

MILWAUKEE, WIS. May 28, 1915.

Address by James B. McDougal,
Governor, Federal Reserve Bank of Chicago.

Mr. President, Members, and Guests

of the Bankers' Club of Milwaukee:

It was in 1791 that Alexander Hamilton proposed his scheme for a National Bank. About this time he produced two reports on public credit, upholding an ideal of national honor unequalled then and unsurpassed since. It was not a national banking system that was planned, but a bank which should be the financial agent for the Government. Finally chartered to do business through the States, having branches and handling deposits of national funds, it became known, as you are aware, as the bank of the United States. You are familiar with its history. Hamilton, its founder, the first Secretary of the Treasury, Washington's favorite

and nearest friend rests in Trinity Church Yard, at the head of Wall Street. There he has slept quietly for over a hundred years, through panic and turmoil, through the growth and development of the country he loved and served so well. It fascinates and holds the imagination in strolling up Broadway, to stop at the historic spot marking his resting place and to ask what would be the thoughts of this man, if living today, -- this man who, more than any other one man, created by his genius the initial foundation of national credit, honestly acknowledging and skillfully discharging all just obligations of the Government. If the spirit of Hamilton could tonight clasp hands with the present distinguished Secretary of the Treasury, it would be in congratulation upon the splendid banking facilities now afforded for national progress at home and abroad, and the permanent displacement of the antiquated,

inadequate, and dangerous machinery with which our bankers and merchants have struggled since civil war days. This, however, is incidental.

The invitation which you have so kindly extended us indicated that we were to come here for an informal dinner and conference. It is a great pleasure to be here in this way, presenting as it does a particularly attractive and favorable opening for a free and general discussion of matters interesting and commanding.

Five of the functions imposed by the Federal Reserve Act on Reserve Banks are:

1. The holding of the reserves of member banks.
2. Rediscounting.
3. The note issuing power.
4. The development of trade relations with foreign countries.
5. Clearing of checks for member banks.

It is not my purpose to attempt a general discussion of the Act or its provisions, I

prefer handling only a few details which are of immediate and pressing application to you and to us in our mutual task of insuring the successful operation of the Federal Reserve Bank of Chicago.

You all know to what extent we are handling the reserves of member banks, and you are aware that the handling of these reserves by us judiciously is not easy, but this subject I must for the present pass without extended notice.

In the matter of rediscounting, considerable misapprehension has been in evidence on the part of many member banks. They have assumed very little of their paper to be available for rediscount, and have also misled themselves into believing the process of rediscounting to be so bound about by red tape as to constitute the Federal Reserve Bank an aid unavailable except as a last resort. When opportunity has been afforded to talk with such bankers it has usually required

only a few moments to disclose their error, and that, on the other hand, a surprisingly large amount of their paper is immediately available for rediscount, and that the much feared red tape is largely a mental hazard. As a matter of fact, all applications are acted upon the day of receipt under requirements designed only to insure safety and the maintenance of the assets of the parent institution in liquid condition. Perhaps you will regard it strange my referring to this matter in Milwaukee. I do so because a full understanding of the significance thereof now, and in the future, is hardly to be overestimated, and on account of the prevalence of much apparent misunderstanding thereon, at the present time, throughout the district. The banks of your city have co-operated with us to date in all important particulars, and we hope by these few words to correct any erroneous ideas which may be in your minds, and through you to reach and instruct

the minds of your friends and correspondents. In my opinion, the assurance of adequate emergency reserves now quickly available to member banks is, in itself, a safeguard, the value and importance of which cannot be overestimated. Here is an apt illustration:

At a luncheon recently given in Chicago, the president of one of our largest institutions made a significant statement. Upon receipt of the news that the Lusitania had been sunk one of the bank's largest customers, a manufacturer who had suffered in the panic of 1907, came to the bank fearing that there might be a repetition of his former experience and indicated anxiety and distress lest his credit might be curtailed. He asked for advice as to what he should do. Thereupon the president reminded him that he and all other responsible borrowers need have no anxiety-- that there was now a bank around the corner

which was not here in 1907 and through which there was quickly available, currency and credit limited only to the amount of good assets the commercial banks were able to offer for rediscount.

We shudder to consider what would have happened to the United States if the European war had come in 1907. Bad as that panic was for us, its capacity for harm was infinitely less than if it had fallen upon us in the present world crisis, if we were at this time restricted to our old facilities. In that year our banks were working at cross purposes, each more or less selfishly trying to save itself. Today our 7,500 national banks have been brought into permanent and comparatively harmonious cohesion, all slowly, but I hope certainly learning that to succeed and grow they must, as President Wilson has said of the relations of the nations of the earth to one another, "Not merely make use of each

other, but be of use to one another." The Federal Reserve Board has in its control, in a compact mass, the reserves of 7,500 national banks for use, to quote from a recent editorial in the New York Times, "When and where wanted, each for all and all for each." Evidence abounds on all sides to demonstrate how greatly the prosperity of the United States is dependent upon world's markets. Our domestic commercial and industrial activities, it is true at the present time, are not up to normal, but considering the European situation, it seems marvelous that the depression has not been greater.

With respect to foreign trade, there is now in convention in Washington the Pan American Conference. Nineteen or more countries are represented. This affords a great avenue for the exploitation of trade relations. President Wilson, in opening the meeting, declared we must have commerce of

minds with one another before we can have commerce in goods. Mr. Vanderlip of the National City Bank also spoke at that conference the following significant words: "If we find ourselves in a state of unpreparedness for war, we find ourselves at least in a state of preparedness for extending our banking facilities abroad. This is a thing to be considered seriously in building up our relations with the Central and South American countries. The conditions in those countries are just what conditions were with us a generation ago. They need capital for their enterprises just as, until recently, we used up all our capital in domestic enterprises where now we have an enormous fund for use in the foreign field. So, I say, I look for great things from this conference in closer relations and more fruitful communications." These words which I have quoted from Mr. Vanderlip were predicated on the

enormous reserves now held by our national banks and their facilities for rediscounting, and for the expansion of loans. Having myself enjoyed no practical experience in foreign banking, I therefore, recently asked one of the best foreign exchange men in the country to furnish for this meeting his idea of the present foreign opportunities. His reply I herewith quote in totum:

"Our banks are now able to accept bills under conditions favorable to themselves, which is quite as important to the drawer of the bills. Every time a bill is drawn in a foreign country on America in settlement for imports by this country, or to pay a debt due by this country, and we eliminate the middleman, we reduce the cost to ourselves as well as to the drawers of the bill, for the fewer hands through which these bills pass, the fewer commissions have to be paid. The dollar acceptance, particularly that class of bill which represents payment of

commodities imported by this country, is now frequently met with, and in these days of easy money finds a very ready sale. The development of the acceptance business depends on our ability to maintain a relatively low money market for the discount of such paper here. Publicity of the widest kind must be given to our rates so that people in South America, China, Australia, to say nothing of Europe, will be able to keep informed as to the going rates of money in this country for the discount of the bills on America which they may be expected to have for sale. It is important that they should know that there are now in America, as there have been in other countries for years, different rates of interest for different classes of bills, and that the rate which the American money market applies to the acceptance of its own banks is an attractive one."

"The Act provides for the establishment of the bank in foreign countries. Great capital is not necessary for such undertakings, but credit

is, and that would be available in abundance. The establishment of foreign branches, which at first need not be much more than mere agencies operating at small expense, should do much to facilitate our foreign trade by furnishing credit facilities to our own people for the financing of their imports. Nearly all of this business has gone to London in the past, and while much of it must go there for many years to come by reason of England's commanding position as a creditor nation, the end of the wedge is in, and in time, with the aid of our Federal Reserve Banks, the dollar, or direct exchange, will be met with more frequently."

I mentioned in the beginning of this address the scope and limitations of my efforts here this evening. I have tried not to wander from the track. Let me now emphasize what you already know, namely, that the central institution of this district must be built into a smooth running machine for general use and

general protection in emergencies. It is our aim and fundamental purpose to make the Federal Reserve Bank of Chicago of the greatest possible benefit and service to all member banks and in that way to reach and serve the public. The management will always be happy in the opportunity for private conferences. It will gladly receive suggestions and honest criticism toward improvement and better work, and herewith cordially invites not only representatives of member banks but others interested in the progress of the Federal Reserve System, to visit us. The day will come in my judgment when all of the best corporate financial institutions in this country, whether national or state, large and small alike, will be component parts of the whole, vitally interested in its success and development.

A word in conclusion. One of your prominent citizens is one of our directors. His signal

abilities have been cheerfully and generously expended toward surmounting the preliminary difficulties of organization and getting the bank fairly on its way. I should be most ungrateful not to recognize and acknowledge the services of Mr. A. H. Vogel. This I now do unreservedly and thankfully.

Mr. President, I trust and beg to offer the suggestion, that before the evening is over, that any one in this room will be heard from who has any inquiries to make, or any suggestions to offer. You know, in advance, that Mr. Bosworth, Mr. McKay and I will be happy to participate.
