

Remarks of
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President Welman, Ladies and Gentlemen of the Association:

Yours is the first invitation of its kind I have accepted and this is the first public talk I have made in more than two years. My last talks were made about six months after becoming a member of the Federal Reserve Board, in which I tried to make clear my official position on then pending questions such as consumer credit under executive order, stock market regulation, and selective controls generally. I stated then that my only reason for discussing such questions publicly was that as a new member of the Board I felt I should make known my position where I was in disagreement with prevailing Board policy or else be estopped from expressing opposition at a later date. I also tried to make clear my intention to work harmoniously in Board harness, and my desire and intention from that time on, to express my opinions on pending official matters in Board meetings only, and to support the decisions of the Board as best I could, once the Board, as such, had taken a position.

Since January 1947, I have tried to adhere to my expressed opinion that most public servants in Washington should listen more and talk less. I have always thought that the people of this country know quite well what they want and that they, through their elected President and representatives in Congress, should tell us what to do. We non-elective office holders outside the Cabinet should quit trying always to tell the people what we think they need, and what we think they should do, and how we think they should run their business. In many cases those who talk so much, and who would have our Federal Government control everything and everybody, are listening to the sound of their own voices rather than to the voice of the great people as they would have you believe. Much of the control theory and

paternalistic proposals spring from their minds rather than from any real demand from the people themselves. The President and the Congress are the elective officers who should interpret the people's wishes, and only they. Those of us not selected by the people should stand by to carry out the orders of the Legislative and Executive branches, regardless of our personal opinions; and if we can't execute those orders loyally and objectively, then we should get out. Accordingly, I have stayed off the public platform, refrained from expressing my opinions outside of the Board room, and have tried rather to keep my eyes and ears open; and in those matters made discretionary with us by the Congress, I have made decisions which to me represent a consensus of the best thought of our agriculturists, laborers, industrialists and bankers, in relation to our over-all economy, to the end that the Federal Reserve System may continue to serve constructively agriculture, industry, and banking, just as the Congress intended it should. In those matters not discretionary with us, I have tried to follow the law, in the light of Congressional intent as clearly shown by the record. And, after this talk with you today, I hope to go back to what I have been doing the last two years--just studying, listening and looking, and officially acting as my conscience dictates.

But, I was extremely pleased when President Welman advised me that this Missouri State Bankers Association would listen to me a few moments. Because of your geographical location and because of the publicity and prominence which has been given your state in recent years by the unusually large number of high public officials who are from Missouri, I feel that statements made before a representative body of Missourians, such as this, have an especial significance. Also, I am always glad to be at meetings of

your Association because more than twenty years of investment and commercial banking experience in Missouri have taught me that here one contacts probably the most typical cross-section of American business men; and by looking and listening and questioning at any representative Missouri meeting, one can come nearer to the core of American opinion and requirements than at any other place in this country.

I am not going to regale you today with a lot of figures on the national debt and other aspects of our monetary picture; nor shall I indulge in theorizing about monetary, fiscal and credit policies and related matters, which are the subject of our regular daily business in Washington. I do, however, welcome this opportunity to be here and to say a few words from my heart, as one member of a seven-man Board of public servants who is responsible to you tax-payers through your Congress--the United States Senate and House of Representatives.

It is especially gratifying that we meet at a time when the banking business in our country is in the soundest condition in our history, and banking as a profession is held in higher esteem than it has been in any period. Too often bankers have been made the whipping boys for economic adversities. Partly this is because the banker deals in money and, as the old saying goes, there are few troubles, certainly few economic troubles, that money can't cure. Partly it is due, I think, to a misunderstanding of the role the banker plays in his community, and in part it is because bankers themselves have failed to make their function better appreciated. This is one way of saying that bankers have not always assumed the leadership in their own communities and in the country at large that their responsibilities require. So it is fair to attribute some, at least, of the

greatly improved standing of the banking fraternity today to the more alert, aggressive leadership which it has accepted during and since the war.

Those in this audience who are acquainted with me know that I have always been an ardent advocate of private enterprise, and of private banking as an indispensable element in any system of private enterprise. After three years' experience as a member of the Federal Reserve Board I am no less zealous--perhaps I am over-zealous--to preserve and maintain our economic institutions which have made this the greatest of nations, measuring that greatness by the best of all standards, the welfare and well-being of our people. I have always appreciated the vast network of facilities, of operations, and relationships with business, agriculture, industry, as well as banking, which this great Federal Reserve System represents. It is closely interwoven with the entire economic fabric of the country, and that means it should be dedicated to the preservation of private enterprise and private banking. The alternatives are forms of State socialism or collectivism or some other "ism" such as beset many other nations today. The practical demonstrations in Europe of what these "isms" mean in reality should be enough to convince you that we, over here, want none of them.

Our private enterprise institutions, however, will not survive merely on the momentum accumulated in the past, or by wishful thinking or theorizing. You, as bankers, and we who are public servants, must be always on the alert to see that they function for the best interest of the most people. Leadership is not an empty word. To have content and effectiveness, it demands grappling from day to day with problems for which solutions must be found, not only in the light of experience, but, above all, in the light of broad national interests.

One of the healthiest evidences to my mind of enlightened leadership in the banking field is the example that was set by the American Bankers Association under the leadership of its then President, Joseph E. Dodge, of Detroit, in cooperation with your State banking associations and the national and State supervisory officials, in striving for voluntary restraints upon the over-expansion of bank credit. It originated because of the recognition of the inflationary dangers, then existent, that confronted us as a consequence of the war. Not only was there a keen awareness of the national problem, but an earnest desire to cope with it promptly and intelligently, preferably by voluntary measures, self-imposed, instead of by Government imposed restraint. It served to illustrate the fact that when the bankers make up their minds so to do, they can cooperate with State and Federal authorities and, to the extent that they are successful in a campaign such as that, they reduce, if they do not altogether eliminate, the necessity for the imposition of additional Governmental controls.

On the other hand, it should always be remembered that regulatory bodies such as the Federal Reserve System, the FDIC, or the Comptroller of the Currency, and the forty-eight State Bank supervisory authorities, have statutory responsibilities which are even more definite and clear-cut than is the individual banker's responsibility to his own community. It is only when private banks, or other groups of people controlling an essential element of our economy, fail in their duty to the community, that it becomes necessary to invest public authorities with statutory powers designed to protect the public interest. I hope I reflect the attitude of all State and National bank supervisory authorities when I say that they want to interfere as little as possible with private banking, and that nothing would

please them more than to be able to remove restrictions and restraints. I know from daily experience what an unpleasant and thankless task it usually is to have to impose and enforce restrictive or regulatory measures.

The Reserve System, like other banking agencies of the Federal and State Governments, has a moral obligation--in our case directly to the Congress and to the country as a whole--to maintain a proper balance and to prevent so far as our authority will permit, any one sector of the economy from doing things that are injurious to another sector. We, as public officials, would certainly be remiss if we did not prevent, where we can, damaging actions which would ultimately recoil upon the entire banking fraternity and, therefore, upon our whole economy.

The private banker, whether he likes it or not, needs to conceive of himself as a quasi-public servant in the sense that he has and must recognize a special responsibility to the community. If he fails to serve his own public effectively and satisfactorily, then that public through its duly elected members of Congress is almost certain to take corrective action, and in the case of banks, corrective action is bound to be synonymous with more public controls, regulation and participation. Such necessary action on the part of Government is a reflection of failure on the part of private enterprise and private responsibility and leadership somewhere along the line. The ultimate and the final attempted corrective for a general or wholesale failure of private leadership and responsibility is Government ownership, such as has spread all too rapidly in some other countries.

I know from my long association with you that in your own minds you are, locally, quasi-public servants; but I urge you to consider in times of inflationary trends the national picture, as well as the local picture,

in connection with the making of loans, i.e., the creation of additional credit to add to the current total of bank credit throughout the nation. And, likewise, in times of deflationary trends, it is essential that the local banker be prepared to take risks and to encourage the creation of credit in order to prevent unnecessary depression conditions in his community. The more appreciation and observation local bankers have of our national problems, and the closer they can cut their cloth to the national pattern, the less participation and control out of Washington will be necessary.

I do not want to see, any more than you do, the emergence of conditions in our country which will lead the public to any desperate attempted remedy such as government ownership. It is obviously a wholly mistaken remedy if we are to keep our private enterprise system. I think it is true, and I certainly want to believe, that the country is generally more aware today than ever before of the importance of private banking as a prerequisite of a private enterprise system. I want to believe that bankers and other citizens in general are more interested than ever before in the perpetuation of private banking in its present form as a necessary adjunct to our successful profit and loss system of private enterprise. I do not mean for a moment that I think there is no room for improvement; but I want to make haste very slowly. I certainly do not want to see what may be called our quadruple system of bank supervision--that is to say, the State banking systems, the FDIC, the Comptroller of the Currency, and the Federal Reserve System--deposed, displaced or replaced by some theoretically ideal but practically untried reshuffling and realignment.

I am sure that no careful student of our banking structure will say that it is ideal, but I am certain that any impartial judge would say it has been workable and that this nation has grown and prospered beyond the fondest dreams of its founders under this admittedly imperfect system. I cannot escape the conclusion that some credit, however small you want to make it, for the solid foundation on which our banking system rests today, and for its independence, and for the favorable opinion which it enjoys, is due to this quadruple system and the part it has played in banking history, particularly during and since the war. I concede that a merger of all of these supervisory authorities under one head would be more efficient, at least for awhile, and perhaps less expensive; but one of the prices which we pay for democracy, and which we should gladly pay, is the security of democratic processes. As Mr. Justice Brandeis once pointed out in a dissenting opinion (*Myers vs. United States*, 272 U. S. 52293, October 1926):

"The doctrine of the separation of powers was adopted by the Convention of 1787, not to promote efficiency but to preclude the exercise of arbitrary power. The purpose was, not to avoid friction, but, by means of the inevitable friction incident to the distribution of Governmental powers among three departments, to save the people from autocracy."

As we have seen dramatically illustrated in our time, one-man control in a nation can be very efficient--and deadly. We have had too many horrible examples throughout the world of the ultimate result of one-man control of any major sector of a nation's life. Private banking must be preserved in the United States, not for the good of the banks or the bankers themselves, but for the good of the public at large.

Once a national government gains absolute ownership and control of the banks and thus of the money supply--as distinguished from the admittedly loose regulatory controls we have in this country--once this vast power is placed unrestrictedly in the hands of Government officials, the death sentence has been imposed upon and will soon be carried out so far as private enterprise is concerned--in agriculture, manufacturing, merchandising and every other business.

The members of the Federal Reserve Board are, of course, plain, ordinary human beings, prone to doubts and errors, conscious of their shortcomings, but also of their responsibilities. As a Board we work in close cooperation with each other trying to solve the particular problems which are within our province. We do not crave power for the sake of power nor do we enjoy exercising power merely because the Congress has entrusted us with it. Let me point out in passing that whatever power (and I dislike that word) we possess today was voted by the Congress of the United States--your Congress. During the war, our regulation of instalment credit was based on executive order, but that was a war-time measure subsequently discarded and replaced by a specific act of Congress. Today, this and other responsibilities which the Reserve System has, are placed upon it by Congress. In the matter of reserve requirements, open market operations, discount rates--all means of influencing the volume and cost of bank credit--as well as in the case of instalment credit and stock market regulations--which are selective means of affecting credit in two specific areas--Congress has given the System a wide degree of latitude and discretion. In using these means of influencing credit, we try to assess the needs of the economy and

to adapt these measures to current conditions. Policies of restraint that are appropriate to a boom period are manifestly inappropriate in a downswing of the business cycle; therefore, we strive to be flexible in our administration. Questions of timing are perhaps the most difficult to decide.

Whether or not such selective controls and regulations are paternalistic; or whether or not such detailed regulation and regimentation of the individual citizen has any place in our constitutional Republic (as distinguished from a Democracy)--those are broad questions of Federal Government policy which must be determined by Congress, and not attempted by mere appointive boards to which the Congress had delegated certain powers. Neither the Federal Reserve Board nor any other appointed Board is a legislative body and I think all such Boards should be scrupulously careful not to attempt legislation by regulation or order. Under our Constitution, we are entitled to government by law--and it is fortunate that only an elected Congress can make laws, and only an elected President can participate in the process.

But once the Congress has spoken, it is our Board's responsibility to carry out the expressed wish and intent of the Congress. We endeavor to do so objectively and to the best of our ability for the over-all good.

Our constant objective is to maintain a proper balance between supervisory measures and unhampered independent operations of member banks. We recognize that the banking system, per se, must be profitable or it will die of starvation without being slaughtered by excessive Governmental regulation or outright Government ownership. We also realize that the public has an interest in and right to adequate banking service and accommodation

as well as to security of its deposits, even though these public demands may entail some cost in profits. Bankers, too, must realize that ours is a profit and loss system, and I am sure that every banker with an awakened sense of public responsibility understands that these considerations must be balanced off in a proper relationship. He should recognize his responsibility to extend credit at a risk, not only in good times but also when the economic climate is not auspicious. If he isn't willing to approach his task on such a basis, he is in the wrong business. Insofar as the private banker fails to meet his responsibility in this respect, then just so far is he endangering his position and his profession by making necessary more Federal and State participation, intervention and control. And, as I have sought to emphasize, that road eventually leads to Government ownership.

We have been especially fortunate in the past two years because of the constant stream of bankers who have come to Washington and visited with us. They come to talk to us, to have luncheon, to give us the benefit of their views and of their criticisms. And sometimes they even find something to commend in what we do. It keeps us mindful of the facts of life in the banking and business world and most of all it keeps us conscious of the fact that we are public servants. I think we are able in many instances to familiarize our visitors with our particular problems and viewpoints and to convince them that they will best carry out their responsibilities as private bankers when they are conscious that they, too in a sense, are public servants. Largely as a result of these personal contacts, our Board has had a better understanding than ever before of the immediate problems of the bankers, the farmers, the businessmen, the workers in industry, all of whom are affected directly or indirectly by monetary policies.

I hope when you come to Washington you will let us know, if possible in advance; if not, please telephone us when you get there and give us an opportunity to exchange information and opinions.

Incidentally, when you visit Washington I hope you will not forget to call on your Senators and Congressmen. If you do not know them personally, you should. I am perhaps especially conscious of the importance of your visits to your representatives in Congress, for I have had a lifelong familiarity with the tasks which your legislators perform and I freely admit that I am prejudiced in their favor. I think they are a worthy cross-section of our people and that they are sincere public servants. The rare exceptions prove the rule. On the whole they are good men and good women; and they usually get sound results, as our history proves.

You are familiar with particular proposals that are pending or will be introduced into this present Congress affecting banking and I shall not take your time to comment on them specifically. I do want to say, however, that I am still of the opinion which I expressed some time ago in a published letter, that the Congress might well create after this long lapse of years another monetary commission specifically directed to reconsider the entire structure of our monetary laws in the light of the many changes and the new problems which the years have brought. It has been some four decades since such an intensive and comprehensive Congressional study was undertaken, and I think another now would be helpful.

As a matter of fact, the present might prove to be a particularly propitious time for the Congress to create such a Commission, and refer to it for immediate study and report the controversial questions of supplemental

reserves, application of reserves to non-member banks as well as member banks, and the broad question of the basis upon which reserves are figured; and also consumer credit and other selective controls. As you know, the authority for supplemental reserves and control of consumer credit expires June 30 under present statutes, and such authority could well be extended for a limited time pending study and report by the proposed Monetary Commission.

In the meantime, I, for one, would go very slowly in tampering with our present structure. Let needed changes come gradually after we are sure that they are within the framework of our Constitution and of our established institutions. I want to stay away from one-man, two-man, or even three-man oligarchies having the power of life or death over our independent institutions. Let me say again that I am not assuming our present banking system is perfect, but it is a bulwark against over-concentration of power, and against autocracy and arbitrary exercise of power. We can better judge and more wisely perfect our Federal Reserve and private banking systems and correct their faults after a searching, exhaustive study, than we can by hasty amendments based on theory rather than on practical experience. We should think through very carefully all of the implications of proposed changes before we tamper with an essential component of our free enterprise institutions, that is,--privately owned farming, transportation, communications, industry, natural resources, and free manpower--those great private efforts that have made this nation without equal in strength and in well-being--to which happy circumstance private banking has made an essential contribution.