

December
1915

Mr. Toastmaster, Members of the Banker's Club of
Des Moines and Guests:-

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When I was asked to come to Des Moines, it was with the distinct understanding that no speech was to be expected of me. Talking usually helps me not at all, and, as the ancient Greeks would say: "Silence is a thing of which no man repenteth". But, notwithstanding the acquiescence of Mr. Meredith in my request for immunity this evening, one thought which has been running through my mind for some time - almost constantly - impelled me to call a stenographer a few hours before leaving Chicago to put this thought in writing.

To begin with, and incidental to my point, the new banking order was a year old November 16th last. Of this you have already been reminded. In other words, the twelve Federal Reserve Banks then completed the first year of their activities. Expressions of opinion have been freely indulged in by the press throughout the country on the merits of the system to date, and it is gratifying to note that the weight of opinion thus expressed by fair-minded newspapers, journals, etc., indicate public approval. It is admitted with candor, and so far as I am concerned with satisfaction, that the reserve banks to date have not earned

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their actual expenses, including organization expense, excepting four of the institutions, namely those at Richmond, Atlanta, Dallas and Chicago. The reasons therefor are simple. No one knows better than you that the commercial banks throughout the United States have been operating with enormous reserves far in excess of legitimate and wholesome requirements. Therefore, the rediscounting privilege afforded by our banks has been but little availed of in the North. With such conditions as those prevailing over the country the past year, the Federal reserve banks have been afforded time and opportunity to arrange machinery and to formulate policies to meet future exigencies bound to arise. Notwithstanding the almost negligible demands upon the institutions of the North for either credit or currency, they have performed important functions in the creation of confidence and in stabilizing the financial structure of the country. It is impossible to overestimate the importance of this one thing. They are now prepared and stand ready to perform other important functions. (The past year, marked as it has been by the most supreme material events of the Christian era, threatened at one time the wholesale destruction of confidence here and elsewhere. A panic was in the making. But the Federal Reserve Act saved the day. There is plenty of evidence to this effect on all sides. You know

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perfectly well since the outbreak of the war of 1914 several incidents have occurred, each in itself sufficient to have created disaster and panic under the old banking law. Yet each, thanks to the new system, broke harmlessly with hardly a commercial ripple. How could this have happened without the Federal Reserve Act?

By rare good fortune the Reserve Bank of Chicago was favored and honored in the selection of a Board of Directors including some of the ablest men of the nation. This statement I make with the greatest confidence. You are aware that three out of the nine directors are residents of the Commonwealth of Iowa. Some one has said that the greatest business in the world is the United States Government. The Federal Reserve Act is a vital part of that business and I am now willing after a year's experience to endorse the statement by a distinguished financial writer of the East to the effect that the Act is the most important legislation handed out to the people of this country since the adoption of the Constitution in 1787.

Now here is the point I have been leading up to:

The Federal Reserve Act contemplates a unified banking system, comprising not alone the national banks, whose membership is mandatory, but the sound, efficiently managed State institutions as well, whose membership is voluntary. A large portion of this audience is representative of State banks. None of you are member banks. If your business has been poor or unsatisfactory the past year, nevertheless you should be thankful for fair weather. ~~There~~
~~certainly have been no~~

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~~heavy seas running — no storms to fight.~~ But you are certain in the future to run into difficulties and stormy conditions. Who knows this better than you? You have withheld from membership because you have probably offset in your minds the safety offered by the Reserve Act with what has seemed more liberal terms enjoyed in your State charters. But it is no longer wise or prudent for a State bank to continue this policy. The terms on which you may now come into the fold have been made liberal and attractive. It is only a question of time when your interests and the interests of your stockholders force you to come in. Why not therefor do it now? Is it wise to consider the comfort and convenience of the present calm waters ahead of the safety and security offered you by membership in the Chicago Institution?

You gentlemen are successful men who need no advice in your current activities. But banks like individuals must have care of their reserves. I do not here use this word "reserves" in its banking sense, but in a broader and deeper sense which you will readily catch.