we have here while I am saying things that you probably like.

If you do not lock your doors at your next meeting, I intend to be there the day before and stay until the day after. (Applause)

In the meantime you are just as close to me as your telephone or postbox or Washington. I would sincerely appreciate it if you would come to see me when you are in Washington; and always, please give us, either in writing or verbally, the benefit of your thoughts about what we, your public servants, are doing or should do. (Applause)