THE FEDERAL RESERVE SYSTEM

In the thirty years preceding the creation of the Federal Reserve System in 1914 the country experienced six panics (panics of 1884, 1890, 1893, 1903, 1907 and 1913). As a result of the panic of 1907, which occurred during the administration of President Roosevelt, a commission known as the National Monetary Commission was appointed and charged with the responsibility of making an exhaustive study of the banking systems abroad, with a view to determining what changes were necessary or desirable in the ~~monetary~~ banking system of the United States and in the laws relating to banking in this country. This commission was also instructed to determine what the defects in our banking system then in effect were. A report was rendered by the Commission in 1912. Seventeen defects in our banking system were pointed out, among which were:

1. Inelasticity of national bank note circulation.
2. Inadequate and unreliable credit facilities.
3. Reserves of banks throughout the country instead of being mobilized with any central reserve institutions and in readiness for emergencies were found scattered and unavailable.

Many of the important recommendations contained in the report of this commission were later embodied in the Federal Reserve Act which became a law on December 23, 1913.

The purpose of the Federal Reserve System is ~~set out in the preamble to the Federal Reserve Act~~ as follows:

> "~~An act~~" to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and other purposes."

Organization of System as a whole. Under the terms of the Act, the Continental United States was divided into twelve districts, (see map) so arranged that no one district had a dominating share of the total bank resources. Twelve Federal reserve banks have been organized, one located in each of the districts referred to. The cities which were selected as head offices for Federal reserve banks are as follows:

Boston
New York
Philadelphia
Cleveland
Richmond
Atlanta
Chicago
St. Louis
Minneapolis
Kansas City
Dallas
San Francisco

See map

Some of the districts cover vast areas, and so as to provide expedient service for banks located at points distant from the head office the Act provides that branches may be established. Such branches are operated under the supervision of a local board of directors, and at the present time branches of Federal reserve banks are being operated in the following cities:

All shown on map

Buffalo	branch	of	Federal	Reserve	Bank	of	New York
Cincinnati	"	"	"	"	"	"	Cleveland
Pittsburg	"	"	"	"	"	"	"
Baltimore	"	"	"	"	"	"	Richmond
Charlotte	"	"	"	"	"	"	"
New Orleans	"	"	"	"	"	"	Atlanta
Jacksonville	"	"	"	"	"	"	"
Birmingham	"	"	"	"	"	"	"
Nashville	"	"	"	"	"	"	"
Detroit	"	"	"	"	"	"	Chicago
Louisville	"	"	"	"	"	"	St. Louis
Memphis	"	"	"	"	"	"	"
Little Rock	"	"	"	"	"	"	"
Helena	"	"	"	"	"	"	Minneapolis
Denver	"	"	"	"	"	"	Kansas City
Oklahoma City	"	"	"	"	"	"	" "
Omaha	"	"	"	"	"	"	" "
El Paso	"	"	"	"	"	"	Dallas
Houston	"	"	"	"	"	"	"
San Antonio	"	"	"	"	"	"	"
Los Angeles	"	"	"	"	"	"	San Francisco
Portland	"	"	"	"	"	"	" "
Salt Lake City	"	"	"	"	"	"	" "
Seattle	"	"	"	"	"	"	" "
Spokane	"	"	"	"	"	"	" "

The entire System operates under the supervision of the Federal Reserve Board at Washington, a body comprised of eight members, including the Secretary of the Treasury and the Comptroller of the Currency who are ex-officio members. Six members are appointed by the President. In selecting the six appointed members due regard must be given to a fair representation of the financial agricultural, industrial and commercial interests and geographical divisions of the country.

<u>Organization of Federal Reserve Banks.</u> Each Federal reserve bank operates under the supervision of a Board of nine directors, six of whom are elected by the stockholders (member banks). Three of these directors must be bankers and three must consist of men actively engaged in commerce, agriculture or some other industrial pursuit. The remaining three directors are appointed by the Federal Reserve Board, one of the latter being designated as Chairman of the Board and Federal Reserve Agent. In this capacity he maintains an office in the Federal Reserve Bank, supervises the note issues, and acts as the official representative of the Federal Reserve Board. The executive officers such as Governor, Deputy Governors, and junior officers, are elected by the Board of Directors in a manner similar to that in which the officers of commercial banks are elected.

Contrary to an impression which seems to prevail, the United States itself is not a stockholder in the Federal Reserve System, although it is a depositor therein. The stockholders of the Federal reserve banks consist of their member banks. The law provides that all national banks shall be members of the Federal Reserve System and shall subscribe to the capital of the Federal reserve bank located within its district in an amount equal to six per cent of the subscribing bank's capital and surplus, one-half of this amount being paid in cash, and the remainder subject to call. State banks may also become members of the System provided they meet with certain requirements and subscribe to the capital on the same basis that national banks do.

Taking the three principal defects of the old banking system as pointed out by the National Monetary Commission and referred to above, it is interesting to note how they were taken into consideration in the framing of the Act and the means which have been provided to correct the difficulties previously experienced. To overcome the inelastic quality of the national bank note circulation provision was made for the issuance of Federal Reserve notes. These notes are issued to the Federal reserve banks by the Government against security consisting of liquid paper rediscounted for member banks and at least forty per cent in gold. The Federal reserve banks can issue this currency to member banks against paper which the member banks have acquired in the regular course of their business. Thus it will be seen that as business expands and there is a demand for greater discount accommodation the paper that is eligible for rediscount may go to the Federal reserve bank as security for currency, and in turn when such paper matures its payment automatically withdraws the Federal Reserve notes against which it stood as partial security; whereas previous to the organization of the Federal Reserve System the principal forms of circulation were gold, gold certificates, silver, silver certificates, and United States notes, all of which were practically fixed in amount, and the national bank notes afforded very little elasticity because the maximum amount that could be issued was limited to the total amount of United States Government bonds outstanding bearing the circulating privilege. (All national bank notes must be secured by an amount of Government bonds equal in face value to the amount of notes issued.)

To overcome the inadequate credit facilities which were experienced during many of the panics in the past, the new Act provided that member banks of the Federal Reserve System have the privilege of offering for rediscount the paper from their files ~~portfolios~~ made by responsible individuals, firms and corporations, the proceeds of which have been used for commercial, industrial or agricultural purposes. This rediscount privilege is useful, during the crop moving season for instance, when the ~~legitimate~~ credit demands of a community exceed the amount of funds which its banks have unemployed, likewise the seasonal credit demands of commercial and industrial business ~~pursuits~~ may be met in this manner.

It will be remembered that another important defect pointed out by the Monetary Commission was the unavailability of reserves when most needed. Banks throughout the country are required to maintain a certain percentage of reserves against their deposits. In order to illustrate this we might take the case of any small national bank located in a small town. Previous to the enactment of the Federal Reserve Act these banks were required to maintain a reserve equivalent to fifteen per cent of their total deposits. Six per cent of this amount they were obliged to carry in cash in their own vaults and nine per cent to be maintained on deposit with some larger bank located in a reserve or central reserve city. During the periods of trouble ~~stress~~ it was found that all of the country banks would start calling in the reserves which they had on deposit in reserve and central reserve cities, and as the reserve and central reserve city banks in order to pay interest on the balance maintained with them by the country banks were obliged to keep the funds employed, difficulty was sometimes experienced in meeting the demands of the country banks for the return of their reserves. Therefore ~~Accordingly~~, to overcome the difficulties attending this form of maintaining reserves the Federal Reserve Act provided that all member banks maintain their reserves against deposits with the Federal Reserve bank of the district in which it is located. So as to make the reserves readily available for use in emergencies it was provided that no interest be paid on balances so maintained at the Federal reserve banks, thus permitting the funds to be held unemployed and held immediately available when needed.

It may be interesting to note that the dealings of Federal Reserve banks are confined almost entirely with its member institutions. No deposits are received from individuals; in other words it may be referred to as a bankers' bank. In addition to the functions which have been referred to, the Federal reserve banks maintain a check collection service for members, as well as for non-member banks which meet certain requirements, provide safe-keeping facilities for members, and operate a very extensive leased wire system, having direct contact by wire with all Federal reserve banks and branch offices throughout the United States.

The Federal Reserve Act also provides that the Secretary of the Treasury shall have the right to designate the Federal reserve bank as the Fiscal Agent of the Treasury Department, and under this authority a Fiscal Agency Department is maintained in the various Federal reserve banks. During the World War, when it will be recalled the various Liberty Loans and Victory Loans were floated, the Fiscal Agency Departments were the mediums through which the Treasury floated its securities, and these departments are still active in assisting the Treasury Department in refunding its maturing obligations and in the collection of interest coupons as they mature from time to time, and the flotation of new issues of Government securities such as Certificates of Indebtedness and Treasury Bonds.

April 1931.

7?

OUTLINE FOR TALK

BEFORE 10th ANNUAL BANQUET OF THE FIRST NATIONAL BANK, FORT WAYNE, INDIANA, SATURDAY EVENING, FEBRUARY 9, 1929.

Banquet planned by employes of the bank - officers and directors and a few stockholders invited.

Comment on duties of stockholders to bank.

THE FEDERAL RESERVE SYSTEM AND HOW IT OPERATES.

REPORT OF MONETARY COMMISSION

In 1908 Congress appointed a commission designated as the National Monetary Commission, charged with the responsibility of determining what changes were necessary or desirable in the monetary system of the United States and in the laws relating to banking. This commission, the personnel of which was chosen from both houses of Congress, proceeded deliberately, etc., etc.,

REPORT RENDERED IN 1912

17 defects pointed out - among which were

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Cite Panic - 1907 - Clearing House script authorized October 29, 1907.

THE FEDERAL RESERVE ACT.

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To furnish an elastic currency, to afford means of rediscounting commercial paper, to establish more effective supervision of banking, etc.

PLAN OF ORGANIZATION

Law provides for not less than eight nor more than twelve banks.

SYSTEM — 12 banks - 12 districts
National and state bank members.

CAPITAL STOCK — SUBSCRIBED ENTIRELY BY MEMBER BANKS
GOVERNMENT NOT A STOCKHOLDER.

Capital & Surplus -Fed.Res.System	340,000,000.00
" " " -Bank of England	85,965,027.00
" " " -Bank of France	54,766,452.00
" " " -Reichsbank	96,945,733.00

Reserve deposits of System	2,390,000,000
Gold on hand	2,667,000,000
Notes outstanding at present	1,645,000,000
Notes outstanding at high point	3,404,000,000

FEDERAL RESERVE BOARD

ORGANIZATION OF FEDERAL RESERVE BANKS

Board of Directors, Classes A.B.C.
Executive Officers.

MEMBERSHIP IN SEVENTH DISTRICT

289 State banks	Paid-in capital	$8,532,200
966 Nat'l "	" " "	10,601,850
1,255		$19,134,050

MOBILIZATION OF RESERVES

FUNCTIONS

DISCOUNTING FOR MEMBER BANKS
CURRENCY ISSUING
PAR COLLECTION SYSTEM
LEASED WIRE SYSTEM - Average messages per day 3,082.
GOLD SETTLEMENT FUND

FISCAL AGENCY OPERATIONS - FINANCING DURING THE WAR
EXPIRATION OF CHARTER - INDETERMINATE
Make reference to fact that small and large institutions are treated on a parity.

FIRST NATIONAL BANK, FORT WAYNE, IND.

Capital $1,000,000; Surplus $500,000; Undivided Profits $445,000; Deposits $15,912,000

C. H. Worden, Chairman of the Board.
C. M. Niezer, President.
Harry C. Fair, Vice President.

The bank was organized in 1863.

LINCOLN NATIONAL BANK & TRUST COMPANY.

Capital $1,000,000; Surplus $850,000; Undivided Profits $207,000; Deposits $12,615,000.
S. N. Foster, Chairman of the Board.
Chas. H. Buesching, President.
Geo. Waldschmidt, Vice President.

Organized in 1905.

OLD NATIONAL BANK, FORT WAYNE, IND.

Capital $500,000; Surplus $500,000; Undivided Profits $166,000; Deposits $9,102,000.

Henry C. Paul, President.
Frank H. Cutshall, Vice President.
Stephen Morris, Cashier.

Organized in 1835.

70

TANNERS' COUNCIL OF AMERICA

October 26, 1928.

Old System

THE FEDERAL RESERVE SYSTEM ~~AND HOW IT OPERATES.~~ W

[redacted] MONETARY COMMISSION

In 1908 Congress appointed a commission designated as the National Monetary Commission, charged with the responsibility of determining what changes were necessary or desirable in the monetary system of the United States and in the laws relating to banking. This commission, the personnel of which was chosen from both houses of Congress, proceeded deliberately, etc., etc.

REPORT RENDERED IN 1912

17 defects pointed out - among which were

Inelasticity of national bank note circulation.
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PLAN OF ORGANIZATION

Law provides for not less than eight nor more than twelve banks.

SYSTEM 12 banks - 12 districts
National and state bank members..

CAPITAL STOCK SUBSCRIBED ENTIRELY BY MEMBER BANKS
GOVERNMENT NOT A STOCKHOLDER.

Capital & Surplus - Fed Res.System	378,000,000.00
" " " - Bank of England	88,934,788.00
" " " - Bank of France	87,815,000.00
" " " - Reichsbank	96,945,733.00

Reserve deposits of System	2,358,000,000
Gold on hand	2,636,000,000
Notes outstanding at present	1,717,000,000
Notes outstanding at high point	3,404,000,000

FEDERAL RESERVE BOARD *

~~ORGANIZATION OF~~ FEDERAL RESERVE BANK~~S~~ of Chgo
Board of Directors, Classes A.B & C Vogel, Simpson, Reynolds, etc.

Executive Officers.

MEMBERSHIP IN SEVENTH DISTRICT

297 State banks	Paid-in capital	$8,056,600,000
969 National banks	" " "	10,392,650,000

18500
33

MOBILIZATION OF RESERVES

FUNCTIONS
DISCOUNTING FOR MEMBER BANKS
CURRENCY ISSUING
PAR COLLECTION SYSTEM
LEASED WIRE SYSTEM - Average messages per day 1,750
GOLD SETTLEMENT FUND

FISCAL AGENCY OPERATIONS - FINANCING DURING THE WAR

Seasonal demand
Crop-moving demand
Agricultural situation.

Reserve Bank Is Cleared in Lindy Escape by Will

Special to The Chicago Daily News.

Beverly Hills, Cal., June 6.—England elects a labor government. Three hundred out of 600 are here, but nobody has ever accused one of doing a tap of work. When a man goes in for politics over here he has no time for labor and any man that labors has no time to fool away with politics Over there politics is an obligation Over here it's a business.

WILL ROGERS.

P. S.—There is one thing about Lindbergh's escape—it's the only thing that happened this spring that hasn't been laid on to the federal reserve.

CHIC. NEWS

6-6-29

FEDERAL RESERVE SYSTEM -

What it is.
What it is not.

Public still uninformed.
The press creates erroneous impressions, leading the public to believe that the Federal Reserve System is responsible for most of the ills which befall the business situation.

DISCOUNT RATE -

New York, July 27, 1927.
Conditions - March, 1929 - Speculative loans.

Can loan for specific purposes mentioned in the Act, which do not include the extension or use of Federal Reserve credit for what, during the last year, has become generally to be understood "Speculative credit."

Mar. 20 - liquidation

G. R. Banks - 20 - F.R.Bank.

[illegible] deposits - Call rate

70/

OUTLINE FOR TALK AT AURORA

February 4, 1928.

INVITATION EXTENDED BY MR. GEORGE

SUBJECT: THE FEDERAL RESERVE SYSTEM AND HOW IT OPERATES.

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Cite Panic - 1907 - Clearing House script authorize October 29, 1907.

THE FEDERAL RESERVE ACT

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To furnish an elastic currency, to afford means of rediscounting commercial paper, to establish more effective supervision of banking, etc.

PLAN OF ORGANIZATION

Law provides for not less than eight nor more than twelve banks.

SYSTEM — 12 banks - 12 districts
National and state bank members.

CAPITAL STOCK — SUBSCRIBED ENTIRELY BY MEMBER BANKS
GOVERNMENT NOT A STOCKHOLDER.

Capital & Surplus	- Fed.Res.System	~~367,500,000.00~~ 378,000,000
" " "	- Bank of England	86,370,643.00
" " "	- Bank of France	53,652,520.00
" " "	- Reichsbank	71,674,380.00

Reserve deposits of System	2,354,000,000
Gold on hand	2,636,000,000 ~~2,819,000,000~~
Notes outstanding at present	1,717,000,000 ~~1,584,000,000~~
Notes outstanding at high point	3,404,000,000

FEDERAL RESERVE BOARD

ORGANIZATION OF FEDERAL RESERVE BANKS
Board of Directors, Classes A.B & C - Vote. Business Research etc.
Executive Officers.

MEMBERSHIP IN SEVENTH DISTRICT

308 State banks	Paid-in capital	7,944,850
986 National bank	" "	10,150,850
		18094

MOBILIZATION OF RESERVES

FUNCTIONS
DISCOUNTING FOR MEMBER BANKS
CURRENCY ISSUING
PAR COLLECTION SYSTEM
LEASED WIRE SYSTEM - Average messages per day 1,750
GOLD SETTLEMENT FUND

FISCAL AGENCY OPERATIONS - FINANCING DURING THE WAR

GOLD CREDIT TO ENGLAND

EXPIRATION OF CHARTER - INDETERMINATE

Make reference to the fact that small and large institutions are treated on a parity.

Emphasize the fact that Aurora has secured and can depend upon securing the benefits of the Federal Reserve System.

70

OUTLINE FOR TALK

JUNIOR BANK OFFICERS CLUB

May 16, 1928

SUBJECT: THE FEDERAL RESERVE SYSTEM AND HOW IT OPERATES.

REPORT OF MONETARY COMMISSION

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National and state bank members.

CAPITAL STOCK | SUBSCRIBED ENTIRELY BY MEMBER BANKS
GOVERNMENT NOT A STOCKHOLDER.

Capital & Surplus	- Fed.Res. System	374,950,000.00 ~~$370,900,000.00~~
" " "	- Bank of England	85,965,027.00
" " "	- Bank of France	54,766,452.00
" " "	- Reichsbank	96,945,733.00

Reserve deposits of System	2,473,844,000.	~~2,493,000,000~~
Gold on hand	2,608,948,000.	2,709,000,000
Notes outstanding at present	1,598,370,000	1,591,000,000
Notes outstanding at high point		3,404,000,000

FEDERAL RESERVE BOARD

ORGANIZATION OF FEDERAL RESERVE BANKS
Board of Directors, Classes A.B & C
Executive Officers.

MEMBERSHIP IN SEVENTH DISTRICT

302 State banks.	Paid-in capital	$8,004,700
975 National banks.	" " "	10,123,350
		18,128,050

MOBILIZATION OF RESERVES

FUNCTIONS
DISCOUNTING FOR MEMBER BANKS
CURRENCY ISSUING
PAR COLLECTION SYSTEM
LEASED WIRE SYSTEM - Average messages per day 1,750 ?
GOLD SETTLEMENT FUND

FISCAL AGENCY OPERATIONS - FINANCING DURING THE WAR

EXPIRATION OF CHARTER - INDETERMINATE

2,899 V.

Make reference to the fact that small and large institutions are treated on a parity.

7d

OUTLINE FOR TALK

JUNIOR BANK OFFICERS CLUB

May 16, 1928

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CAPITAL STOCK SUBSCRIBED ENTIRELY BY MEMBER BANKS
GOVERNMENT NOT A STOCKHOLDER.

Capital & Surplus - Fed.Res. System	$370,900,000.00
" " " - Bank of England	85,965,027.00
" " " - Bank of France	54,766,452.00
" " " - Reichsbank	96,945,733.00

Reserve deposits of System	2,493,000,000
Gold on hand	2,709,000,000
Notes outstanding at present	1,591,000,000
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FEDERAL RESERVE BOARD

ORGANIZATION OF FEDERAL RESERVE BANKS
Board of Directors, Classes A.B & C
Executive Officers.

MEMBERSHIP IN SEVENTH DISTRICT

302 State banks	Paid-in capital	$8,004,700
975 National banks	" " "	10,123,350
		18,128,050

MOBILIZATION OF RESERVES

FUNCTIONS
DISCOUNTING FOR MEMBER BANKS
CURRENCY ISSUING
PAR COLLECTION SYSTEM
LEASED WIRE SYSTEM - Average messages per day 1,750
GOLD SETTLEMENT FUND

FISCAL AGENCY OPERATIONS - FINANCING DURING THE WAR

EXPIRATION OF CHARTER - INDETERMINATE

Make reference to the fact that small and large institutions are treated on a parity.

	No Bks	Paid in Cap
Natl Bks	975	10,123,350
State Bks	30	8004,700
		18,128,050

7 Natl pending withdrawl
a/c Liq & closed

4 State Vol withdrawl
2 " closed
2 " Cons under new charter
nonmember

176

OUTLINE FOR TALK ~~AT AURORA~~
Junior Bank Officers Club
~~February 4, 1928.~~
May 16, 1928
Old Reserve

INVITATION EXTENDED BY MR. GEORGE

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" " "	- Reichsbank	71,674,380.00

	2,493,000,000
Reserve deposits of System	2,354,000,000
Gold on hand	2,819,000,000
Notes outstanding at present	1,584,000,000
Notes outstanding at high point	3,404,000,000

2,709,430
1,590,639

FEDERAL RESERVE BOARD

Chicago

ORGANIZATION OF FEDERAL RESERVE BANKS
Board of Directors, Classes A.B & C
Executive Officers.

MEMBERSHIP IN SEVENTH DISTRICT

308 State banks	Paid-in capital	$ 7,944,850
986 National banks	" "	10,150,850
		18,095,700

MOBILIZATION OF RESERVES

33
51

FUNCTIONS
DISCOUNTING FOR MEMBER BANKS
CURRENCY ISSUING
PAR COLLECTION SYSTEM
LEASED WIRE SYSTEM - Average messages per day 1,750
GOLD SETTLEMENT FUND

FISCAL AGENCY OPERATIONS - FINANCING DURING THE WAR

~~GOLD CREDIT TO ENGLAND~~

EXPIRATION OF CHARTER - INDETERMINATE

Make reference to the fact that small and large institutions are treated on a parity.

~~Emphasize the fact that Aurora has secured and can depend upon securing the benefits of the Federal Reserve System.~~

OUTLINE FOR TALK

MAMAGERS MEETING - INTERNATIONAL HARVESTER CO.

June 12,1928.

SUBJECT: THE FEDERAL RESERVE SYSTEM AND HOW IT OPERATES.

CITE PANIC - 1907 - Clearing House script authorized October 29, 1907.

REPORT OF MONETARY COMMISSION

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Capital & Surplus - Fed. Res. System	372,950,000.00
" " - Bank of England	85,965,027.00
" " - Bank of France	54,766,452.00
" " - Reichsbank	96,945,733.00

Reserve deposits of System	2,432,822,000
Gold on hand	2,608,948,000
Notes outstanding at present	1,598,370,000
Notes outstanding at high point	3,404,000,000

FEDERAL RESERVE BOARD

ORGANIZATION OF FEDERAL RESERVE BANKS
Board of Directors, Classes A.B. & C.
Executive Officer.

MEMBERSHIP IN SEVENTH DISTRICT

300	State banks	Paid-in capital	$7,983,000
974	NATIONAL banks	" " "	10,145,850
			18,128,850

MOBILIZATION OF RESERVES

FUNCTIONS
DISCOUNTING FOR MEMBER BANKS
CURRENCY ISSUING
PAR COLLECTION SYSTEM
LEASED WIRE SYSTEM - Average messages per day 2,899
GOLD SETTLEMENT FUND.
FISCAL AGENCY OPERATIONS - FINANCING DURING THE WAR

EXPIRATION OF CHARTER - INDETERMINATE

Make reference to the fact that small and large institutions are treated on a parity.

Old banking system - reserves inadequate and unavailable in times of need.

New system - reserves mobilized in readiness at all times to serve as a basis for the extension of credit to legitimate enterprises or as a basis of note issues.

OUTLINE FOR TALK BEFORE JUNIOR Employees
~~CLERKS~~ - CHICAGO STOCK EXCHANGE
December 5, 1924. 4:00 P. M.

INTRODUCTORY REMARKS

SUBJECT: THE FEDERAL RESERVE SYSTEM AND HOW IT OPERATES

Stock Exchange dependent upon condition of money and investment markets. Federal Reserve System has stabilized these markets.

REPORT OF MONETARY COMMISSION

In 1908 Congress appointed a commission designated as the National Monetary Commission, charged with the responsibility of determining what changes were necessary or desirable in the monetary system of the United States and in the laws relating to banking. This commission, the personnel of which was chosen from both houses of Congress, proceeded deliberately, etc., etc.

REPORT RENDERED IN 1912

17 defects pointed out - among which were

Inelasticity of national bank note circulation.
Inadequate and unreliable credit facilities.
Reserves instead of being mobilized and in readiness were found scattered and unavailable.

THE FEDERAL RESERVE ACT

The important recommendations contained in the report were later embodied in the Federal Reserve Act - 1913 - This being an act

To furnish an elastic currency, to afford means of rediscounting commercial paper, to establish more effective supervision of banking, etc.

ORGANIZATION COMMITTEE

Law provides for not less than eight nor more then twelve banks.

SYSTEM 12 banks - 12 districts
National and state banks members.

CAPITAL STOCK - SUBSCRIBED ENTIRELY BY MEMBER BANKS
GOVERNMENT NOT A STOCKHOLDER

Capital & Surplus	- Fed.Res.System	$333,000,000
" " "	- Bank of England	88,325,184
" " "	- Bank of France	51,580,022
" " "	- Reichsbank	73,128,832

FEDERAL RESERVE BOARD

ORGANIZATION OF FEDERAL RESERVE BANKS
Board of Directors, Classes, A, B & C
Executive Officers.

MEMBERSHIP IN 7TH DISTRICT

358 State banks - capital subscribed	$6,082,500
1055 Nat'l banks - " "	9,098,200
	15,180,700

MOBILIZATION OF RESERVES.

FUNCTIONS
- DISCOUNTING FOR MEMBER BANKS
- CURRENCY ISSUING PRIVILEGE
- PAR COLLECTION SYSTEM
- LEASED WIRE SYSTEM
- GOLD SETTLEMENT FUND

FISCAL AGENCY OPERATIONS - FINANCING DURING THE WAR

Strong

What I would have you bear in mind with respect to the Federal Reserve System is that it is composed of twelve separate and independently organized banks, banks of deposit and discount, etc. Under the immediate control of the Board of Directors, the majority of whom are selected, etc. While it is true that the public does not come directly in contact with these banks, the System in reality operates not for the benefit of the member banks alone, but on the contrary for the interest of the general business of the country.

CHICAGO STOCK EXCHANGE

Extend invitation to visit bank.

GOV. STRONG ON FEDERAL RESERVE

Says It Produced Ease of Mind and Business Tranquillity Never Before Existing

The great confidence instilled among business men and the tranquillity of the public mind are perhaps the outstanding benefits the Federal Reserve system has brought about, in the opinion of Benjamin Strong, governor of the New York Federal Reserve Bank. "It is the American habit to measure the value of matters commercial in dollars," he said. "Such a valuation of the Federal Reserve system would enlighten critics and please friends of the system. It would show vast 'economy' in the interest account of the nation, including the national, state and municipal governments. It would show the great saving afforded by the various mechanical and technical operations of the system, which replaced scattered and uneconomical operations through the unorganized procedure of widely scattered banks—such as check and other collections, handling the currency, the transaction of financial operations with the public for the Treasury. Many others could be named. The total in dollars would be impressive.

"Important as this is, the greater value of the system has been the tranquility of mind, and the stability of business, which it has made possible.

"In this respect its accomplishments are those to be listed under the caption 'What has not happened.'

"We fought a war ten times as expensive as the Civil War without issuing any irredeemable paper currency. We were the only major country in the world to continue on a gold basis.

"In a post-war period of economic dislocation we have avoided anything in the nature of a panic, and have had less price fluctuation and less financial disturbance than any other country in the world. We have absorbed without price inflation a tremendous flood of gold into this country, amounting since 1920 to $1,500,000,000.

"Since the establishment of the Federal Reserve system we have avoided that seasonal money stringency which in the old days forced interest rates to their highest points in the months when the farmer borrowed to move his crops. We have achieved such fluidity of funds between the east and the west that there is never a premium on New York or Chicago or San Francisco funds anywhere in the country.

"We have been largely freed from the expense, delay, and risk with which exchange charges on checks burdened the settlement for business transactions.

"In the Federal Reserve system we have secured insurance against the swift disaster which followed any unusual financial disturbance under the old rigid banking system. In the Federal Reserve system we have provided for us a smoothly working mechanism which relieves us from the constant irritations which were the regular accompaniment of the old chaotic disorganized banking relationships.

"By the stability it affords to business the Reserve system has removed a great cause of anxiety from all classes of business and workers. It has produced an ease of mind and tranquility which never before existed."

.70~~5~~

~~OUTLINE FOR TALK BEFORE JUNIOR~~
~~CLERKS - CHICAGO STOCK EXCHANGE~~
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National and state banks members.

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GOVERNMENT NOT A STOCKHOLDER

Capital & Surplus	- Fed.Res.System	$333,000,000
" " "	- Bank of England	88,325,184
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MOBILIZATION OF RESERVES.

FUNCTIONS
DISCOUNTING FOR MEMBER BANKS
CURRENCY ISSUING PRIVILEGE
PAR COLLECTION SYSTEM
LEASED WIRE SYSTEM
GOLD SETTLEMENTFUND

FISCAL AGENCY OPERATIONS - FINANCING DURING THE WAR

What I would have you bear in mind with respect to the Federal Reserve System is that it is composed of twelve separate and independently organized banks, banks of deposit and discount, etc. Under the immediate control of the Board of Directors, the majority of whom are selected, etc. While it is true that the public does not come directly in contact with these banks, the System in reality operates not for the benefit of the member banks alone, but on the contrary for the interest of the general business of the country

CHICAGO STOCK EXCHANGE

Extend invitation to visit bank.

The Chicago Board of Trade is to the public the most important and economical agency for the marketing of food stuffs in the world. It is a market place where buyers and sellers from all markets of the world either meet in person or through their commission men for the exchange of commodities, and in my opinion what this great institution does in behalf of the agricultural interests of the country and those who are engaged in the manufacture of products therefrom is characteristic of the duties of the great Stock Exchanges of this country in New York and Chicago perform in behalf of the great railroads and other great corporations in the matter of determining the market value and facilitating the distribution of capital issues. Consequently, when invited to speak before the junior employes' organization of the Stock Exchange of Chicago with a view to outlining the manner in which the Federal Reserve System operates, I feel it to be my duty to respond in the hope that my efforts may be productive of giving you a better understanding with respect to what these Federal Reserve Banks are and how they operate.

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7D.

at Aurora

OUTLINE FOR TALK ~~BEFORE ROTARY~~
~~CLUB -~~ ~~FORT WAYNE, INDIANA~~
~~JUNE 8, 1925~~ - 12:15P.M.
Feb. 4, 1948

Kittrasone

ROTARY CLUB - INVITATION EXTENDED BY MR. ~~WALDSCHMIDT.~~ George

SUBJECT: THE FEDERAL RESERVE SYSTEM AND HOW IT OPERATES.

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Cite Panic - 1907 - Clearing House script authorized October 29, 1907.

1913

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PLAN OF ORGANIZATION

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SYSTEM 12 banks - 12 districts
National and state bank members.

CAPITAL STOCK - SUBSCRIBED ENTIRELY BY MEMBER BANKS
GOVERNMENT NOT A STOCKHOLDER.

~~Total franchise tax paid to Government by System~~	~~$ 139,114,643.00~~
Capital & Surplus - Fed.Res.System	367,500,000.00 ~~333,362,000.00~~
" " " - Bank of England	86,370,643.00
" " " - Bank of France	53,652,520.00
" " " - Reichsbank	71,674,380.00
	211
	6390
Reserve deposits of System	2,354,000. ~~2,138,000,000~~
Gold on hand 2,819,000,000	~~2,838,000,000~~
Notes outstanding at present 1,584,000,000	1,670,000,000
Notes outstanding at high point	3,404,000,000

FEDERAL RESERVE BOARD 8

ORGANIZATION OF FEDERAL RESERVE BANKS Chgo Bank ~~Mention Mr.Ball~~
Board of Directors, Classes A,B & C
Executive Officers.

MEMBERSHIP IN SEVENTH DISTRICT

308	350 State banks - capital paid in	6,655,250
986	1062 Nat'l.banks - capital paid in	8,891,800
1412		15,547,050
1294		

MOBILIZATION OF RESERVES

FUNCTIONS
- DISCOUNTING FOR MEMBER BANKS
- CURRENCY ISSUING
- PAR COLLECTION SYSTEM
- LEASED WIRE SYSTEM - Average messages per day 1,750
- GOLD SETTLEMENT FUND

FISCAL AGENCY OPERATIONS - FINANCING DURING THE WAR

~~TESTIMONY BEFORE JOINT COMMITTEE OF INQUIRY ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM~~

GOLD CREDIT TO ENGLAND { 200

EXPIRATION OF CHARTER

Make reference to the fact that small and large institutions are treated on a parity.

Emphasize the fact that Fort Wayne has secured and can depend upon securing the benefits of the Federal Reserve System.

~~En~~
Great Britain - Resumption free Gold market

{ Our loan or Credit
of 200 Mil. Dollars

Business Conditions
Bank and
Credit Conditions

VOL. XXIV

REPORT OF

NATIONAL MONETARY COMMISSION

or affiliation in broader fields makes it impossible to use these or similar local agencies to prevent panics or avert calamitous disturbances affecting the country at large. These organizations have, in fact, never been able to prevent the suspension of cash payments by financial institutions in their own localities in cases of emergency.

Panic 1907

6. We have no effective agency covering the entire country which affords necessary facilities for making domestic exchanges between different localities and sections, or which can prevent disastrous disruption of all such exchanges in times of serious trouble.

Gov settlement

7. We have no instrumentality that can deal effectively with the broad questions which, from an international standpoint, affect the credit and status of the United States as one of the great financial powers of the world. In times of threatened trouble or of actual panic these questions, which involve the course of foreign exchange and the international movements of gold, are even more important to us from a national than from an international standpoint.

8. The lack of commercial paper of an established standard, issued for agricultural, industrial, and commercial purposes, available for investments by banks, leads to an unhealthy congestion of loanable funds in great centers and hinders the development of the productive forces of the country.

9. The narrow character of our discount market, with its limited range of safe and profitable investments for banks, results in sending the surplus money of all sections, in excess of reserves and local demands, to New York, where it is usually loaned out on call on Stock Exchange securities, tending to promote dangerous speculation and inevitably leading to injurious disturbances in reserves. This concentration of surplus money

VOL. XXIV

REPORT OF

NATIONAL MONETARY COMMISSION

and available funds in New York imposes upon the managers of the banks of that city the vast responsibilities which are inherent in the control of a large proportion of the banking resources of the country.

10. The absence of a broad discount market in our system, taken together with the restrictive treatment of reserves, creates at times when serious financial disturbances are anticipated a condition of dependence on the part of individual banks throughout the country, and at the same time places the farmers and others engaged in productive industries at a great disadvantage in securing the credit they require for the growth, retention, and distribution of their products.

11. There is a marked lack of equality in credit facilities between different sections of the country, reflected in less favored communities, in retarded development, and great disparity in rates of discount.

12. Our system lacks an agency whose influence can be made effective in securing greater uniformity, steadyness, and reasonableness of rates of discount in all parts of the country.

13. We have no effective agency that can surely provide adequate banking facilities for different regions promptly and on reasonable terms to meet the ordinary or unusual demands for credit or currency necessary for moving crops or for other legitimate purposes.

14. We have no power to enforce the adoption of uniform standards with regard to capital, reserves, examinations, and the character and publicity of reports of all banks in the different sections of the country.

15. We have no American banking institutions in foreign countries. The organization of such banks is

VOL. XXIV

REPORT OF

NATIONAL MONETARY COMMISSION

The principal defects in our banking system we believe may be summarized as follows:

1. We have no provision for the concentration of the cash reserves of the banks and for their mobilization and use wherever needed in times of trouble. Experience has shown that the scattered cash reserves of our banks are inadequate for purposes of assistance or defense at such times.

2. Antiquated Federal and State laws restrict the use of bank reserves and prohibit the lending power of banks at times when, in the presence of unusual demands, reserves should be freely used and credit liberally extended to all deserving customers.

3. Our banks also lack adequate means available for use at any time to replenish their reserves or increase their loaning powers when necessary to meet normal or unusual demands.

OK

4. Of our various forms of currency the bank-note issue is the only one which we might expect to respond to the changing needs of business by automatic expansion and contraction, but this issue is deprived of all such qualities by the fact that its volume is largely dependent upon the amount and price of United States bonds.

5. We lack means to insure such effective cooperation on the part of banks as it is necessary to protect their own and the public interests in times of stress or crisis. There is no cooperation of any kind among banks outside the clearing-house cities. While clearing-house organizations of banks have been able to render valuable services within a limited sphere for local communities, the lack of means to secure their cooperation

Mr. Synder writes from Fort Wayne, making reference to the recent suspension of the Blackford County Bank, Hartford City, Indiana.

He speaks of having heard of my plans to be in Fort Wayne next Monday and suggests that I make an effort to see Mr. C. M. Niezer, President of the First National Bank, the largest bank in Fort Wayne.

VOL. XXIV

REPORT OF

NATIONAL MONETARY COMMISSION

necessary for the development of our foreign trade.

16. The provision that national banks shall not make loans upon real estate restricts their power to serve farmers and other borrowers in rural communities.

Partly remedied — and plan for further legislation

17. The provision of law under which the Government acts as custodian of its own funds results in irregular withdrawals of money from circulation and bank reserves in periods of excessive Government revenues, and in the return of these funds into circulation only in periods of deficient revenues. Recent efforts to modify the Independent Treasury system by a partial distribution of the public moneys among national banks have resulted, it is charged, in discrimination and favoritism in the treatment of different banks.

7

THE FEDERAL RESERVE SYSTEM AND HOW IT OPERATES.

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PANIC OF 1907

Clearing House script authorized October 29, 1907

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LAW PROVIDES FOR NOT LESS THAN EIGHT NOR MORE THAN TWELVE BANKS

CAPITAL STOCK - SUBSCRIBED ENTIRELY BY MEMBER BANKS
GOVERNMENT NOT A STOCKHOLDER.

Combined capital & surplus now	$355,000,000

Is larger than the combined capital and surplus of the Bank of England, The Bank of France and the Reichsbank.

Reserve deposits at present	2,300,000,000
Gold on hand	3,021,000,000

FEDERAL RESERVE BOARD

ORGANIZATION OF FEDERAL RESERVE BANKS

Board of Directors, Classes A.B. & C.

MOBILIZATION OF RESERVES

FUNCTIONS

Loans to member banks.
Currency issuing, etc.

FISCAL AGENCY OPERATIONS

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FUNCTIONS

Loans to member banks.
Currency issuing, etc.

FISCAL AGENCY OPERATIONS

Trimer

INTRODUCTORY REMARKS

7° Mr. Kuss (Koos), Mr. Simpson, Mr. Traylor

MONETARY COMMISSION - 1908

Officers + Directors

12 - 3 - 13 FEDERAL RESERVE SYSTEM Stock Dep. Cunliffe

Membership in 7th District

Iowa

362	State Banks - Capital subscribed		$6,084,450.
1057	Nat'l Banks - Capital	"	9,098,550.
1419			$ 15,183,000.

SERVICES RENDERED

- Discounting
- Cash
- Transit
- Safekeeping
- Collection
- Wire Transfer
- Gold Settlement Fund

EARNINGS OF THE FEDERAL RESERVE BANKS - Distribution
Dividends.

PAYMENT OF INTEREST ON DEPOSITS

LOANS

	Oct. 4, 1920	Sept.3, 1923	Sept.3,1924
Chicago (High) loans.	$499,000,000	$77,338,418	$30,489,207
System loans	2,709,601,000	850,094,000	301,949,000

CIRCULATION

	Dec. 24, 1920	Sept.3,1923	Sept.3, 1924
Chicago (High)	$560,966,000	$414,799,425	$225,725,090
System	$3,404,931,000	$2,257,278,000	$1,760,757,000

PRESENT CROP SITUATION

PRESENT CREDIT SITUATION

" Burr

~~Another Arr~~ 9-29

In November the Federal Reserve Bank of Chicago will be ten years old. When you contrast the brief experience people have had with the Federal Reserve Bank, with the centuries Europeans have had with which to become acquainted with their banking systems, it is not strange that our people should be unfamiliar with the benefits that are received from the Federal Reserve Banks. There has been so much comment about the Federal Reserve System in the press that the curiosity of the people has been aroused.

Are you bankers ready to answer such questions as these which the people are asking?

Who owns the Federal Reserve Banks?
Who runs the Federal Reserve Banks?
How is the Federal Reserve Banks' currency different from the old currency?
Who gets the profits from the Federal Reserve Banks?
How do the people benefit from the Federal Reserve Banks?

In answering these questions bankers have a much needed opportunity to bring home to the people of their community the useful services which the banks perform which affect the daily lives of the people of these communities.

As Bankers, there is a duty which I think you will agree you owe to yourselves as well as to your customers. This is the educational work in which you have been engaged as members of your various bankers' associations, particularly as this educational work applies to explaining to your customers ~~a few~~ the facts about the operation of the Federal Reserve System.

to
Nat Bank

Am. Bankers Assn

Sept 29

70

INTRODUCTORY REMARKS

Mr. Kuss (Koos), Mr. Simpson, Mr. Traylor

MONETARY COMMISSION - 1908

Cunliffe Officer
London
Iowa

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How do the people benefit from the Federal Reserve Banks?

In answering these questions bankers have a much needed opportunity to bring home to the people of their community the useful services which the banks perform which affect the daily lives of the people of these communities.

As Bankers, there is a duty which I think you will agree you owe to yourselves as well as to your customers. This is the educational work in which you have been engaged as members of your various bankers' associations, particularly as this educational work applies to explaining to your customers a few facts about the operation of the Federal Reserve System.

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I. Banks with their stone walls and steel vaults may seem to house an uninteresting technical business, but if you take the connections this banking business has with our daily lives you can find excitement in plenty. For the banking business is tied up with some of the most thrilling times in American history - our wars, our recovery from wars, and our protection against wars.

1784 - Bank of N. A. - to finance Washington's Army

1791 - 1811 - 1st Bank of U. S. ✓

War of 1812

1816 - 1836 - 2d Bank of U. S. ✓

Civil War

1864 - National Bank Act ✓

1913 - Federal Reserve Act. ✓

World War

1919 - 20 - International Price Recession following war.

II. So there are good reasons for the public curiosity about the Federal Reserve System.

You have seen (a) Federal Reserve System emblem in member banks

(b) Support for government financing during war and statement that we couldn't have won the war without it

(c) Publicity given during the recent political campaign.

III. You may have thought - "that Federal Reserve Act is a bank law; why should it interest me?" It has a vital interest for every citizen because like many of the bank laws it places a restriction on banks for the benefit of the people. Just as the National Bank Act placed a restriction upon currency issue of banks after the Civil War, so the people might have a better banking and currency system - just so the Federal Reserve Act had among its provisions a restriction about the way national banks and state members might carry their reserve funds that the people might be benefitted by having better protection from some of the weaknesses developed in our banking machinery by changing conditions since the Civil War.

In 1908 Congress appointed a joint committee of senators and congressmen known as the National Monetary Commission which spent four years studying banking here and in Europena countries. In 1912 the report of this Commission listed some seventeen improvements which our banking system needed.

Today it is recognized that all except perhaps one of these improvements have been provided by the Federal Reserve System.

IV. Think of the Federal Reserve System as, in effect, a co-operative organization of banks to provide better banking service for the people.

Federal Reserve System and the Federal Reserve Bank of Chicago - a few things you will want to know about their organization - (in connection with U. S. District map and chart showing System movement of currency and credit)

Who owns? -

Who runs? -

Source of working capital? - (How much furnished directly by neighborhood banks?)

Practical benefits to the people resulting from

(a) Exchange facilities for the movement, collection and transfer of funds

(b) fiscal agency service for U. S. Government

(c) Mobility and expansion of credit

(d) Elasticity of currency

V. In considering all of these benefits, remember that one of the reasons they are possible is because banks like your own neighborhood banks, keep their reserves on deposit at their Federal Reserve Banks without interest. Since these reserve deposits are the principal foundation for the benefits you derive from the Federal Reserve System, the public service these member banks are rendering by their support of the Federal Reserve System is entitled to your recognition.

It is knowledge of this kind that gives people confidence in the banking service of the country - a feeling of confidence and tranquility which to the average citizen is likely to be as valuable an asset as the knowledge that in the Federal Reserve System we now have in this country the most modern banking system in the world.

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He that has a great way to go, just expect a slip, to stumble and to be tired. It is important to recognize that the organization which is represented here tonight is going to be made permanent and enduring. I should hate to see it slipping or faltering even temporarily. You are aware, I think, how the public universally thinks the officers and directors of a bank, or any large institution, should think and work vigorously and continuously. It is natural and proper that the public should think in this way; but I often suspect that the public or let us say, speaking of ourselves, the general working force out of which future officers are often made, may not in all cases be doing its part. This bank bears heavy burdens and cares and has difficult and varied duties to perform almost every minute of the day. Now, in this club of yours, you have opportunities for pleasure, education and instruction; you also have obligations to consider and perform toward your officers and superiors. These are real opportunities and can be made the most of if you will carry in your minds a sense of responsibility toward the bank and the ban's problems so far as your understanding permits. Just as we must truly serve those whom we appear to lead, so you who correspond to the soldiers in the ranks of an army must think and plan how to help the bank if you would most fully help yourselves. There is no surer way to advance.

I congratulate the officers and members of this club with all my heart on the appearance of strength and harmony which appears to prevail everywhere, and I earnestly trust you will continue to grow in vigor and in usefulness and in happiness as the years roll around.

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It is a real and great privilege to participate in this demonstration in honor of Mr.   He has distinguished himself for the excellence of his achievements, not only in business, but in good works and good citizenship. We belong to a great Nation, but to love and serve our country we must be true men in the immediate community in which we live, and Mr. B's first conspicuous attainments were those of the fireside and home and the smaller inner circles of the beginner who lays a firm and permanent foundation in thrift, integrity and honorable dealing. Following early initial successes, it has been perfectly natural that Mr.   should have won the hearts, the respect and the gratitude of his fellow men in this beautiful city of
And it is also natural and inevitable that he should in the same way have commanded the respect of his fellow directors and the officers in the Federal Reserve Bank of Chicago, with all of whom he is firmly entrenched on account of the simple dignity of his character, his unflagging devotion to duty, his superior and brilliant abilities as a man of business and affairs. He is and has been a valued and valuable accession to our Board of Directors.
I heartily congratulate this city and this community in the possession of so distinguished and useful a citizen as Mr
has proved himself to be - both in peace and war.

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FORM 46-18 50M 10-24-21 B-18150

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FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR June 14, 1922. 192

Mr. McDougal.

FROM

A. L. O.

The chief defects of the old American banking system were:

1. Decentralization of reserves.

2. Inelasticity of Credit

The most serious feature of the decentralization was the scattering of reserves. Thirty thousand different banks meant 30,000 cash reserves, and these reservesfor the commercial banks were more than mere "till money." They were actual reserves, substantial in amount, upon which the banks placed their prime dependence for times of emergency. In times of serious danger the banks of the country were forced to rely to a very large extent upon their own cash reserves, and being that reserves were so scattered and jealously guarded, in times of threatened panic they were comparatively ineffective. You will all recall the demand for reserve money on the part of banks throughout the country at the time of the panic of 1907. The supply of reserve money was large, in fact, we had at that time in the United States the largest supply of gold in the world. It was ineffective, however, because widely scattered. Hence, suspension of cash payments throughout the country. With the adoption of the Federal Reserve Act the serious effects of decentralization were overcome, it being one of the provision of the Act that the member banks maintain their reserve balances with the Federal Reserve Bank, thus mobilizing the reserves to be held in readiness for emergency.

Another great advantage derived by member banks as a result of maintaining reserves with the Federal Reserve Bank is the fact that the amount required to be maintained is considerably less than what was required under the old banking system. Section 19 of the Federal Reserve Act provided for a re-adjustment of member bank reserve upon a new and lower basis, cutting the percentage of required reserves as follows:

In central reserve cities	from	25% to 13%	on demand deposits	
In reserve cities	"	25% to 10%	" "	"
In country banks	"	15% to 7%	" "	"

From the beginning of the war in Europe there had been an abnormal reserve situation in most of the financial centers. New York banks particularly being most of the time considerably below their reserve requirements because of the heavy drafts made upon them by interior banks and by the public.

FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR ____________________ 192__

FROM

The change in reserve requirements, however, brought a material change in this condition and released, not only in New York but throughout the country, a very considerable amount of funds which ~~had~~ previously had to be held idle by the banks in order to bring or keep themselves within the requirements of the law. Take for an example the case of the Continental & Commercial National Bank. Under the old banking system they would be required to maintain a reserve of $71,231,000 whereas under the present law their reserve requirement is but $37,043,000, the difference being left available for investment purposes.

The serious effects ensuing as a result of inelasticity of credit have to a great extent been overcome by the ability of Federal Reserve Banks to rediscount paper for member banks.

In consideration of the investment in the capital and the transfer of the reserves to the Federal reserve banks, all member banks are permitted to call for assistance, either for seasonal purposes or in case of emergency. They have the privilege of offering for discount the paper from their portfolios, made by responsible individuals, firms and corporations, the proceeds of which have been used for commercial, industrial or agricultural purposes. Immediate credit is given for such paper when offered and in this manner the banks are enabled to provide for the credit requirements of legitimate business to an extent far beyond that which they would be able to supply if dependent upon their own loaning power, as was the case under the old banking regime.

The loaning power of the Federal Reserve System is greatly increased through the currency issuing privilege. The Federal Reserve notes such as those which now constitute the larger part of our circulating medium are the direct obligation of the United States. Furthermore, they are secured by a p ledge of collateral consisting of either commercial paper or gold, with the understanding that at all times a reserve in gold must be maintained equal to at least 40% of the outstanding notes.

Organization of System as a whole

Under the terms of the law the continental United States is divided into twelve districts, so arranged that no one district has a dominating share of the total bank resources. Twelve Federal reserve banks have been organized, one located in each of the districts referred to. The citites in which these banks are located being - Boston, New York, Philadelphis, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas and San Francisco.

The law provides that all national banks subscribe to the capital of the Federal reserve bank located within its district, in an amount equal to 6% of the subscribing bank's capital and surplus, one-half of this amount being paid in cash. State banks are invited to become members of the System, subject however to the capital and reserve requirements and have very largely availed themselves of this privilege as is evidenced by the fact that approximately 40% of the capital stock of the Chicago bank is owned by state bank members.

In addition to the capital subscribed for, National Banks are required to deposit with their Federal reserve banks the amount of their entire legal reserve requirements. State bank members are required to carry a reserve deposit with the Federal reserve bank equal in amount to the legal reserve requirement under the national bank laws.

Contrary to an impression which seems to prevail, the United States itself is not a stockholder in the Federal Reserve System although it is a depositor therein.

The entire System operates under the supervision of the Federal Reserve Board at Washington, a body comprised of seven members, five of whom are appointed by the President with the advice and consent of the Senate, the other two, ex-officio members, being the Secretary of the Treasury and the Comptroller of the Currency.

The law also provides for a Federal Advisory Council consisting of twelve members, elected by the boards of directors of the several banks, one from each district. The duties of this council are purely of an advisory nature.

Organization of Federal Reserve Banks

Each Federal reserve bank operates under the supervision of a board of nine directors, six of whom are elected by the stockholders (member banks) and three are appointed by the Federal Reserve Board, one of the latter being designated as Chairman of the board and Federal Reserve Agent. In this capacity he maintains an office in the Federal Reserve Bank, supervises the note issues and acts as the official representative of the Federal Reserve Board. The Executive Officers are elected by the boards of directors in a manner similar to that in which the officers of the commercial banks are elected.

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FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR April 19, 1922. 192

FROM

The law also provides for a Federal Advisory Council consisting of twelve members, elected by the boards of directors of the several banks, one from each district. The duties of this council are purely of an advisory nature.

#5 Organization of Federal Reserve Banks

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Class A

B

#6 ~~Functions - Rediscounting~~ Function

In consideration of the investment in the capital and the transfer of the reserves to the Federal reserve banks, all member banks are permitted to call for assistance, either for seasonal purposes or in case of emergency. They have the privilege of offering for discount the paper from their portfolios, made by responsible individuals, firms and corporations, the proceeds of which have been used for commercial, industrial or agricultural purposes. Immediate credit is given for such paper when offered and in this manner the banks are enabled to provide for the credit requirements of legitimate business to an extent far beyond that which they would be able to supply if dependent upon their own loaning power, as was the case under the old banking regime.

~~The credit extended by the Federal Reserve Bank of Chicago to its member banks in the City of Grand Rapids reached the high point on December 4, 1920, at which time the borrowings aggregated $6,600,000 as compared with loans to the Grand Rapids banks at the present time of approximately $1,300,000.~~

#7 Note issuing ~~Circulating~~ function

The loaning power of the Federal Reserve System is greatly increased through the currency issuing privilege. The Federal Reserve notes such as those which now constitute the larger part of our circulating medium are the direct obligation of the United States. Furthermore, they are secured by a pledge of collateral consisting of either commercial paper or gold, with the understanding that at all times a reserve in gold must be maintained equal to at least 40% of the outstanding notes.

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FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR April 19, 1922. 192

FROM

#8. Gold Settlement Fund

A fund known as the Gold Settlement Fund is maintained at Washington, for the purpose of expediting settlements between the various Federal Reserve Banks. At the present time there is approximately $509,000,000 in the fund, of which amount approximately $76,000,000 is credited to the account of the Federal Reserve Bank of Chicago. This fund enables each Federal Reserve Bank and direct settling Branch to telegraph the Board the gross amount collected for the account of each other Federal Reserve Bank and direct settling Branch before the final closing of the books for the day. This plan has resulted in the elimination of inter-Federal Reserve Bank "float".

Dearborn Banks

Collars

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FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR April 19, 1922. 192

FROM

#3

Federal Reserve Act
Preamble.

The Federal Reserve Act is an act to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish more effective supervision of banking throughout the United States, and for other purposes.

#4

Organization of System as a whole

Under the terms of the law the continental United States is divided into twelve districts, so arranged that no one district has a dominating share of the total bank resources. Twelve Federal reserve banks have been organized, one located in each of the districts referred to. The cities in which these banks are located being - Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas and San Francisco.

The law provides that all national banks subscribe to the capital of the Federal reserve bank located within its district, in an amount equal to 6% of the subscribing bank's capital and surplus, one-half of this amount being paid in cash. State banks are invited to become members of the System, subject however to the capital and reserve requirements and have very largely availed themselves of this privilege as is evidenced by the fact that approximately 40% of the capital stock of the Chicago bank is owned by state bank members.

In addition to the capital subscribed for, National banks are ~~now~~ required to deposit with their Federal reserve banks the amount of their entire legal reserve requirements. State bank members are required to carry a reserve deposit with the Federal reserve bank equal in amount to the legal reserve requirement under the national bank laws.

Contrary to an impression which seems to prevail, the United States itself is not a stockholder in the Federal Reserve System although it is a depositor therein.

The entire System operates under the supervision of the Federal Reserve Board at Washington, a body comprised of seven members, five of whom are appointed by the President with the advice and consent of the Senate, the other two, ex-officio members, being the Secretary of the Treasury and the Comptroller of the Currency.

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FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR 192

FROM

are is itself

~~Plan under which~~ member banks ~~avail themselves~~ of the
Of ~~privilege which is accorded them~~ under the law, of borrowing from other
~~Federal reserve banks, and, moreover, of the manner in which~~ a
Federal reserve bank in times of unusual demand, when its own loaning
power has been availed of freely and to a point of reducing its
reserve to ~~a point~~ approximating the legal requirements, ~~turns to~~
~~reserve banks in other districts for assistance~~ in almost identically
the same way that the member banks turn to their Federal reserve bank.
For instance, in the Dallas district, sometime ago, the demands upon
the Federal Reserve Bank of Dallas were so great as to make it
necessary for that institution either to stop loaning or to borrow
from other Federal reserve banks. Consequently, the latter alternative
was resorted to and the bills held by the Dallas bank were offered
for rediscount to the Federal Reserve Bank of Chicago and through
the availability of the proceeds the Dallas bank was enabled to
extend credit to its member banks and indirectly to business in general,
in excess of its own individual loaning power.

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FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR 19

FROM

Federal Reserve Act.

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FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR ______ 19___

FROM

#2.

five of whom are appointed by the President with the advice and consent of the Senate, the other two, ex officio members, being the Secretary of the Treasury and the Controller of the Currency.

The law also provides for a Federal Advisory Council consisting of twelve members, elected by the boards of directors of the several banks, one from each district. The duties of this council are purely of an advisory nature.

Organization of Federal Reserve Banks.

Each Federal reserve bank operates under the supervision of a board of nine directors, six of whom are elected by the stock holders (member banks) and three are appointed by the Federal Reserve Board, one of the latter being designated as Chairman of the board and Federal Reserve Agent. In this capacity he maintains an office in the Federal Reserve Bank, supervises the note issues and acts as the official representative of the Federal Reserve Board. The Executive Officers are elected by the boards of directors in a manner similar to that in which the officers of the commercial banks are elected.

Functions - Rediscounting.

In consideration of the investment in the capital and the transfer of the reserves to the Federal reserve banks, all member banks are permitted to call for assistance, either for seasonal purposes or in case of emergency. They have the privilege of offering for discount the paper from their portfolios, made by responsible individuals, firms and corporations, the proceeds of which have been used for commercial, industrial or agricultural purposes. Immediate credit is given for such paper when offered and in this manner the banks are enabled to provide for the credit requirements of legitimate business to an extent far beyond that which they would be able to supply if dependent upon their own loaning power, as was the case under the old banking regime.

Note issue
~~Circulating~~ function.

The loaning power of the Federal Reserve System is greatly increased through the currency issuing privilege. The Federal Reserve

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FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR ______________________ 19____

FROM

#3.

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FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR February 1, 1921

FROM

Mr. McDougal

Under the old banking system, the national banks were divided into three groups; those located in central reserve cities, in reserve cities and the so-called country banks. The reserves were scattered among something like 30,000 individual banks.

The country banks were permitted to carry a portion of their legal reserves with banks located in the so-called reserve or central reserve cities. Banks located in reserve cities were permitted to carry a portion of their reserves in the central reserve cities and it was customary in the commercial centers for banks to pay interest on these reserve deposits. Consequently, in times of business stress, when the reserves were needed, they were found unavailable because of a large portion thereof having been necessarily invested in order that interest could be paid thereon.

THE FEDERAL RESERVE SYSTEM.

Under the terms of the Federal Reserve Act, the continental United States is divided into twelve districts, in each of which there is located a Federal Reserve Bank. All national banks are required to be members of the System, while banks organized under state laws are permitted to become members if they so desire.

Member banks are required to subscribe to the capital stock of the Federal Reserve Banks in an amount equal to 6 per cent of the member bank's capital and surplus, one-half of which subscription has been paid. The balance remains subject to call.

As bankers ~~who benefit from the operation of the Federal Reserve Banks, either directly or indirectly,~~ there is one duty which I think you will agree you owe to yourselves as well as to your customers. This is the educational work in which you have been engaged as members of your various bankers' associations, particularly as this educational work applies to explaining to your customers a few facts about the operation of the Federal Reserve System.

In November the Federal Reserve Bank of Chicago will be ten years old. When you contrast the brief experience people have had with the Federal Reserve Bank, with the centuries Europeans have had with which to become acquainted with their banking systems, it is not strange that our people should be unfamiliar with the benefits that are received from the Federal Reserve Banks. There has been so much comment about the Federal Reserve System in the press that the curiosity of the people has been aroused.

Are you bankers ready to answer such questions as these which the people are asking?

Who owns the Federal Reserve Banks?

Who runs the Federal Reserve Banks?

How is the Federal Reserve Banks' currency different from the old currency?

Who gets the profits from the Federal Reserve Banks?

How do the people benefit from the Federal Reserve Banks?

In answering these questions bankers have a much needed opportunity to bring home to the people of their community the useful services which the banks perform which affect the daily lives of the people of these communities.

The question which many bankers have been discussing is the present credit and business situation and some of them are wondering what benefits they are receiving from the Federal Reserve Banks in times of such easy money.

These conditions are illustrated by a comparison between Federal Reserve System loans and currency circulation for the year 1920 and the present time.

Loans:

	Oct. 4, 1920	Sept. 3, 1923	Sept.3,1924
Chicago (High) loans	$499,000,000.	$77,338,418.	$30,489,207
System loans	$2,709,601,000	$850,094,000	$301,949,000

Circulation:

	Dec. 24,1920	Sept. 3, 1923	Sept. 3,1924
Chicago (High)	$560,966,000	$414,799,425	$225,725,090
System	$3,404,931,000	$2,257,278,000	$1,760,757,000

These figures illustrate the changes which have taken place in the earning power of the Federal Reserve Banks.

Entirely apart from the credit functions, there are, however, other services of the Federal Reserve Banks which banks use in their daily business and which are likely to be at a peak load during the time of low earning power. These are the furnishing of currency and coin; the exchange facilities for the movement, collection and transfer of funds, the safe-keeping of a member bank's securities and the fiscal agency service for the United States government. The volume of this work performed last year by the twelve Federal Reserve Banks was:

VOLUME OF OPERATION IN PRINCIPAL DEPARTMENTS OF THE TWELVE FEDERAL RESERVE BANKS FOR THE YEAR 1923.

	Number of Pieces Handled
Bills discounted	782,000
Bills purchased in open market	179,000
Currency received and counted	1,722,877,000
Coin received and counted	2,076,075,000
Checks handled	697,464,000
Collection items handled:	
United States Government coupons paid	64,662,000
All other	5,732,000
United States securities—issues, redemptions, and exchanges (including war savings securities) by fiscal agency department	109,115,000
Transfers of funds	1,413,000

Murray

Here in Lake County you are so convenient to Chicago that I have often wondered why more of you do not come in to visit us oftener. I should like to give you a personal invitation to visit us during the week of Sept. 29 to Oct. 3. We shall have an exhibit demonstrating the operation of the Federal Reserve System, in our building, and we should be glad to arrange a special showing for your chapter of the A. I. B. and groups of your employes, as well as to have you come in to see it while you are in Chicago.

10

Advertising men are interested in the stability of business because the business of their clients is then likely to be more prosperous.

For just as good a reason the advertising men, as business men, are interested in the Federal Reserve System because the operation of the Federal Reserve System has close relations to the stability of business.

Advertising is a powerful force. The advertising men who want to get the best results with this powerful force are those who also direct their efforts with an understanding of the other forces of the business world.

This principle is illustrated by the pilot of an aeroplane who is going from Chicago to New York in a heavy wind. The pilot will find out from what direction the wind blows and will then steer his plane for New York making allowance for the force of the wind so that he can take advantage of it in reaching his objective.

In much the same way the advertising men who are studying the operations of the Federal Reserve

System, will be able to direct their efforts to greater advantage because they will have knowledge of the improved banking facilities of the System and their effect upon the stability of business.

These Federal Reserve System banking facilities can be divided into three classes; first, the exchange facilities for the movement, collection and transfer of funds; second, facilities for the elasticity of currency and the elasticity and mobility of credit; third, fiscal agency services for the United States government.

Twelve years ago a Congressional investigating committee known as the National Monetary Commission, after four years of international investigation, listed seventeen weaknesses of the banking system of the United States. These weaknesses were a serious handicap to the business men of this country. Now that we have had ten years of experience with the operation of the Federal Reserve System, it is apparent that substantially all of these weaknesses have been corrected thus giving greater stability to the business of the country.

20

TALK ABOUT FEDERAL RESERVE SYSTEM
FOR JUNIOR STOCK EXCHANGE PEOPLE

The stock exchange people have a good ground for a close interest in the benefits the country is getting from the Federal Reserve System. The business of the stock exchange is dependent upon the condition of the money and investment markets and one of the benefits the people have secured from the Federal Reserve System has been a greater stability for these money and investment markets. So you men ~~(and women)~~ of the stock exchange are justified in feeling that you have a personal interest in the operation of the Federal Reserve System.

Illustrate by chart "Fluctuations of Interest Rates Minimized."

The operation of these nation-wide Federal Reserve System facilities can be explained by taking one of the twelve Federal Reserve Banks and seeing how it operates.

The Federal Reserve Bank of Chicago is a corporation with a paid capital stock of $15,180,700, one half ~~paid in and the other half~~ subject to call.

The stock pays 6% cumulative dividends and is owned by member banks in this (7th) Federal Reserve District. (Give boundaries). These member bank stockholders, about 1,500, must keep a fixed amount of their reserve funds on deposit at the Federal Reserve Bank without interest and have the privilege of using the facilities of the Federal Reserve System for borrowing, currency and coin, the movement, collection and transfer of funds, etc.

The Federal Reserve Bank of Chicago is run by a board of directors, two-thirds of which is elected by the stockholding member banks, and one-third of which is appointed by the Federal Reserve Board. The Federal Reserve Board is the government body at Washington which supervises the operations of all twelve Federal Reserve Banks. The United States is divided into twelve Federal Reserve Districts in each of which there is a Federal Reserve Bank, owned by and serving the member banks in the territory substantially the way the Federal Reserve Bank of Chicago serves this 7th Federal Reserve District.

The people of the country use the facilities of the Federal Reserve System in doing business with their banks. The daily business which you stock exchange people handle through your banks makes use of many of the Federal Reserve System facilities.

<u>You use credit</u> - The Federal Reserve Banks have an essential place in the credit machinery of the country (give a daily and an emergency illustration). <u>You have checks and drafts to collect and funds to transfer.</u> (Illustrate by an example of each).

<u>You handle government securities.</u> These may originate and be retired through the fiscal agency service the Federal Reserve Banks perform for the U. S. Treasury.

The volume of the transactions handled through the Federal Reserve Banks last year was tremendous - in round figures they were

Bills discounted - ¾ of a million pieces

Currency and coin received and handled - 3¾ billion pieces

Checks handled - 2/3 of a billion pieces

Collection items handled - 173 million pieces

Transfers of funds - 1,400,000 pieces.

So you can see that the mobilization of bank reserves in the Federal Reserve Banks and the Federal Reserve Bank stock ownership by the member banks has provided about 2¼ billion dollars to use as a foundation for Federal Reserve credit and currency. The Federal Reserve currency is known as the Federal Reserve note. The Federal Reserve Bank has the power to issue this currency upon the security of gold and self-liquidating short time paper representing the movement of goods from production to consumption. About 1¾ billion dollars of this currency is now in circulation.

An example of the "cushioning" action of the Federal Reserve currency and credit can be found by going back ten years to August, 1914. We didn't have the Federal Reserve System then to take the shock, and the selling pressure on listed securities was so great that their liquidity was lost and the stock exchange closed.

In November of that year the Federal Reserve Banks started to operate and it became possible for the banks to borrow on their loans and discounts. Thus the security markets were relieved from the burden of providing so great a volume of emergency or seasonal credit and the exchanges have been in a better position to perform their normal functions. So you can see that you stock exchange people are among the people who benefit indirectly from the operations of the Federal Reserve System even though you may never have a transaction direct with a Federal Reserve Bank.

(1)

Meeting at DeKalb, Illinois.
September 23, 1924.

Monetary Comm.

INTRODUCTORY REMARKS

Old Banks - System defects
National Monetary Commission

FEDERAL RESERVE SYSTEM Organization Capital

12 Districts - 12 Banks

National and State bank members Mobilization

Seventh District embraces parts of Illinois, Michigan, Indiana, Wisconsin and all of Iowa.

PURPOSE OF FEDERAL RESERVE SYSTEM

To furnish an elastic currency, to afford means of rediscounting commercial and agricultural paper, to establish more effective supervision of banking.

Eligible Paper.

ACCOMMODATIONS EXTENDED TO FARMER BY SYSTEM

Rediscounting of agricultural and live stock ~~paper having~~ maturities not in excess of nine months

Agricultural paper under rediscount in Seventh Distirct April 30, 1921	$58,102,557
Agricultural paper under rediscount at present in Seventh District	10,266,212

OTHER FUNCTIONS

Currency - 401.
Transit
Collections
Gold Settlement

Fiscal Agency

Capital and Surplus -	Fed.Res. System	$332,947,000.
" " "	Bank of England	88,325,184.
" " "	Bank of France	51,580,000.
" " "	Reichsbank	73,128,832.

LOANS

		Oct. 4, 1920	Sept.17, 1923	Sept 17,1924
Chicago	(High)	$499,000,000.	$78,661,854.	$28,411,677
		2,709,601,000.	774,000,000.	257,967,000

CIRCULATION

		DEC. 24,1920	Sept.17,1923	Sept.17,1924
Chicago	(High)	$560,966,000.	$415,601,620.	$219,459,860
System		3,404,931,000.	2,254,764,000.	1,734,666,000

OTHER AGENCIES EXTENDING CREDIT TO FARMERS

Federal Land Banks
Joint Stock Land Banks
Federal Intermediate Credit Banks.

PRESENT CROP SITUATION

FUTURE OUTLOOK

Prosperity War – Lib loans
Invitation

10:

Meeting at DeKalb, Illinois.
September 23, 1924.

INTRODUCTORY REMARKS

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National and State bank members

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OTHER AGENCIES EXTENDING CREDIT TO FARMERS

Federal Land Banks
Joint Stock Land Banks
Federal Intermediate Credit Banks.

PRESENT CROP SITUATION

FUTURE OUTLOOK

Advertising Men's Post of the American
Legion, luncheon Sept. 22, 1924.
Tiger Room, Hotel Sherman.
12 o'clock.

INTRODUCTORY REMARKS.

SUBJECT: THE FEDERAL RESERVE SYSTEM AND HOW IT OPERATES.

REPORT OF MONETARY COMMISSION

In 1908 Congress appointed a commission designated as the National Monetary Commission, charged with the responsibility of determining what changes were necessary or desirable in the monetary system of the United States and in the laws relating to banking. This commission, the personnel of which was chosen from both houses of congress, proceeded deliberately, etc. etc.

REPORT RENDERED IN 1912

17 defects pointed out - among which were

Inelasticity of national bank note circulation
Inadequate and unreliable credit facilities.
Reserves instead of being mobilized and in readiness were found scattered and unavailable

THE FEDERAL RESERVE ACT

The important recommendations contained in the report were later embodied in the Federal Reserve Act - 1923 - This being an act

To furnish an elastic currency, to afford means of rediscounting commercial paper, to establish more effective supervision of banking — — —

organization. Com

SYSTEM 12 banks - 12 districts
National and state banks members.

MEMBERSHIP IN 7th DISTRICT:

362 State banks	- capital subscribed	$6,084,450
1057 Nat'l banks	- " "	9,098,550
		15,183,000

Capital stock - subscribed entirely by member banks. Government not a stockholder.

Capital & Surplus -	Fed.Res. System	$332,947,000
" " "	Bank of England	88,325,184
" " "	Bank of France	51,580,022
" " "	Reichsbank	73,128,832

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ORGANIZATION.

Board of Directors - A B & C
Executive Officers
Federal Reserve Board

NEW BANKING SYSTEM - MOBILIZATION OF RESERVES

FUNCTIONS

DISCOUNTING FOR MEMBER BANKS
CURRENCY ISSUING PRIVILEGE greatly increases loaning power of the banks.

INCIDENTAL FUNCTIONS

PAR COLLECTION SYSTEM
LEASED WIRE SYSTEM
GOLD SETTLEMENT FUND $611,304,000.
Profits — — — —
Fiscal Agency Operations.

1 2
2 3
3 5

LOANS

		Oct. 4, 1920	Sept. 17, 1923	Sept.17-24
Chicago	(High)	$499,000,000.	$78,661,854.	$28,411,677.
System		2,709,601,000.	774,000,000.	257,967,000.

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Chicago	(High)	$560,966,000	$415,601,620.	$219,459,860.
System		$3,404,931,000.	$2,254,764,000	$1,734,666,000

PRESENT CREDIT SITUATION

PRESENT OUTLOOK - crops, etc.

WAR ACCOMPLISHMENTS

Credit supplied
Currency supplied
Fiscal Agency Operations.

PRESENT STATUS OF THE SYSTEM

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Bond Men's Club of Chicago
December 19, 1923

FEDERAL RESERVE SYSTEM

INTRODUCTION Benefits derived from System by Investment Bankers and Investors.

ORGANIZATION

12 banks - 12 districts
National and state banks - members.

Capital Stock - subscribed entirely by member banks. Government not a stockholder.

Capital & surplus	-Federal Reserve System	$ 328,000,000
" " "	-Bank of England	85,820,727
" " "	-Bank of France	51,580,000
" " "	-Reichsbank	59,511,000

Board of Directors - A B & C (Simpson
(F. C. Ball
Executive Officers
Federal Reserve Board.

RESERVES UNDER OLD BANKING SYSTEM

Scattered and unavailable.

RESERVES UNDER NEW BANKING SYSTEM

Mobilization of reserves.

FUNCTIONS

Credit facilities - discounting for member banks
Currency issuing privilege greatly increases loaning power of the banks. Large surplus - available supply of notes on hand formerly unavailable.

MANY OTHER INCIDENTAL FUNCTIONS PERFORMED INCLUDING

Par collection system. Generally recognized as the most scientific in existence. Describe plan. In connection therewith describe
Gold Settlement Fund ($600,000,000)
Leased Wire System

FISCAL AGENCY OPERATIONS

Services rendered by bond men during Liberty Loans.

AGAIN REFER TO BENEFITS TO INVESTMENT BANKERS AND INVESTING PUBLIC

COMMENT ON PRESENT OUTLOOK

7

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Tiger Room, Hotel Sherman.
12 o'clock.

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The important recommendations contained in the report were later embodied in the Federal Reserve Act - 1923 - This being an act

To furnish an elastic currency, to afford means of rediscounting commercial paper, to establish more effective supervision of banking, etc.

SYSTEM 12 banks - 12 districts
National and state banks members.

MEMBERSHIP IN 7th DISTRICT:

362	State banks - capital subscribed	$6,084,450
1057	Nat'l banks - " "	9,098,550
		15,183,000

Capital stock - subscribed entirely by member banks. Government not a stockholder. $33,000,000

Capital & Surplus -	Fed.Res. System	~~$332,947,000~~
" " "	Bank of England	88,325,184
" " "	Bank of France	51,580,022
" " "	Reichsbank	73,128,832

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Board of Directors - A B & C
Executive Officers
Federal Reserve Board

NEW BANKING SYSTEM - MOBILIZATION OF RESERVES

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INCIDENTAL FUNCTIONS

PAR COLLECTION SYSTEM
LEASED WIRE SYSTEM
GOLD SETTLEMENT FUND $611,304,000.

Fiscal Agency Operations.

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System		$3,404,931,000.	$2,254,764,000	$1,734,666,000

PRESENT CREDIT SITUATION

PRESENT OUTLOOK - crops, etc.

WAR ACCOMPLISHMENTS

Credit supplied
Currency supplied
Fiscal Agency Operations.

PRESENT STATUS OF THE SYSTEM.

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Outline for remarks to the officials of
the Northern Trust Company, June
20th, 1922.

1. Chief defects of old banking system
   - a. Decentralization of reserves.
   - b. Inelasticity of credit.

2. Decentralization of reserves.
   30,000 different banks.
   Panic 1907.
   F.R.Act adjusted reserve requirements as follows:

Cent. Res.cities	from	25% to 13%	- demand dep.
Reserve cities	"	25% to 10%	" "
Country banks	"	15% to 7%	" "

   Cont. & Coml. reserve (at present time)
   on25% basis would be - $71,231,000.
   on 13% " is - 37,043,000.

3. Inelasticity of credit.
   Overcome by rediscounting feature of F.R.Banks.
   Loaning power also increased by currency issuing privilege.

4. Organization of system as a whole.
   Division of the country - 12 districts.

5. Capital & Surplus F.R.System - $320,257,000.

" " " Bank of England	$86,271,132.
" " " Bank of France	$49,237,774.
" " " Reichsbank	$71,796,577.

6. National & State Banks - members. 304

7. Federal Reserve Board.

8. Organization of Federal Reserve Banks.

9. Functions - Rediscounting.

9. Functions continued - Note issuing.
Open market operations.
Fiscal Agency.
Check clearing.
Gold Settlement.

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SERVICES RENDERED TO THE TREASURY DEPARTMENT

BY THE

FEDERAL RESERVE BANK OF CHICAGO

AS DEPOSITARY AND FISCAL AGENT

* * * *

Federal Reserve Bank of Chicago

October 26, 1923

Exchange { Reasons formerly existing – no longer a factor.

Currency – no charge

Postage = free

Stationery – furnished

SERVICES RENDERED TO THE TREASURY DEPARTMENT BY THE

FEDERAL RESERVE BANK OF CHICAGO AS DEPOSITARY AND FISCAL AGENT.

On January 1, 1916, Secretary McAdoo appointed the Federal Reserve banks depositaries and fiscal agents of the United States in accordance with Section 15 of the Federal Reserve Act. During the succeeding seven years, especially during the years of the war, the Federal Reserve banks have conducted fiscal agency operations on a very large scale. Following is a description of the services performed for the Treasury by the Federal Reserve Bank of Chicago (1) as depositary and (2) as fiscal agent, together with a statement of the costs for the fiscal year ended June 30, 1923:

1. <u>DEPOSITARY OPERATIONS</u>

<u>Nature of Operations</u>

The Treasurer of the United States has designated each reserve bank a depositary of the general funds of the Treasury. As such depositaries the Reserve banks are required to

1. Pay Government checks and warrants, rendering voluminous records of all transactions.

2. Pay coupons from Government securities.

3. Transfer funds by telegraph.

4. Withdraw Government deposits from banks of the district.

5. Collect checks and non-cash items.

6. Carry on former Subtreasury operations.

Transactions in these six divisions run into large figures and cost $68,836.17 for the year ended June 30, 1923. This figure does not include items 3 and 5 covering which no separate record is kept, but which are considerable in amount. These operations performed for the Treasury include several expensive services which are not performed for member banks, as for example numbers 2, 4 and

6; whereas the immense detail required by Treasury regulations under number 1 is far in excess of what any member bank requires.

The average daily balance of the Treasury during the year ended June 30, 1923, was $3,419,419. Of our member bank balances, 14 run larger than this amount, the largest being about $35,000.000

Cost of Operations

1. Government Checks Division

No. of checks and warrants handled	4,709,459	
Face amount	$623,547,000.00	
Cost		$12,308.06

2. Coupon Paying Division

No. coupons handled	11,274,422	
Face amount	$78,505,608.96	
Cost		$20,798.52

3. Telegraphic Transfers

Telegraphic transfers to and from this bank amounted to (figures are not available)

The Treasury pays a proportion of the cost of the private wires. Our records do not show separately from other transactions the clerical and other costs of handling these transfers for the Treasury.

4. Government Deposits.

This bank keeps a detailed record of amounts on deposit with depositary banks, figures and collects the interest on same and during the year withdrew $282,171,123.44.

Cost $5,500.64

5. Collection of out-of-town checks and non-cash items.

The amount of out-of-town and non-cash items received for collection and credit to the Treasurer's account was approximately $229,996,000.00

Number of items 901,921.

6. <u>Sub-Treasury Operations</u>

While the act of Congress transferring the Sub-Treasuries to the Reserve banks provided that the cost of operations should be assumed by the banks, still the operation of receiving and paying out 363,920,123 pieces of coin and bullion amounting to $60,462,283.00	
Cost this bank	$30,228.95

Total ascertained expenses $68,836.17.

Cost of Operations vs. Earnings from Account

A Reserve bank in acting as a depositary for the Treasury is in an entirely different position from the ordinary commercial bank. A commercial bank makes it a practice to invest its entire funds in excess of its required reserve. A Reserve bank which is not operated for profit is on a wholly different basis. It must keep in a liquid condition and carry large reserves and does not, therefore, ordinarily invest more than a small percentage of its funds. On the average, only 33.5% of our funds derived from deposits and outstanding Federal Reserve Notes, after deducting minimum legal reserves, was loaned or invested during the fiscal year ended June 30, 1923. It is, of course, impossible to say that the funds invested were derived from any particular deposits and not from other deposits. The funds are pooled and if on the average only 33.5% of them were invested it must be assumed that this percentage applied to the funds derived from every depositor and every holder of Federal Reserve Notes. On this basis, the Treasurer's balance, figures at the average rate of return received by this bank on its loans and investments, produced an income of $30,080.97 as shown by the following figures. On the other hand the ascertained expense of handling the account was $68,836.17.

Statement of Income and Expenses

Daily average balance	$3,419,419.00
35% Reserve requirement	1,196,796.65
Net Balance	$2,222,622.35
Amount invested - 33.5%	$ 744,578.49
Net income at .0404 .... (average rate)	$ 30,080.97
Total ascertained expense	$ 68,836.17
Net loss from handling account	$ 38,755.20

11. FISCAL AGENCY OPERATIONS

The Various Services Rendered

In addition to the services which this bank renders the Treasury as depositary, it carries on numerous other operations in its capacity as fiscal agent of the United States, as follows:

(1) Exchange of different denominations of coupon bonds

(2) Exchange of temporary for permanent bonds

(3) Exchange of interim receipts for permanent bonds

(4) Conversion of 4% coupon bonds into 4-1/4% coupon bonds

(5) Telegraphic transfer of securities

(6) Interchange of coupon and registered bonds

(7) Registered bonds forwarded to the Treasury for transfer

(8) Conversions of 4% registered bonds into 4-1/4% registered bonds

(9) Shipments of canceled securities to the Treasury

(10) Redemptions of called or maturing securities

(11) New issues of securities

(12) Government deposit accounts with depositary banks

(13) Custody of securities

(14) Sale of Treasury Savings certificates

(15) Redemption of War Savings Certificates

(16) Purchase and sale of Government securities

(17) Accounting of the above transactions

(18) Auditing

Nature, Volume and Cost of these Services

1. Exchange of Different Denominations of Coupon Bonds. We exchange bonds of one denomination for bonds of another in accordance with the applicant's desire for smaller or larger pieces. On June 30, 1923, we had in stock for this purpose bonds of a par value of $337,382,000 furnished by the Treasury, consisting of 23 different issues of bonds, notes and certificates, comprising from 4 to 6 different denominations each, totaling 130 separate classifications.

2. Exchange of Temporary for Permanent Bonds. We conduct the exchange of seven issues now outstanding in temporary form, as follows: First 4's, First 4-1/4's, First Second 4-1/4's, Second 4's, Second 4-1/4's, Third 4-1/4's and Fourth 4-1/4's. On June 30, 1923, our temporary-permanent exchange account with the Treasury showed a stock of $38,262,650.

3. Exchange of Interim Receipts for Permanent Bonds.issued in connection with the First Liberty Loan. On June 30, 1923, we held $28,950 of 3-1/2% bonds for this purpose.

4. Conversion of 4% Coupon Bonds into 4-1/4% Coupon Bonds. As of June 30, 1923 we carried a stock of $1,104,000 bonds for conversion purposes.

In connection with the above four operations, we received and delivered securities during the fiscal year ended June 30, 1923, as follows:

	Pieces	Par Value
Received	1,441,037	$284,807,200
Issued	186,455	284,807,400
	1,627,492	$569,614,600

An average pf 1 employee handled this work.

5. Telegraphic Transfer of Securities. We receive and deliver large amounts of Treasury Notes and Certificates of Indebtedness for account of other Federal Reserve Banks upon instructions from the Commissioner of the Public Debt. For the year ended June 30, 1923, we received securities amounting to $246,574,100 for delivery through other Federal Reserve Banks and made deliveries amounting to $248,407,600, a total of $494,981,700.

The services of two employees were used in this work.

6. Interchange of Coupon and Registered Bonds.
7. Registered Bonds forwarded to the Treasury for Transfer.
8. Conversion of 4% Registered Bonds into 4-1/4% Registered Bonds.

These operations involve a very careful examination of all assignments, powers of attorney, resolutions showing authority and other legal documents, in order to ascertain whether the assignments have been made strictly in accordance with the regulations of the Treasury Department and frequently necessitate extensive correspondence. This work can be handled only by trained empliyees and it saves the Treasury Department much work and correspondence.

In connection with these three operations, we received and delivered securities during the fiscal year ended June 30, 1923, as follows:

	Pieces	Par Value
Received	239,809	$99,668,800
Delivered	117,582	104,718,700
	357,391	$204,387,500

An organization of 12 persons handled this work.

9. Shipments of Canceled Securities to the Treasury. All coupon securities received for exchange or redemption are canceled, sorted numerically, scheduled by denominations and numbered and shipped to Washington in locked pouches. Formerly the numerical sorting was done in Washington but to save insurance against loss in transit, we have relieved the Treasury of this work by assuming it ourselves, with a consequent large additional expense to us. As the serial numbers of the bonds run as high as eight figures, discrepancies may easily occur, and it is necessary, therefore, to recheck these listings. In addition to this, each number must be compared with the confidential list of lost bonds furnished by the Treasury and at the same time constant watch must be kept for altered numbers. The Treasury Department requires us also to keep a record of the source from which each bond is received. This necessitates our stamping the bonds with an identifying number and listing these numbers on the shipping schedule in order that we may at any time furnish the Department with the source from which any bond is received, even after the bond has been canceled and destroyed. During the year 3,106,383 pieces of a par value of $887,218,850 were sorted, listed and shipped.

An average of 24 clerks performed these operations.

The cost of handling items 1 to 9 during the year ended June 30, 1923, was $110,120.36.

10. Redemptions of Maturing and Called Securities. As Chicago is the principal market in the West for the purchase and sale of securities, a large percentage of maturing Government issues is presented at this bank for redemption. During the year we redeemed 1,084,087 pieces amounting to $486,842,900 par value.

This work was done by 12 clerks, at a total cost of $54,598.80.

11. New Issues of Securities. When an offering of new securities is made by the Treasury Department, this bank must be prepared to furnish application, receive subscriptions, make allotments, receive payment by check, charge to the member banks, or by book credit arrangement and deliver the new securities. During the year ended June 30, 1923, eleven new issues were offered, subscriptions and allotments for the seventh district being as follows:

Subscriptions received	707,719,400
Allotments	467,049,300

An average of 12 clerks handled this work.

Cost . . . . $37,928.77.

12. Government Deposit Accounts with Depositary Banks. A large proportion of the subscriptions to new issues are paid for by the process known as "book credit." This is an arrangement by which member banks deposit approved collateral with us against which, as security, they are permitted to pay for their subscriptions to new issues by giving credit on their

books to the Treasurer of the United States. The collateral is held by us for account of the Treasurer of the United States. It is necessary for us to maintain detailed records showing the value under Treasury regulations (based on market values) as well as the par value of the securities held. On June 30, 1923, the par value of the securities held to secure Government deposit was $55,697,736.50. The amount held by us during the year varied from the minimum of $28,999,465.50 to the maximum of $85,947,761.50.

5 clerks were employed in this work, and the total cost of the operation for the year ended June 30, 1923, was $5,089.56

13. Custody of Securities. The surplus stocks of unissued securities are held in our Securities Custody Department from which withdrawals are made from day to day, as needed. At the close of business June 30, 1923, we had on hand $383,274,525 securities. In addition to this we have handled through our Custody Department during the year $85,735,460 for account of the Secretary of the Treasury and the different departments of the Government, as shown by the following list:

Title of Account	Gross Amount Handled for the Fiscal Year ending June 30, 1923
Chief, Bureau of Insular Affairs, War Department,	$2,000,000
Secretary of the Treasury, Alien Property Custodian, Account #8,	57,254,500
Secretary of the Treasury, Account Transportation Act of 1920,	1,100,000
Federal Prohibition Agent, State of Illinois,	50,000
Secretary of the Treasury, Department of Interior,	20,060

Secretary of the Treasury, Account of Temporary Increase in Postmaster's Deposit Account,		$417,900
Federal Loan Bank,		
Wichita, Kansas,	$9,750,000	
St. Louis, Mo.	7,728,000	
Omaha, Neb.	4,205,000	
Redwood Falls, Minn.	1,815,000	
Dallas, Texas,	1,195,000	
Louisville, Ky.	200,000	$24,893,000
Total of securities held		$65,735,460

An average of 4 employees were used in connection with this work. The cost for the past year was ...... $6,268.69.

14. Sale of Treasury Savings Certificates. Sales of Treasury Savings Certificates direct to the public and through banking institutions during the fiscal year ended June 30, 1923, amounted to 29,938 pieces representing $6,122,611.00.

An average of 4 employees were used in connection with this work, at a total cost of $19,088.43.

15. Redemption of War Savings Certificates. In connection with the redemption of War Savings Certificates, a temporary organization of approximately 200 clerks handled the work during the rush period around January 1, 1923, to date of maturity of the Stamps. During the fiscal year ended June 30, 1923, there were 16,457,244 Stamps redeemed, amounting to $79,186,338.81, par value. The personnel fluctuated so widely that it is impossible to give an accurate estimate of them. The cost of this operation was $167,587.43.

16. Securities Purchased and Sold. Under special instructions from the Secretary of the Treasury, we purchased $63,268,500 and sold $94,370,950. securities for the account of the Treasury, totaling $157,639,450.

The services of 2 employees were required for this work.

17. Accounting of the above Transactions. Inasmuch as there are so many kinds of issues and transactions, it is necessary for this bank to keep an elaborate system of accounts in order to render the detailed reports required by the Treasury Department.

This department employs 8 clerks. The cost for the year ended June 30, 1923, was $13,242.83.

18. Auditing.

The Auditing program of this bank provides for an audit and examination of the Fiscal Agency Function 12 times per year, with the exception of the Custodian Section, which is audited and examined twice a year.
Total cost $11,698.98

Total cost of all Fiscal Agency expenses $422,623.85.

These costs include salaries of clerks, printing and stationery, office supplies and other incidental operating expenses. They do not include officers' salaries, protection and other necessary services, office equipment or rent. The average salary was $1,645.oo. The minimum $840.oo; and the maximum, except the salary of the Director of Savings, was $4,500.oo. (one chief).

It required the services of 175 clerks and about 10,000 suqare feet of space to handle the Fiscal Agency operations.

****

Reimbursement of Fiscal Agency Expenses

The following table shows the amounts for which, during the year ended June 30, 1923, the bank was reimbursed and was not reimbursed:

Operation	Cost	Reimbursed	Not Reimbursed
Bond Exchanges (1 to 9)	$107,120.36	$46,023.94	$61,096.42
Redemptions (10)	54,598.80	25,723.92	28,874.88
New Issues (11)	37,928.77	37,928.77	0
Gov't. Dept. Accounts (12)	5,089.56	4,040.00	1,049.56
Custody of Securities (13)	6,268.69	5,460.04	808.65
Sale of Treasury Savings Certs. (14)	19,088.43	13,951.50	5,136.93
Redemption War Savings (15)	167,587.43	167,587.43	0
Accounting (17)	13,242.83	0	13,242.83
Auditing (18)	11,698.98	4,680.00	7,018.98
	$422,623.85	$305,395.60	$117,228.25

Our estimate of the corresponding expenses for the current fiscal year ending June 30, 1924, which under present regulations would not be reimbursable, is approximately $140,000.00

Exchange - reason for so doing [illegible]

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TALK TO THE OFFICERS OF THE NORTHERN TRUST COMPANY

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The Northern Trust Company has subscribed for $300,000 stock in the Federal Reserve Bank of Chicago, one-half of which is paid in, the other half subject to call.

The bank gets 6% cumulative dividend on $150,000, tax exempt. It carries an average reserve of $3,470,000 at the Federal Reserve Bank of Chicago, being 3% of its time deposits and 7% of its demand deposits.

You help to elect two directors on our board, who represent the banks with a capital of over $999,000. One of these directors must be a banker and the other must be engaged in commerce, industry, or agriculture.

You report earnings and dividends*July first and January first, and give at least three reports of condition during the year. You are also subject to examination by Federal Reserve Bank examiners.

These are your privileges in the use of our facilities:

1 - Collection of checks;
2 - Handling of collection items;
3 - Furnishing of currency;
4 - Transferring funds by wire;
5 - Straight drafts; Federal Reserve exchange drafts; Transfer drafts;
6 - Rediscount privilege;
7 - Right to use "Member Federal Reserve System" diamond emblem and advertise membership.

Directors of the Federal Reserve Bank of Chicago

Who are they? How often do they meet?

Class A - elected by the member banks:
Charles H. McNider, Mason City, Iowa
Elbert L. Johnson, Waterloo, Iowa
George M. Reynolds, Chicago, Illinois

Class B - elected by the member banks:
(New member now being elected to succeed J.W.Blodgett)
Albert R. Erskine, South Bend, Indiana
August H. Vogel, Milwaukee, Wisconsin

Class C - elected by the Federal Reserve Board
Frank C. Ball, Muncie, Indiana
James Simpson, Deputy Chairman
WilliamA. Heath, Evanston, Illinois

These directors meet once every month, on the fourth Friday of the month.

So you can see that the Federal Reserve Bank is not a Government bank, but is really a regional reserve bank maintained and administered by the member banks through the board of directors, subject to the supervision of the Federal Reserve Board.

Contrast official organization of the Northern Trust Co. with that of the Federal Reserve Bank.

Services and Law framed around the needs of our system of independent banks that are supplied by the Federal Reserve Bank:

1 - Custodian of reserves of member banks;
2 - Provision for elastic currency and mobile credit;
3 - Depositary and United States fiscal agency;
4 - Economical collection and transfer of funds;

Three out of these four provisions are used by the member banks.

<u>Gold Settlement Fund</u> - What it can do for the Northern Trust Company.

Purpose: To save time and expense in settling balances between Federal Reserve Banks.

How handled: All Federal Reserve Banks and sixteen branches settle through fund; balances wired to Federal Reserve Board.

Amount: Combined clearings and transfers through fund for 1921 were about 68-1/4 billion dollars and the total expense of operation, including the rental of leased wires and clerical services, was approximately $485,000.

Since 1915 the average weekly volume of clearings and transfers has increased from about 31-3/4 million dollars to 1-1/3 billion dollars.

<u>Loans and Discounts</u> - The discount policies of the F.R.Bd. are directed with a view to accommodating the commercial, agricultural, industrial and live stock interests of the country in the manner and to the extent permitted by the Federal Reserve Act, and not for the purpose of increasing the profits of the Federal Reserve Banks or the amount of franchise taxes payable to the Government.

About 1-1/4 million pieces of paper were handled by the discount departments of the Federal Reserve Banks during 1921.

Features of 1921 Operation
Federal Reserve Bank of Chicago

Loans and discounts, 245,885 items, aggregating $4,168,476,875.

Acceptances purchased, 10,819 items, aggregating $138,275,503.

Federal Reserve Notes and other paper money handled and counted, 191,196,019 pieces, aggregating $1,240,226,409.

Shipments of currency and coin to banks outside of Chicago and Detroit, 27,558 shipments, aggregating $184,517,577.

Checks (drawn on banks) collected, totaled 63,944,345 items and $13,265,744,000.

Notes and drafts, bonds and coupons, received for collection, 411,897 items, aggregating $480,382,922

Telegraphic transfers of funds, 99,324 transfers, aggregating $7,601,969,000.

Balances settled through gold settlement fund, $17,329,844,000.

United States Government checks and warrants handled, 4,861,837 items, aggregating $729,881,000.

Government bond department transactions, 27,055,785 pieces, aggregating $3,271,795,036.

Securities received as custodian, $515,691,896.

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Annual Address
of
President Paul M. Warburg

American Acceptance Council

New York, January 19, 1923

AMERICAN ACCEPTANCE COUNCIL
120 Broadway New York

COMPLIMENTS OF

PAUL M. WARBURG

CHAIRMAN, INTERNATIONAL ACCEPTANCE BANK, INC.

THIRTY-ONE PINE STREET

NEW YORK

Published by
American Acceptance Council
120 Broadway, New York

Annual Address

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President Paul M. Warburg

American Acceptance Council

New York, January 19, 1923

AMERICAN ACCEPTANCE COUNCIL
120 Broadway New York

AS we grow older, anniversary celebrations are apt to become pretty perfunctory and empty events, unless we use them as milestones whence to survey whether or not the road we have covered led us in the right direction, and whether the year's march has registered fruitful results or wasted opportunities. A conscientious review of that sort helps us to find our bearings and to adjust our course for the stretch ahead. It is with such thoughts in mind that I believe we should approach the annual meetings of the Acceptance Council.

As stated in the beginning of my last annual address, the volume of American acceptance business must, of necessity, rise and fall with the increase and decrease of America's foreign trade. It is true that since the point of deepest stagnation America's foreign commerce has evidenced some recovery, and America's acceptance banking has shown a proportionate moderate growth. From April, 1922, to November, 1922, it is estimated that the aggregate of our acceptances outstanding increased from $480,000,000 to about $600,000,000, and it is to be assumed that since the latter date a further substantial increase has taken place. But this is still far below the highest point reached in earlier years, and it is apparent to us all that as long as the Old World does not emerge from its present disturbed condition international credit and trade will remain crippled, and our acceptance facilities will not be able to unfold to their fullest possible degree of usefulness. There is, unhappily, very little that we might add to our last year's statement concerning Europe's financial and economic problems. Our analysis of that situation and our forecast of the inevitable consequences of a continuation of the policies then pursued have, unfortunately, proved entirely too true. Many of us had hoped that the point of culmination was at last close at hand and that the new year would soon lead us out of the darkness. Unfortunately, it seems that the longed-for turn of the road is still far out of sight. The only encouraging feature is that whereas in the past the problem was so befogged that it was impossible for the people to understand it, the issue now is clear-cut. Europe, and we with her, stand at the cross-roads, and must choose whether we wish to live under the sign of Mars or Mercury; whether our path shall lead towards a restoration of peace based upon fairness and sound economic principles, or whether, in disregard of them, political and misguided national thought shall lead us into a condition of continued unrest and decline. The ultimate ruler of the world is the will of the masses. From this point of view it may possibly mean progress that the problem has now assumed so clearly circumscribed a form that the people can readily grasp it and in due course may impose their will upon their floundering leaders.

You may remember that at our last meeting, on May 5th, 1922, I suggested that at the proper time our Council might go before Congress and ask for an amendment to the Federal Reserve Act, which would give the Federal Reserve Board power to extend permission for a certain number of years to member banks to accept finance drafts drawn by foreign banks, with a view to stabilizing the exchanges of such European countries as were completing, or engaging to complete, their fiscal and financial rehabilitation. These drafts were to be drawn under the auspices or guaranty of the respective Central Banks or Treasuries of the countries involved upon conditions adapted to each particular case. I had in mind then that the first to avail themselves of a facility of this sort might be such countries as England, Sweden, and Holland, whose fiscal and trade conditions would seem to warrant an early return to a frank and unadulterated gold standard. You may have observed, however, that the same thought occurred to a committee of international financial experts called in by the German Government in November last. The Dutch and Swiss experts, Messrs. Vissering and Dubois, writing a minority report, recommended as an essential feature of their plans the formation of a syndicate of American, English, Dutch, Swedish, and Swiss banks and bankers, which would grant, in the currencies of their countries, acceptance credits aggregating a total of five hundred million marks gold. R. H. Brand, who headed the majority report (signed by him, J. Maynard Keynes, Gustav Cassel, and the American, Jeremiah W. Jenks), stated in a special memorandum that, provided a moratorium be granted upon conditions inspiring confidence as to Germany's future, and provided the Bank of

England would approve, it might be possible to prevail upon British bankers to participate in such an *acceptance credit* to the extent of possibly five million Pounds Sterling.

The proposition, like many others, did not lead to any tangible result; but the incident clearly showed that, sooner or later, acceptance credits will be called upon to play an important part in the solution of Europe's exchange problems. I am glad, therefore, that eight months ago we were the first (ahead even of our European fellow-bankers) to point to these possibilities, and to pave the way for an early discussion of our own opportunities and duties in the premises. The present unfortunate turn in European affairs must not discourage us or cause us to abandon constructive thoughts; for no matter how protracted the process of convalescence may be, the day is bound to come when our help will be required for the purpose of putting the patient back on his feet. If such acceptance credits were proposed to-day American banks and bankers could not participate, because such acceptances would be ineligible for purchase by the Federal Reserve Banks, and because National Banks could not lawfully create such acceptances. Unless we set out to secure the necessary powers from Congress, it is to be feared that European bankers, in dealing with cases of this sort, may find themselves forced to proceed without us; or else—if Europe should be unable to "carry on" alone—the healing process of the world might needlessly be delayed at the price of prolonged suffering both here and abroad. It would seem, therefore, that the time is at hand when the Council should take up with the Federal Reserve Board this question of finance bills, so that a suitable amendment may be prepared and enacted in the near future. In transactions of this sort our country would have a very deep interest, particularly the agricultural sections.

In the year under review the Federal Reserve Board took two very important steps—of which the Acceptance Council had been a strong advocate—indeed, we might well say, the moving spirit. I am referring, first, to the Board's revision of its acceptance regulations conferring larger discretionary power on member banks in accepting for overseas transactions, and upon the Federal Reserve Banks in determining the eligibility of such bankers acceptances; and, second, to the Board's ruling relative to purchase by Federal Reserve Banks of trade acceptances in the open market, and the establishment of open market rates therefor (as distinguished from re-discount rates). As years go by both these measures will prove of the highest significance. We may assert without fear of contradiction that the first of the two measures has already proved its worth. It has been quite generally acclaimed in foreign countries as a vast step towards simplifying our methods and towards freeing us from the shackles of discouraging red tape. We may add that while, as the consequence of the new policy, there has been less waste of time and energy in bickering about the form, there has been no relaxation in watching the substance of the transactions. In the long run experience will prove that not only is there greater facility, but also greater safety in this new policy of looking to the essence of the underlying transaction rather than to the outward observance of rules and regulations.

The ready purchase by Federal Reserve Banks of trade acceptances in the open market is the most important event in the history of this type of paper in the United States. The true significance of this will make itself felt only as our so-called open market begins more fully to exercise the important function of acting as the balance wheel between banks and Federal Reserve Banks. In the months gone by, with our discount rates temporarily out of gear, with re-discount rates ranging from 4 to 4½% at the several Federal Reserve Banks, and an open market rate for bankers acceptances of about 4 to 4¼%, there has been little room for an attractive open market rate for trade acceptances. Until the supply of short-term U. S. Treasury Notes and Certificates, with their tax-exempt features, is substantially reduced, the development of the open market for both bankers and trade acceptances will have an uphill fight. As a matter of plain logic, the present rate for bankers acceptances of about 4 to 4⅛% would seem too high as compared with the open market rate for commercial paper of about 4½ to 4¾%; for the charge of even the most modest acceptance commission would bring the cost of an acceptance credit to our strongest houses above that of borrowing on their single-name notes. Our acceptance rate looks high also when compared with the British rate of about 2½%, with which we have to compete in world markets, even though the fluctuations of Sterling exchange and the premium to be paid on forward Sterling for cover at maturity add substantially to the cost of the use of Sterling credits. Assuming that the demand for commercial credit is not intensive enough at this time to warrant the expectation of a substantial hardening of the market rates for single-name paper, the alternative, in order to cure these anomalous conditions, would be a lowering of the open market rate for bankers' acceptances. It would be an easy and perfectly practicable matter for Federal Reserve Banks to reduce the rate at which they purchase bankers acceptances to well below 4%. But if they went too far in that direction they would have to fear the effect on the open market; for important banks might then be tempted to neglect the purchase of acceptances even more than they do today. In other words, the so-called open market would become still further narrowed, and the Federal Reserve Banks might become almost the only buyers. In such a case the result might be an increase in their holdings of acceptances, and a reduction in their holdings of Government securities, while, conversely, the banks might reduce their acceptance holdings and increase their holdings in Government securities. This dilemma will continue to exist as long as the Treasury must raise billions on short-term borrowings, and as long as tax-exempt Treasury Certificates must, therefore, compete with bankers acceptances as the classic investment for liquid banking funds. Add to this the problem, often discussed by us, of the daily settlement dealings on the New York Stock Exchange, and their unhappy effect on the development of a free discount market, and the conclusion seems inevitable that for the next years to come the progress of acceptance banking in the United States is likely to labor under a very severe handicap. In spite of these conditions—the seriousness of which it would be foolish to deny—it should not be impossible to secure progress if we can succeed in enlisting the interest of our large banks, and if we can make them understand the deep significance of this problem with regard to the proper and effective functioning of the entire Federal Reserve System. That would seem to be one of the outstanding tasks of the Acceptance Council for the coming year.

In order to tackle this problem successfully it will have to be approached from the broad point of view of "the discount and open market policy of the Federal Reserve System," and I trust you will bear with me if tonight I venture to enter upon a more intimate discussion of that topic.

Is the Federal Reserve System an active or a passive organ? Is it the hammer that hits or the anvil that stands waiting to receive the blow? I wonder how many of all the members of Congress that have discussed or denounced the Federal Reserve System in recent months would be able to give a quick and fairly matured and intelligent reply to that question. Indeed, I am not over-confident that an excessively large number of business men or bankers would be prepared, offhand, to give a satisfactory response. Some would probably assert that the System should always be hammer; others, that it should generally be anvil; and the most thoughtful would say that it is hammer or anvil, according to the strategic position of its discount rates in their relation to the interest rates ruling in the open markets of the country. The latter thesis would sound fairly convincing; but what would they answer if asked to define more clearly what this "strategic position" should be? It may be assumed that they would reply that the discount rates should be high enough to make re-discounting for profit unattractive, and low enough not to make it prohibitive. That, too, would sound well; but can anybody say that—with an open market rate for single-name commercial paper of, let us say, 5%—a Federal Reserve re-discount rate of 5% would be prohibitive for a $25,000 country bank charging from 7 to 10%? Indeed, for some of them a re-discount rate of 5% might in that case still offer a very real inducement for re-discounting for the sake of making a profitable turn, while, on the other hand, conceivably, such a bank rate might prove to be "strategically" well chosen with regard to dealings with strong banks in large centers. Conversely, if the Federal Reserve rate were raised to a point where it would have a safe and proper relation to the rates charged by some small country banks, it would become entirely prohibitive for the large financial institutions.

Uniform Federal Reserve re-discount rates are, therefore, always likely to act as hammer at one end and as anvil at the other, and the more heterogeneous the elements comprised in a Federal Reserve district, the more acute that difficulty will be.

The "strategic position" alone does not, therefore, appear to furnish a convincing answer. Some students may suggest, however, that the Federal Reserve System is hammer or anvil according to whether its discount rates are effective or ineffective, active or inactive. That sounds plausible enough; but what does it mean? I assume we are to understand that rediscount rates are to be considered as active—and, therefore, evidences of a hammer policy—when the Federal Reserve Banks show a substantial volume of individual re-discount transactions, or when the combined operations of the Federal Reserve Banks show a marked increase or decrease in the total of bills discounted. But such an assumption would be wholly fallacious.

We might have perfectly stationary Federal Reserve rates with substantial liquidation of Federal Reserve assets in one district offsetting substantial expansion in another. Thus, we might witness a large volume of individual rediscounting transactions during a period of "anvil policy." Indeed, in times when, generally, money rates would harden, the Federal Reserve

System might show a very large increase in its holdings just because it might have pursued an "anvil policy," leaving its own rates unchanged when market rates might have advanced. Conversely, by moving up its rates energetically, the Federal Reserve System might keep its investments stationary, and prevent expansion. In other words, we might witness a "hammer policy" with the aggregate of re-discounts unchanged, and an "anvil policy" with investments rising or falling. Active or inactive rates, judged by the single test of volume of business, may, therefore, not be considered as true evidences of a "hammer" or "anvil policy" of the Federal Reserve System.

It would be amusing to continue this question and answer game; but we have pursued it far enough to attack our problem from another angle. The Federal Reserve System, if properly exercising the function for which it was designed, should act as a guide and stabilizer of the interest rate policy of the country. It is true that when things take a natural and healthy course the pilots of the Federal Reserve System, like good physicians, would doubtless hold that little or no active interference would be the wisest method. That, however, would not modify the view that to act as guide and regulator should be essentially a hammer and not an anvil function.

But a country doctor, forced to leave one single prescription to serve for months to come as the sole remedy for an entire family, from the old grandfather down to the baby, would not be faced with a more difficult task than confronts the administrators of the Federal Reserve System when they are to determine one single re-discount rate to be applied at the same time to one hundred million dollar concerns in large cities and twenty-five thousand dollar banks in small country towns. Our country doctor, in the case above described, could do no better than to leave the medicine on the table and rely on the common sense of his patients as to when to take it, and in what doses, no matter whether one would have to use it against pneumonia, another against measles or indigestion, and a third against the sufferings of old age. The medicine could not be improved for the benefit of one for fear of doing greater harm to the other. This analogy, extreme and ridiculous as it may appear, fits our case entirely, and it leads us to the following conclusions: In a country with districts as heterogeneous as ours the automatic re-discount rate is a very unsatisfactory instrument—inadequate for the doctor, who gets out of touch with his patients, and dangerous in the hands of the patient to whose initiative and discretion its use is surrendered. The best result cannot be expected where the decision lies so overwhelmingly in the hands of those to be treated. It is true that the Federal Reserve Board might attempt to combat this weakness by seeking to guide the banks in the proper exercise of this initiative and discretion. With this end in view, it is urged that the Federal Reserve Board establish some simple principles for the guidance of the banks in the intelligent use of the re-discount facilities of the Federal Reserve Banks, bearing in mind, however, that for the large banks a different code of banking ethics must be laid down in this regard from that to be observed by the small ones. We shall revert to this phase of the problem a little later.

But even if the Federal Reserve Board should succeed in establishing such principles and in seeing them broadly accepted, the re-discount rate would remain a totally inadequate instrument to lean upon as the sole means of maintaining a reasonably close contact with the money market, or of exerting a fairly effective control of the general banking situation. If such contact and influence are to be assured, the Federal Reserve Banks must be able to rely on an additional and better medium, in the free use of which initiative and discretion rests entirely with them. This instrument lies in a carefully planned and free exercise of their power to carry on open market operations.

Central banking is essentially a European art, which we have studied and adapted to our own particular needs. While we must beware of copying our teachers too slavishly, and without adequate consideration of the differences that exist between conditions here and abroad, it remains useful for us from time to time to re-examine the Old World's best banking standards and traditions, and to weigh how far it has become possible and desirable for us to make them our own.

Aside from the greater homogeneousness prevailing in leading European countries, we know that they are served by a comparatively small number of huge branch-banking systems, and that bankers acceptances and trade bills (to the exclusion of single-name paper) form the bulk of their portfolios. This makes for a more uniform and a more closely knit rate fabric, one that a Central bank rate can fit more tightly and influence more easily than ours. The problems of single-name paper, of thousands of local miniature banklets, and of daily settlements on the Stock Exchange are foreign to these countries of the Old World, while with us they are the main roots of our difficulties.

As guiding stars for our small banks European banking traditions can, therefore, serve us little; they may give us important suggestions, however, when studying the problems of our larger financial institutions. For them it may be interesting to observe that the proudest British and French banks do not re-discount with their Central banks in normal times. The daily balancing between such banks and their Central banks is accomplished by the use of their available cash balances and through open market operations, which include loans to bill and money brokers, purchases or sales of acceptance or Treasury bills, etc.

The underlying idea of modern banking is that—barring extraordinary national or international demands—cash or deposit money withdrawn from one bank will turn up in another. In other words, if one bank loses, the other gains; and if funds are withdrawn from one city they turn up in another. Fluid funds seek liquid investments; one bank calls loans, the other seeks them; one bank collects its maturing bills, the other increases its holdings of acceptances; one liquidates Treasury bills, the other purchases them; and when this equalizing process is interrupted—because locally or nationally all banks are losing deposits at the same time—the Central bank will periodically increase its share in these liquid loans and investments while the banks of the country in the aggregate will have decreased their holdings.

A strong, proud bank in England or France would feel humiliated if in normal times it were forced to borrow directly from its Central bank, because, forsooth, it had not maintained a supply of liquid loans and investments large enough to meet by means of its balances and open market operations any demands made upon it. In other words, normally the strongest banks in such countries would draw funds from the open market, either through calling loans or selling liquid assets from their portfolios. If, as a result of the operations of all the banks, the open market should become overloaded, *the market* would then resort to the Central bank, i. e., the bill brokers would sell acceptances to, or borrow from, note-issuing Central institutions. However, it would not have been the individual bank in that case that had taken recourse to the Central bank, but the market as a whole.

This is the highest standard of banking in normal times. Banks of smaller size, private firms, and the larger banks, in case of extraordinary strains, will send to the Central bank their short maturities, thus, when necessary, anticipating their collections by a few days. (In France and Germany this collection of maturing bills through the Central banks is carried on quite regularly even by the largest banks.)

I have gone into a hasty description of this phase of European banking because I believe an important lesson may be gathered from it for our own problems.

During the War our banks were coaxed into subscribing liberally to our Government bond issues, and to re-discounting freely with the Federal Reserve Banks. It was heralded as a bank's patriotic duty to overcome its hesitation to borrow from the Federal Reserve Bank. It must be admitted that it is a far cry from that viewpoint to the one I am now advocating: that the stronger a bank, the greater should be its reluctance to re-discount with a Federal Reserve Bank, unless it were justified by exceptional reasons.

The Federal Reserve System is not only a balance wheel for normal times; it is also an emergency organization for abnormal demands. Where it is a question of dealing with the latter it may be a public service and a duty to be rendered by the strongest banks to step in and lend their credit so as to ease, or even save, the situation by re-discounting with the Federal Reserve Bank. But what we are discussing is the policy to be pursued by our strong banks in normal times. If for their day by day transactions they could be persuaded to follow more closely the British procedure, they would be doing a wise and useful thing for themselves, and a helpful thing for the entire country. For it is only through a country-wide free use of standardized paper, namely, prime bankers acceptances, that genuine fluidity of money and credit of the highest type can be obtained. Only when we shall have a country-wide open discount market, absorbing the idle funds from one bank or section, in order to make them available for covering the shortage of another, shall we have a perfect banking system, one closely in touch with its Central organization, and easily responding to its touch. For by increasing or decreasing its open market investments the Federal Reserve System can of its own initiative exercise a strong regulatory effect; it can exercise its hammer functions without violently jerking up and down ineffective rediscount rates, and it can accomplish this by comparatively small transactions. It must not be overlooked that when the Federal Reserve System increases or decreases its aggregate of investments it thereby expands, contracts, or reestablishes the reserves of the member banks. It exercises, therefore, a very far-reaching effect, because by its operations it may lengthen or shorten the reserve base which supports and controls the size of the inverted pyramid of bank loans that rests upon it.

The very description of the far-reaching influence of these operations leads to two inevitable conclusions: *First,* that in exercising their open market powers Federal Reserve Banks must not be moved by a desire to secure larger revenues, but that they must be actuated solely by the aim of having the Federal Reserve System act as a stabilizing balance wheel in the best possible manner; *second,* that these operations cannot be left to the discretion of each individual bank, but must be carried on under one joint and definite plan of action embracing all the Federal Reserve Banks. It is tempting further to explore this phase of the problem, but more than in the activities of the Federal Reserve System we are interested tonight in the part to be played by the member banks. Returning to them, let me ask the question: Would it be imposing an undue burden upon our strong banks if they were to co-operate in developing the open market for bankers acceptances in the manner we have discussed? I do not think so. The Federal Reserve Act reduced reserve requirements very substantially. If, from the reports to the Comptroller of the Currency of March 10, 1922, we take ten large national banks with aggregate net demand deposits of $1,946.478,555 and total time deposits of $102,040,388, we find that the required lawful reserve on that date, figured under the present law, amounted to $256,103,422. Under the law that existed prior to the enactment of the Federal Reserve law, as amended, the same institutions with the same aggregate deposits would have shown net deposits requiring reserves of $2,001,276,907, and the legal reserve required to be maintained actually in vault would have been

$500,319,227. Thus we see a release of reserve aggregating approximately $250,000,000 for ten large banks selected at random. It would not seem, under these conditions, that it would be a very severe hardship if large, first-class institutions should adopt the policy of investing a fair proportion of their released reserves in bankers and trade acceptances, and in loans on such paper to bill brokers—investments which, in world banking centers, are generally regarded as the equivalent of reserve,—even though the return might be a little lower than might be obtained from single-name paper purchased, Stock Exchange loans, or other less liquid investments. The sacrifice involved would be very small, whilst by widening the open market, these banks would render an important service in perfecting the efficiency of the Federal Reserve System, which, in the final analysis, is the backbone of their own strength.

If the strongest of the first-class banks were to adopt as their ultimate code of banking ethics the ideal that the proudest amongst them normally would not re-discount with the Federal Reserve Banks except for special reasons; if the less powerful banks of that class were to aspire to re-discount normally with Federal Reserve Banks only their short maturities, this would result in leaving the re-discounting of the longer maturities almost exclusively the field for the small banks, and it would be primarily to meet their requirements and conditions that the ninety-day re-discount policy, and that for the longer maturities would have to be determined. We would thus simplify our problem, and bring it into a form where it could be properly understood, and where the adoption of an effective rate policy would offer much less complexity for the Federal Reserve System.

For the small banks we would lay down a very different code of ethics than for the large banks. Where to the latter we ventured to suggest that they use their re-discount facilities as sparingly as possible (and if so, by re-discounting primarily the very short maturities), we would say to the small country banks: "Use your re-discount facilities unhesitatingly and freely in certain seasonal periods with these restrictions only: don't exceed a reasonable limit indicated by a safe proportion to your own resources; don't borrow all the year around; liquidate your re-discounts with the Federal Reserve System entirely, at least once every year, when the seasonal demand is over; for the Federal Reserve System is not designed to furnish you permanently with additional working capital, or—to put it another way—to permit you chronically to encroach upon your reserves by being a perpetual borrower from the System."

There are, then, two entirely different codes of ethics governing the relations of member banks to the Federal Reserve Banks; it would follow, as a matter of simple logic, that there should also be different rate policies. The present policy of trying to have one shoe fit them all: bankers acceptances, trade acceptances, fifteen-day and six-months paper practically all in one pot, seems to be the expression of an "anvil policy"—and of a very soft anvil, at that. The wish to see uniform re-discount rates established for all types of paper, for all maturities, and for all districts in this heterogeneous country of ours, is, to my mind, a much mistaken aspiration. Re-discount rates may differ particularly with regard to maturities, and in given circumstances, also according to types and local conditions; on the other hand, it is the open market rate for standardized prime acceptances that should be fairly uniform all over the country.

To sum it up once more: If, in our mind's eye, we should eliminate the open market functions of the Federal Reserve Banks, we would then have a system where at some thirty Federal Reserve Banks and branches the local member banks would delve haphazard into the general reserve pot—arbitrarily, at poorly fitting re-discount rates, according to their individual whim and requirements,—while, as supplementary and principal stabilizer, they would rely upon the call money market of the New York Stock Exchange, an instrument without any direct connection with the Federal Reserve System. As against that, visualize a call money market based on bankers acceptances and government certificates, directly connected with the Federal Reserve System, and reaching through a network of bill brokers and discount corporations, as we foresee it, every bank worth the name in the country. The first would give us a jerky and wholly unsatisfactory system. The Federal Reserve Banks have made large strides in the direction of the second; indeed, without the intelligent and consistent work done by them in this regard, since the very early beginning of their operations, the System could not have functioned as excellently as it did, and as it does today. We are, however, still far remote from our ultimate goal, and it is all-important that we should keep our ideal clear before our eyes even though we know that it will take time, patience and consistent planning to get there.

Bankers acceptances, properly developed to their fullest degree of usefulness, would serve as equalizers of money rates, and the agricultural sections could profit from them in a much larger measure than heretofore. When the country bank, with the aid of the Federal Reserve Bank's re-discount facilities, has carried the making and harvesting of the crop, the financing of the crop's distribution ought to become to a growing degree the function of bankers acceptances, thus liquidating the local country bank's re-discount operations. But the crop cannot be financed by such acceptances until, with a clear title, it is properly warehoused and graded. A country-wide net of modern warehouse facilities are of vastly greater importance in this regard than new sources of credit. There is credit enough available for the marketing of the crops if a clear title and proper grading can be furnished, and if there is a responsible borrower. Great headway has been made in this regard, but more remains to be done. About these phases we shall have the privilege of hearing more fully, I trust, from both Mr. Kent and

Mr. Howard. It is all important that the farming sections, and their representatives in Congress, be made to comprehend that a properly developed open discount market will operate to their benefit to a larger degree than that of any other group. Only when this fact is thoroughly understood will the stupid prejudice be broken down that an open market rate for bankers acceptances (guaranteed paper) lower than that for single-name (unguaranteed) paper embodies a special advantage for the big fellow at the expense of the small one. The reverse is true; nothing will have a stronger influence towards stabilizing and lowering interest rates for the entire country than a fully developed discount market.

The time has come, I believe, when the entire problem just discussed, of re-discount ethics and their effect on the rate policy, should be studied very closely, and when the American Acceptance Council might well undertake a campaign of education bearing upon that problem. Such a campaign might stimulate the interest of our banks and enlist their support, and at the same time promote a better understanding on the part of the public at large and of our friends and enemies in the Congress.

At present agitators—some ignorant, some perverse, some spiteful (for personal or political reasons)—have managed to make mountains of charges out of molehills of small errors, and in certain sections of the country they have succeeded in making the System the target of distrust and attack, whereas it deserved only the unreserved gratitude of all of the people for unequalled services rendered.

As long as the world-wide economic maladjustment continues we are likely to witness such attacks; they are the age-worn, primitive form of venting resentment against inevitable suffering by making somebody the "goat." Finance, in such circumstances, has ever been the pet target of the demagogues. The Federal Reserve System will, therefore, always remain an easy mark for the politicians, but never as easy as today, when the world at large is off the gold standard, when gold has lost its restraining and regulatory power, and when the policy of the Federal Reserve System, to the superficial observer, is likely to appear arbitrary and dictatorial rather than dictated by the pressure of economic forces. To this phase Governor Strong has pointed in his recent admirable address delivered before the American Farm Bureau Federation at Chicago.

In normal times, when countries consider themselves bound by their sacred pledges to pay their obligations in gold, Central banking systems are hammers; but the hands that wield them are guided, almost automatically, by the supreme forces of world production and consumption; by the flow between countries of goods, of people, and of credit. It is when the interplay of these forces becomes unbalanced that, in normal times, the flow of gold sets in as a regulator (settling the debit balance between nations), and as it unfavorably affects the reserves of the country losing the yellow metal, it calls for prompt counter measures, viz., changes in discount rates. At present the free flow of credit, goods, and people is still heavily obstructed, and until these elementary forces are permitted once more to function normally, King Gold, the ultimate master regulator, cannot be put back on his throne, and economic chaos must continue.

That we emerged from this bedlam as soon as we did, and with no greater suffering, is largely due to the fact that, owing to force of fortunate circumstances, we had been able to subject ourselves to the straitjacket of the gold standard at an early moment. It was not an arbitrary whim of the Federal Reserve Board that imposed higher interest rates in order to break inflation, but it was the shrinkage of our gold reserves, down to the safety limits imposed by the law, which forced the hands of the Board. Had it not been for the prudence forced upon us by our consciousness of the obligation to redeem our pledges in gold, we would have continued to inflate just the same as did the many other countries which since have paid, and are paying today, the terrible penalties we have escaped. Financially, we are strong today because we did not succumb to siren songs urging the artificial bolstering up of exchanges, or government bonds, or commodities. Things were left to find their own bottom, and in due course prices adjusted themselves to their natural economic levels. And, as with goods, so it was with money. As liquidation proceeded, reserves rose, and the price for money came down. That under such circumstances the advent of easier money, lower discount rates, and the return to par of our government securities, inevitable consequences of a completed process of liquidation, should have been hailed as an achievement of a party administration was a grave and highly regrettable error, which we hope will never again be repeated. Claims of that sort threaten to make political events out of every change in the discount rate. The members of the Council, I know, regretted deeply the intrusion of class interests into the System last spring because it involved the violation of an elementary principle. They have more recently had a second bitter disappointment in the sacrificing of Governor Harding, especially as his failure of reappointment came in the face of a year of unwarranted political attacks upon him. No matter how good the new appointees, another fundamental principle of a sound system of banks of issue, that it should be free from political interference, has been abandoned. It is to be feared that service on the Federal Reserve Board in the future may be considered a hazard rather than a high honor, and that this will exercise a disastrous influence in years to come on those who might otherwise be willing to accept the financial sacrifice which membership on the Board entails. In this connection it may be interesting to note that although in the recent attacks on the System, both in and out of Congress, it was often asserted that the bankers were intent on controlling the System, no bankers of importance, as far as I know, sought appointment since August 9, when Governor Harding's term expired, nor was any particular banker urged for appointment by bankers organizations. Such action as they took was directed to further, not personalities, but a principle—that the System should be kept free from political interference.

The Farm Bloc has had its "march into the Ruhr." Now that it has won, what will be the result?

My own conviction is that, faced with the alternative of debauching the country or preserving for the Federal Reserve System the high principles on which alone it can remain secure; faced with the immense responsibility of administering at this time the gold and credit reserve of the entire world, members of the Board—farmer or banker—will end by forgetting what party or class they were elected to represent and pull together in the only direction that, in the long run, can bring individual satisfaction to them, and peace, progress, and prosperity to the country as a whole. It is in this spirit that, I am sure, the Acceptance Council will continue to place its services gladly and unreservedly at the disposal of the Federal Reserve System as it did in the past.

For the Federal Reserve System there is only one course to pursue, and that is to keep its standard high, to place its case before the people, and to do its duty unafraid. While it should go to the utmost limit in aiding the agricultural classes—as far as it can be done without compromising sound principles, and without harming the farmer by encouraging him to indulge in speculation (and some of the amendments now before Congress are to be welcomed in that spirit)—it must openly meet the vagaries of the soft money prophets and of those who profess to believe that excess production can be made to find its market by easy domestic credit. The farmer is beginning to understand that there are deeper causes for his ills than can be explained by slanders on the Federal Reserve System and Wall Street finance. He is beginning to see that it is the exportable surplus that, in the final analysis, fixes the price for the staples he has to sell; that for his sales he must compete with producing countries with lower standards of living, some affected with acute unemployment; while in whatever he buys, including transportation, he pays for goods and services produced upon a scale of prices governed by the highest standard of living of the world, protected by laws that impede the normal inflow of goods and men, resulting in the present actual shortage of manual labor. He is beginning to realize that, in these circumstances, he must not seek a cure in soft money and credit inflation, which would boost the things he buys—protected goods and protected labor—much higher than the things he sells, for which the price is determined by free world markets. He is awakening to the realization that relief must be sought in building up the standard of living, and with that, the purchasing power of broken-down countries, rather than in undermining and bringing down our own. Sooner or later the farmer will perceive that it is labor much rather than credit that is at the root of the maladjustment of prices afflicting him at this time, and that it is the "Capitol" much rather than "capital" that stands in the way of a solution. Unless by a less self-centered and more generous attitude towards Europe we help in lifting the Old World out of its desperate straits, it seems inevitable that the present maladjustment will lead to a tug-of-war between agriculture and labor.

The country at large will stand by the Federal Reserve, and if need be, protect it at the polls, if it is efficiently managed, and if the man in the street is made to understand its aims its struggles, and dangers. In order to be strong and efficient, the Federal Reserve System needs the whole-hearted co-operation of the banks; in order to survive in safety and independence it must have the sympathetic understanding and eager support of the people. In both directions lies the path of useful service for the American Acceptance Council in the coming year.

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2. F.R.System really organized for the benefit of business - industry, commerce, agriculture (factory, store, farm) - they are hurt the worst when a panic comes, and thru them the people.

3. Business uses currency and credit in moving its goods from producer to consumer.

5. The credit that business uses is of two kinds: 1st, investment or long-time credit; 2d, short-time self-liquidating credit.

First class furnished by investment market - not by Federal Reserve System.

Second class - the kind of credit used to finance food, clothing, raw and manufactured products, from the time they come out of the ground until they reach the consumer; i.e., from the man that raises it to the man that uses it. This credit moves so fast that it is very liquid.

5. Business uses vast amounts of this short-time credit in moving its goods. There was frequently a shortage of this kind of credit just when needed and the currency and credit functions of the F.R.System were therefore created to furnish more adequate facilities for the seasonal and emergency currency and credit upon which business depends for its existence.

6. These currency and credit facilities do not come direct to business, but business uses them thru the banks of the country - 30,000 of them - each bank usually independently owned and operated. The credit and currency facilities of the F.R. System have improved the service the banks can give to business; i.e., the service they can give to the people of their communities.

7. Who furnishes the working capital that the F. R. System uses as a basis for these currency and credit facilities? The banks of the country, themselves! The U.S. is divided into 12 districts, each having a large city toward which the business of the territory naturally moves. In each of these 12 cities a Federal Reserve Bank has been organized to serve the district in which it is located. Each national bank in the respective districts is required by law to take an amount of capital stock in its F.R. Bank equal to 6% of its capital and surplus (1/2 of which is paid in) and it is required to place its legal reserve in the F. F. R. Bank without interest. State banks are allowed to join upon the same terms.

The Federal Reserve Banks are given the power to issue currency based upon gold and the notes of business men, manufacturers and farmers that they may acquire in the course of business. Upon paper of this kind member banks may secure currency and credit from the F.R. Banks. The F.R.Banks are allowed to transact business only with the member banks.

8. The member banks elect 2/3 of the board of directors of their Federal Reserve Bank, three of whom must be bankers and three business men. The Board of Directors sets the policy and appoints the officers of the F.R. Bank, who manage the bank under direction of the Board.

9. The operations of the 12 F.R.Bks are supervised by the F.R. Board at Washington, whose members are appointed by the President. The F. R. Board appoints 1/3 of the Board of Directors of each F.R. Bank and names one of these men "Chairman of the Board and Federal Reserve Agent." This director maintains an office of the F. R. Board on the premises of the F. R. Bank and reports upon the operations of the F. R. Bank, the member banks, and business conditions in his district, direct to the F. R. Board. The business between member banks can then be cleared through their F. R. Bank, and just so the business between F. R. Banks is cleared through the gold settlement fund which is maintained by the F. R. Board at Washington.

10. Then for all practical purposes, the F.R. Banks can be considered as much like a private corporation under governmental supervision, maintained by the member banks for the benefit of the business(i.e.,the People) of the country. About 1/3 of the banks of the U.S. (in number) are maintaining this System, but their resources comprise about 70% of the banking resources of the U.S. The currency issued by the F.R. Banks makes up about 1/2 of the currency in the hands of the public today.

11. How does business get this currency and credit from the F.R.System through its banks? Give example - tracing the corn to the cow on the farm to the shoes the audience wears, emphasizing the self-liquidation of the paper every time the hidechanges hands, and explaining that small notes, as well as large notes, may be used.

12. So you might take every article of our daily necessities and show how, somewhere in its journey to us, it used the kind of self-liquidating credit available through the F. R. System.

13. Then the business man can think of the F. R. System not as a big government bank, organized for the benefit of the banks, but rather as a system of Regional Banks, maintained by the member banks for the benefit of the industry, commerce, and agriculture of the country.

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Outline for remarks to the members of the Grand Rapids Association of Commerce.
May 10, 1922.

1. Opening remarks.
   Mr. Bierce, Secretary.

a new system – 30 m Banks – scattered & unrelated – unison.

2. Organization of System as a whole.

3. National and State Banks - members.
   32.5% of combined capital of Federal Reserve System subscribed by state banks.
   152 State banks in Michigan are members.

4. Federal Reserve Board.

5. Organization of Federal Reserve Banks.

6. Rediscounting.

7. Note issue function.

8. Open market operations.

9. Fiscal Agency Functions.

10. Gold Settlement Fund.

11. Relation of the Federal Reserve Banks to the business of the country.

12. Lord Cunliff.

13. Comment on Mr. Blodgett's service as a Class B director of the Federal Reserve Bank of Chicago since January 1, 1917.

1907

Blodgett J.W.

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Capital & Surplus.

Federal Reserve System.........	$319,929,000.
Bank of England................	86,041,000.
Bank of France.................	41,070,000.
Reichsbank, Germany............	60,566,000.

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LOANS TO MEMBER BANKS IN 7th DISTRICT.

Oct. 4, 1920 (High point)......	$499,168,000.
May 8, 1922....................	72,551,000.

CIRCULATION. - 7th Dist.

Dec. 24, 1290 (High point).....	$560,900,000.
May 8, 1922....................	367,003,245

LOANS TO MEMBER BANKS IN SYSTEM.

Nov. 26, 1920 (High point).....	$2,735,430,000.
May 3, 1922....................	509,376,000.

CIRCULATION IN SYSTEM.

Dec. 23, 1920 (High point).....	$3,404,931,000.
May 3, 1922....................	2,173,436,000.

Reserve position of system........76.7%
" " " Chicago.......75.7%

STATE BANK MEMBERSHIP.

Illinois..........	72
Indiana...........	20
Iowa..............	107
Michigan..........	152
Wisconsin.........	26
Total.......	377 in 7th district

1487 State member banks in System

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Outline for remarks to the members of
the Grand Rapids Association of Commerce,
May 10, 1922.

1. Opening remarks.

2. Organization of System as a whole.

3. Federal Reserve Board and its Functions.

4. Organization of Federal Reserve Banks.

5. Rediscounting Function and credit extensions to member banks in Grand Rapids.

6. Note Issue Function.

7. Gold Settlement Fund.

8. Relation of the Federal Reserve Banks to the business of the country.

9. Comment on Mr. Blodgett's service as a Class B director of the Federal Reserve Bank of Chicago since January 1, 1917.

FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR ______ 192__

FROM

In the invitation extended me by your Secretary, Mr. Bierce, to address the members of the Grand Rapids Association of Commerce, he expressed the opinion that the business men of Grand Rapids would be interested in a brief statement relating to the Federal Reserve System and the manner in which the banks function.

Strange as it may seem, notwithstanding all that has been said and written during the last few years with respect to the new banking order, the public is not well informed either with regard to the manner in which these banks are organized, or to the functions they perform.

The Federal Reserve Act provided for the establishment of not less than eight, nor more than twelve Federal Reserve Banks and the Organization Committee, under the law, was given the authority to act and after a deliberate and comprehensive investigation, declared in favor of the maximum number. Subsequently, the continental United States was divided into twelve districts and a Federal Reserve Bank was located in the chief commercial city in each district.

It is well to remember that each of these institutions operates practically independently of the others. The law requires that all national banks subscribe to the capital of the Federal Reserve Bank located within their district in an amount equal to six per cent of the subscribing bank's capital and surplus, one-half of which amount is to be paid in cash. The law also provides, and wisely so, for membership of such state banks as may desire to avail themselves of membership and it is interesting and gratifying to note that approximately 32.5 per cent of the combined capital of all the Federal Reserve Banks has been subscribed voluntarily by state banks located throughout the country.

The state banks of Michigan recognized the desirability of membership and your state today has the distinction of having more state bank members than any other state in the union.

FORM 46-18 50M 10-24-21 B-18150

FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR ______________ 192__

FROM

Contrary to an impression which seems to prevail, the government itself is not a stockholder in the Federal Reserve Banks, the entire capital being supplied through member banks in the manner referred to.

In addition to supplying the entire capital, national banks are required to deposit with their Federal Reserve Bank an amount equal to their entire legal reserve requirements and state bank members are required to maintain deposits on a par with those carried by the national bank members. In this manner, the reserves of the banks throughout the country are mobilized and are held available for the requirements of legitimate business, whether they be ordinary or extraordinary.

FEDERAL RESERVE BOARD.

The Federal Reserve Board consists of seven members, five appointed by the President and the Senate; two, the Secretary of the Treasury and Comptroller of the Currency serving ex-officio. This board supervises and controls the operations of the reserve banks, which elect, one from each district, a body known as the Federal Reserve Advisory Council.

The Federal Reserve Board has power to regulate the establishment of branches of Federal Reserve Banks; remove officers of Federal Reserve Banks with due notice; examine at its discretion the accounts, books and affairs of each Federal Reserve Bank and each member bank and require statements and reports as it may deem necessary. It is empowered to require or permit a reserve bank to rediscount the paper of any other Federal Reserve Bank; suspend for a period not exceeding thirty days, and to renew such suspension for periods not to exceed fifteen days, the reserve requirements specified in the Act; add to the number of cities classified as reserve and central reserve cities and to reclassify the existing reserve or central reserve cities.

The Federal Reserve Board is also clothed with authority to supervise and regulate the issue and retirement of Federal Reserve notes; suspend the operations of any Federal Reserve Bank and appoint a receiver therefor; determine or define the character of paper eligible for discount by Federal Reserve Banks; prescribe regulations for the purchase and sale by Federal Reserve Banks of bankers' bills, etc., review and determine the rate of discount established by Federal Reserve Banks.

ORGANIZATION OF FEDERAL RESERVE BANKS.

Federal Reserve Banks are organized under a plan quite similar to that under which the national and state banks are organized. They are possessed of a board of directors, six of its members being elected by the stockholders (member banks) and three appointed by the Federal Reserve Board: The Federal Reserve Act provides that:

> Class "A" shall consist of three members who shall be chosen by and be representative of stockholding banks.
>
> Class "B" shall consist of three members and at the time of their election, shall be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.
>
> Class "C" shall consist of three members who shall be designated by the Federal Reserve Board, and none of whom during their term of office shall be in any way connected with a bank, one being designated as Chairman of the board and Federal Reserve Agent. In this capacity, he maintains an office in the Federal Reserve Bank, supervises the note issues and acts as the official representative of the Federal Reserve Board.

The Executive Officers are elected by the boards of directors in a manner similar to that in which the officers of the commercial banks are elected.

REDISCOUNTING FUNCTION

In consideration of the investment in the capital and the transfer of the reserves to the Federal Reserve Banks, all member banks are permitted to call for assistance, either for seasonal purposes or in case of emergency.

FORM 46-18 50M 2-27-22 B-18578

FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR ______________________ 192__

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FROM

My visit here today brings forcibly to mind the two or more visits which I have previously made to Grand Rapids since the inauguration of the new banking order. Conditions, however, have greatly changed. On the previous occasions referred to my particular business was to explain the needs of the government in the matter of financing the great war. As Fiscal Agents for the government the great responsibility fell upon the Federal Reserve Banks, not only of organizing the country in preparation for the successive government loans which were offered but to place these loans as they were offered.

During the entire war period Grand Rapids stood ready and responded cheerfully and liberally to all demands. We found that once organized the only thing necessary was to acquaint your local organization with what was expected and I am very happy to find opportunity at this late date to say to those of you who divided your time and your energies to the cause, that your city responded cheerfully and liberally and, I believe, in every instance, oversubscribed her quota. This is the first opportunity I have had of making acknowledgment and it is indeed a great pleasure to do so even at this late date.

Strange as it may seem, notwithstanding all that has been said and written on the subject, the public generally, and even the banks to a considerable extent, do not fully understand the manner in which the Federal Reserve System operates. In the invitation extended me by your Secretary Mr. Bierce, to address the members of the Grand Rapids Association of Commerce, he expressed the opinion that the business men of Grand Rapids would be interested in a brief statement relating to the Federal Reserve System and the manner in which the banks function, and, therefore, in the short time at my disposal, I shall be guided accordingly.

I take it that while those present here today are fairly representative of all lines of commercial and industrial activities, most of you are more or less familiar with the plan and the procedure under which national and state banks are organized. They are possessed of a board of directors, their officers are elected by their board of directors, and they receive deposits and loan money. All of this is equally true with respect to the Federal Reserve Banks as organized.

The Federal Reserve Act passed late in 1913, provided for the organization of Federal Reserve Banks, leaving to the discretion of the Organization Committee the determination of the number of banks to be organized. The conclusion reached was that there should be twelve institutions. Consequently, in accordance with the

FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR ______________ 192__

FROM

Act, the continental United States was divided geographically into twelve districts, and in each of these districts, a Federal Reserve Bank was located, the cities designated being

Boston	Chicago
New York	St. Louis
Philadelphia	Minneapolis
Cleveland	Kansas City
Richmond	Dallas
Atlanta	San Francisco.

All national banks were required to subscribe to the capital of the reserve banks and state banks were accorded the privilege of subscribing to the capital and becoming members of the Federal Reserve System. Each member bank was called upon to subscribe for an amount of capital equal to 6% of the subscribing bank's capital and surplus, 3% of which was paid in cash, and the balance to remain subject to call. Furthermore, the plan called for the mobilization of the legal reserves within these twelve banks.

As a result, the Federal Reserve System is possessed of a paid-in capital of $104,000,000. It has accumulated a surplus which, in the aggregate, is $215,000,000, giving the System a combined capital and surplus of approximately $319,000,000, as compared with the combined capital and surplus of $188,000,000 possessed by the Bank of England, the Bank of France and the Reichsbank of Germany. Moreover, in accordance with the law, the legal reserves of all member banks are now in the possession of the Federal Reserve Banks, where they are available and ready to respond to any unsual demands for legitimate business purposes, or as protection against emergencies.

FEDERAL RESERVE BOARD

The entire system operates under the general supervision of the Federal Reserve Board at Washington, a body composed of seven members, of which the Secretary of the Treasury and the Comptroller of the Currency are ex-officio members, the other members being appointed by the President, with the approval of the Senate.

FORM 46-18 50M 2-27-22 B-18578

FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR ______________________ 192__

FROM

FEDERAL RESERVE BANKS

Each bank is operated under the direct supervision of a board of directors, nine in number, and divided into three classes: A, B and C.

The three Class A directors are elected by the stockholders and are chosen and are representative of the banks.

The Class B directors, three in number, are elected by the banks, a requirement being that at the time of their election, they must be engaged in commercial, agricultural or other industrial pursuits.

Of the Class C directors, three in number, appointed by the Federal Reserve Board, one is designated as Chairman of the Board and Federal Reserve Agent.

It will thus be seen that the majority of the directors are chosen by the stockholders. This board elects the executive officers of the banks and exercises general supervision over the conduct of their affairs in quite the same manner as the board of directors of other banks.

REDISCOUNTING

In consideration of the investment in the capital and the transfer of their legal reserves, all member banks are accorded certain privileges, among them that of rediscounting or borrowing in accordance with the legitimate demands of their customers. The procedure is a very simple one.

When the demands of business are such as to have exhausted the independent loaning power of member banks, they then have the privilege of tendering their bills receivable made by responsible individuals, firms and corporations. The same are promptly discounted and the proceeds are made available either in the form of currency or a book credit as may be desired. In this manner, the member banks' loaning power is replenished and they are enabled to go on loaning in response to the demands of their customers.

FORM 46-18 50M 2-27-22 B-18578

FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR ______________________ 192___

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FROM

NOTE ISSUE FUNCTION

The loaning power of the Federal Reserve System is greatly increased through the currency issuing privilege. These notes which are the direct obligations of the United States and are a first lien on all of the assets of the issuing Federal Reserve Banks, have back of them, specifically pledged with the Federal Reserve Agent, 100% in collateral represented either by commercial paper endorsed by member banks, government securities, or gold, but the amount of gold must in any event be not less than 40% of the outstanding note issue.

As regards the matter of elasticity, experience has clearly demonstrated that this currency does expand and contract in accordance with the requirements of business.

Lord Cunliffe
Mr. Blodgett

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In view of the fact that the public has not direct relations with the Federal Reserve Banks, the question frequently arises as to how the benefits are passed along.

FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR 192

FROM

They have the privilege of offering for discount the paper from their portfolios, made by responsible individuals, firms and corporations, the proceeds of which have been used for commercial, industrial or agricultural purposes. Immediate credit is given for such paper when offered and in this manner the banks are enabled to provide for the credit requirements of legitimate business to an extent far beyond that which they would be able to supply if dependent upon their own loaning power, as was the case under the old banking regime.

The credit extended by the Federal Reserve Bank of Chicago to its member banks in the city of Grand Rapids reached the high point on December 4, 1920, at which time the borrowings aggregated $6,600,000 as compared with loans to the Grand Rapids banks at the present time of approximately $1,300,000.

NOTE ISSUE FUNCTION.

The loaning power of the Federal Reserve System is greatly increased through the currency issuing privilege. The Federal Reserve notes such as those which now constitute the larger part of our circulating medium, are the direct obligation of the United States. Furthermore, they are secured by a pledge of collateral consisting of either commercial paper or gold, with the understanding that at all times a reserve in gold must be maintained equal to at least forty per cent of the outstanding notes.

GOLD SETTLEMENT FUND.

A fund known as the Gold Settlement Fund is maintained at Washington for the purpose of expediting settlements between the various Federal Reserve Banks. At the present time, there is approximately $509,000,000 in the fund, of which amount approximately $76,000,000 is credited to the account of the Federal Reserve Bank of Chicago. This fund enables each Federal Reserve Bank and direct settling branch to telegraph the Board the gross amount collected for the account of each other Federal Reserve Bank and direct settling branch before the final closing of the books for the day. This plan has resulted in the elimination of inter-Federal Reserve Bank "float".

CHIEF FUNCTIONS OF F. R. SYSTEM

1. Custodian of Reserves of Member Banks.
2. Provision for elastic currency and mobile credit.
3. Depositary & U. S. Fiscal Agent.
4. Economical collection and transfers of funds.

HOW F. R. BANKS FUNCTION

12 Regional Banks - not a central bank - under supervision of F. R. Board.

All national banks must belong - state banks may.

Operating capital furnished by reserve deposits of member banks and their subscription to capital stock in F. R. B.

Each bank under supervision and control of a board of directors 2/3 of which is elected by stockholding member banks, and 1/3 appointed by F. R. Board.

Sec. 4 F. R. Act says:

"Every Federal Reserve Bank shall be conducted under the supervision and control of a board of directors.

"The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law."

HOW PAPER IS DISCOUNTED AND REDISCOUNTED

No advances direct to public. All loans or advances are made either to the U. S. or member banks, and deposits are received only from member banks or the U. S.; or from banks solely for exchange or collection.

The law limits the character of advances against paper offered by the member banks.

The notes that are rediscounted must be endorsed by a member bank. (N.B. the member bank thus assumes risk of payment.)

The law does not limit amount of credit a member bank may secure by rediscounting at F. R. B. but it does say, Sec. 4 F. R. Act:

"Said board of directors shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of the law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks."

One of the reasons Congress threw limits and safeguards around the loan transactions of the F. R. Bks. was because the entire legal reserves of the member banks are held by the F. R. Bks. and they must therefore be kept in a liquid position.

The paper against which the F. R. Bks. lend must be of short maturity; notes,drafts, and bills of exchange issued or drawn for agricultural, commercial, or industrial purposes, or the proceeds of which have been used or are to be used for such purposes.

Congress gave the F. R. Board power to define paper eligible for rediscount.

The F. R. B. is forbidden to discount notes covering merely investments.

HOW F.R.MONEY IS ISSUED - HOW & WHEN IT IS CALLED IN

The F. R. B. lends to member banks against paper the member bank has already acquired in the course of its business. It lends for purpose of enabling member bank to restore its reserve to the legal requirement after the reserve has been impaired because of increased loans and deposits.

Based in part upon the security of this rediscounted paper and in part upon gold, the F. R. B. can put into circulation F. R. notes in sufficient volume to meet the requirements of ordinary business transactions or of an acute emergency. This currency is elastic - it is expanded or contracted by the needs of business.

As business expands and there is a demand for greater discount accommodation, the paper that is eligible for rediscount may go to the F. R. Bank as security for currency, and in turn when such paper matures, its payment automatically withdraws the F. R. notes against which it stood as partial security. So the F. R. notes are "called in" by business itself by the act of paying off its obligations.

DON'T EXPECT THE IMPOSSIBLE OF THE F. R. SYSTEM

It cannot protect business men against bad judgment nor can it prevent periods of business depression, no matter how skillful its administration. Both England and France have shown that, in their long experience with their banking systems upon which ours is patterned.

But the F. R. System can prevent money panics - it can ease the strain of depression - and it can reduce the overhead cost to business of collecting and clearing its financial transactions.

5-15.

12/5/21

1. Charles E. Parker, President Kiwanis Club. also Cashier, American National Bank.

2. Federal Reserve System.

3. Act - December 23, 1913. - Caption.

4. Twelve banks.

5. Federal Reserve Board.

6. Organization of banks - Boards of Directors.

7. Capital and Deposits.

8. Functions
   - (Rediscounting.
   - (Currency or Note issuing.
   - (Check collection.
   - (Fiscal Agency.

9. Gold Settlement Fund.
   Balance for System - $465,236,000.
   Our balance - 91,847,417.

10. Clearings for Chicago, Milwaukee and Detroit.

11. Relation of the Federal Reserve Banks to the business of the country.

Capital & Surplus.

Federal Reserve System	-	$316,928,000.
Bank of England	-	86,041,000.
Bank of France	-	41,070,000.
Reichsbank, Germany	-	60,566,000.

Directors Federal Reserve Bank of Chicago.

Geo. M. Reynolds	-	Chicago.	)
Chas. H. McNider	-	Mason City, Ia.	(Class A.
E. L. Johnson	-	Waterloo, Ia.	)
J. W. Blodgett	-	Grand Rapids, Mich.	)
A. R. Erskine	-	South Bend, Ind.	(" B.
A. H. Vogel	-	Milwaukee, Wis.	)
F. C. Ball	-	Muncie, Ind.	(
James Simpson	-	Chicago, Ill.	) " C.
W. A. Heath	-	Evanston, Ill.	(

L O A N S

Oct. 4, 1920 (High point).....$499,168,000.
Nov. 30,1921. .... 179,535,000.
Decrease in loans......... 319,633,000.

C I R C U L A T I O N

Dec. 24, 1920 (High point)....$560,900,000.
Nov. 30, 1921................. 401,500,000.
Decrease.......... 159,400,000.

Reserve position of system------72.8
" " " Chicago-----73.6

MISC 55 20M 1-27-19 8065

FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR October 16, 1919. 19

Memo of address made by Mr. McDougal at

FROM

Milwaukee 10/15/1919 - Mr Moehlenpahs dinner

Early in 1915, immediately following the passage of the Federal Reserve Act, one authority was bold enough to declare with confidence that the future would prove the Federal Reserve Act to be the greatest piece of constructive legislation enacted since the adoption of the Constitution. This opinion was expressed at a time when many bankers were protesting vigorously against the feature of compulsory membership and other features of the law.

Later on, about the time this country entered the Great War, the statement was made that the Federal Reserve Act and the Federal Reserve Banks would supply the foundation for all fiscal preparedness of the nation in its time of peril.

Now that the war is over, it is most gratifying to know that in the opinion of fairminded, intelligent authorities, the success achieved in the operation of the new banking system during the war had passed highest expectation.

Whatever success has been achieved is due, in a large degree, to efficient administration on the part of the Federal Reserve Board at Washington. And it is to this Board that one of your Wisconsin citizens has been recently appointed as a member.

Under the law, the Federal Reserve Board is given very broad powers. It is under their direct supervision that the banks operate, and, beyond this, the Board is possessed of broad regulatory powers. It was a matter of good fortune that the personnel of the Board, as constituted, was made up of strong men representing the best element engaged in banking, commerce and industry. Whatever the problems have been in the past, it is quite obvious that the responsibilities ahead will be quite as great; therefore, it is imperative that the high standard be maintained.

I can conceive of no stronger testimonial to the fitness of your honored citizen, Mr. Moehlenpah, for the great responsibilities than is evidenced by the reception accorded him this evening by the business men of Wisconsin. I am very glad to be here as a representative of the Federal Reserve Bank, and to join with you citizens of Wisconsin in wishing Mr. Moehlenpah Godspeed, and in expressing the hope that his career may be characterized by success in fullest degree.

NG McAdoo Dinner

5/17/17

HON. W. P. G. HARDING, of the Federal Reserve Board, has accepted our invitation to dine. The honor which he thus pays us and the obligations which his coming here impose upon us are both significant. The labors in which he is engaged I know from knowledge and observation to be a great drain on his time, his abilities and his strength. No one knows better than the speaker with what signal ability and unselfishness he has risen to every call and to every emergency.

When Lord Cunliffe, of the Bank of England, was here last week I made some comments to the effect that the Federal Reserve Act was the foundation of all physical preparedness of the Nation in the present hour of peril; and as many of tonight's guests were present at last week's meeting I shall not cover that ground a second time, except to say that great as the new banking machinery is, it would be of little avail without brains in its administration.

There are men in this room who know more of Governor Harding personally than the speaker, but I feel safe in claiming to be inferior to no man in appreciation of the work he has done and is now performing for the Government and the people of the United States as the head of the Federal Reserve Board. Without further words, I hasten to present MR. HARDING.

WILLIAM G. McADOO

In the early history of the United States, it was openly charged that votes were influenced in Congress by the holding of certificates of indebtedness made valuable by the funding bill of Hamilton. The Government was loaded down with a foreign and domestic debt of seventy millions of dollars. Moreover, it was staggering under the load with no lamp to light its path. France, Holland and Spain were our foreign creditors but the bulk of the sum, according to history recorded by Washington Irving, was owed to officers and soldiers of the Revolution who had risked their lives in the cause, farmers who had furnished supplies for the service, and to private capitalists.

You will remember how our forefathers, having no money, issued certificates to these various interests, and you will recall how these interests despairing of payment exchanged them for trade or sold their certificates to speculators who ultimately, when the Federal Government assumed all debts, cashed in at face value of the obligation. Every patriot will also remember that it was the then Secretary of the Treasury who successfully directed the campaign in favor of supporting and upholding public credit and National honor. This man was the real maker of the Government of the United States. More than any other one man he wrote its Constitution and his influence more than any other influence secured its adoption. In short and in rougher English, he bulled it through. He successfully financed a bundle of states which was a nation only in name. His load was second only to that of Washington. Through him the Government assumed the debt of the war for American independence and defeated the principle of repudiation. Yet, the whole debt, principal and all arrears of interest was only seventy millions of dollars. The present Secretary of the Treasury is engaged in an effort to fund prospective national requirements of the next year or two or three in a sum more than one hundred times the whole war debt of the American Revolution. No Secretary since Alexander Hamilton has had so great a task to perform. Nevertheless, with his talent for management the enterprise is started and on the way. I have associated the names of the immortal Hamilton and the present brilliant Secretary of the Treasury because their problems, while differing in kind, nevertheless, coincide in difficulty and because a tremendous crisis confronted both men.

The appearance of Mr. McAdoo in Chicago at a public function is always a notable event. At the present hour it is more than this. It is necessary, and vital in the interests of the nation. I am convinced that this section of the country upon receipt of full and more definite detail from the Secretary as to his plans and wishes will adequately rise to the emergency and will fully meet the Administration's exigencies.

I am happy and honored to present our friend and leader, the Honorable WILLIAM G. McADOO, Secretary of the Treasury of the United States.

CONCLUSION

No one can doubt that the response by the American people to the powerful and eloquent appeal of tonight for financial support will be generous, unselfish and complete. We cordially thank our guests and we highly appreciate the privilege and the distinction which their presence has afforded us.

7-41 -I-

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5/15 May 17/17

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Rev. Charles Summer Pier

Welcome. On behalf of Federal Reserve Bank of Chicago - - - -

Seventh Federal Reserve District comprises - - - -

In each successive Liberty Loan drive the District has achieved a degree - - - -

As we approach the 5th and final public offering there are difficulties - - - -

It is impossible to overestimate the necessity and importance of securing widest possible distribution and you can render great assistance - - - -

The generous response to the call for this meeting is stimulating -

With such assurance - - - -

Ben F. McCutcheon - - - - -

LEWIS B. FRANKLIN

Director of National War Loan Organization

Outline of Government's Finance Program

Victory Liberty Loan.

Immediately upon assuming his duties as Secretary of the Treasury, Mr. Glass, realizing the necessity and importance of keeping intact the efficient machine which has to date successfully performed in the matter of floating the various Government war loans, proceeded with a determination not only to hold the present organization intact but to strengthen it, if possible.

Mr. Lewis B. Franklin, Director of National War Loan Organization is here today for the express purpose of conferring with the Liberty Loan Organization of the Seventh Federal Reserve District. He is one of those who responded promptly to the call of the Government for assistance and left his position as Vice-President of the Guaranty Trust Company of New York to assume the great responsibilities of the office he now holds. Beyond this I am very glad to say he is one of those who has expressed determination to stand by the Treasury Department until the great job is finished. At this point I wish to make acknowledgment to Mr. Franklin of the splendid and liberal treatment which he has accorded to our Loan Organization in connection with the many questions which naturally arise from time to time. Those present today are representatives of our organization from all sections throughout the district, and I am confident that the generous response to our invitation must be satisfactory and stimulating to Mr. Franklin, and may be accepted as an indication that our organization stands ready to perform.

It is my understanding that we are to have a frank statement of the Government's financial program insofar as possible, and I have great pleasure in introducing

MR. LEWIS B. FRANKLIN

#1

23 Ems wide

Set in 10 pt Bodoni Cheltenham wide Goudy

S E R V I C E.

by 6pt caps

James B. McDougal, 8 caps

Governor, Federal Reserve Bank of Chicago. 8 caps lc

--ooo--

36pt

Three of the most overworked expressions in the English language are "camouflage", "co-ordination" and "co-operative contact". They are unusually useful words and instantly arrest the attention, Yet the war placed heavy burdens on them and they are not now always used with precision and propriety.

Another striking word is SERVICE. I sometimes get tired of hearing it; nevertheless it is one of my hobbies. It is one of the best words we have. It is at the bottom of business success and personal happiness. Men and women must truly serve those whom they appear to lead.

Two of the greatest sentences ever written are these: "I come not to be ministered unto, but to minister", and "He that would be chief among you, let him first be thy servant." What is the meaning, but service for others?

10 on 12

The thought embodies the fullest understanding of the principle of unselfish public service and the value of its practice. What an everlasting glory to have been in the service of the Army or the Navy during the past few years!

Every time I meet a soldier or a sailor on the street I feel like lifting my hat in respect, - not in fact, but figuratively and in my heart, I do. Now I do the same thing to the young men and women who rendered service to their country equally patriotic and equally indispensable, ~~by~~ in standing by their jobs in this Bank in connection with the activities of the war.

W

Politeness has been likened to an air-cushion. There may be nothing in it, but it surely reduces the jars and jolts.

Courtesy is the right bower, or handmaiden of service. I have lived to know that no one is really useful, or successful, or happy in material affairs, unless he is courteous at heart, and at bottom a servant wherever and whenever service is possible. One must also be hard-muscled, to borrow a phrase, and also acquire enthusiasm - that enthusiasm of spirit which moves stones, charms brutes, and inspires men.

The greatest business in the world is the United States Government. And there is probably no business where scientific methods are more difficult to interject and maintain than in the various phases of governmental activities, and yet in these, as well as in all other matters, we find the most highly perfected results only where high-grade service is rendered as an indispensable duty.

Service affords opportunity for advancement, and is in my opinion the most, if not the only, indispensable vehicle of lasting human happiness and solid achievement.

Last year, in Washington, before the signing of the armistice, living conditions had become so intolerable in that city as to work injury to the army of men, women and girl workers living down there in an earnest effort to help their country's cause. In one of the many war activities conducted by civilian volunteers, ~~75 or 100~~ seventy-five or one hundred stenographers were employed. They came from Illinois, Kansas, Massachusetts and other parts of the country, and in the hearts of all these girls was the desire to serve their country. A certain war worker, in conversation with one of these young women, received from her an inspiration out of which, with the assistance of ex-President Taft, initial steps were taken to reform living conditions throughout the city for all classes of war workers, including officers of the Army and Navy as well as civilians. The patient sacrifices of these stenographers thus precipitated a movement for the reformation of living conditions which would have been far-reaching, thorough, and helpful, affecting even our fighting forces on the western front in France;

but the armistice was just then signed, and the matter was dropped as less pressing and less necessary, because the demobilization of Washington's working forces was almost instantly in the air and very soon under way. Doing something for somebody else, and doing it well and cheerfully, was at the bottom of this important step.

The organization, in this Bank, of the Federal Reserve Club a few weeks ago, was auspicious, not only for the well-being of our workers but for the Bank itself.

The objects of the Club are: to acquire and disseminate the principles of banking as laid down in the Federal Reserve Act; to promote physical health; and to secure to its members the benefits of general study and co-operation in the furtherance of their legitimate pursuits and activities. These aims are bound to bear fruit of the best sort.

One word as to the Federal Reserve Act itself: the English statesman, Gladstone, declared the Constitution of the United States to be the most wonderful instrument ever struck off by the brain of man in a given time. The Federal Reserve Act is the bulwark and safeguard of our banking resources, just as our Federal Constitution was framed to protect~~s~~ the rights, liberties and opportunities of the people of the Nation as a whole.

I have so many loyal supporters in this Bank as to despair of ever returning the multitudinous courtesies and kindnesses shown me on every side by the employes of the Bank, ~~and~~ including its officers. Unfortunately my nature is one of repression. It is not easy, in other words, to exhibit appreciation for favors of this kind. It is my strong desire, however, that everyone should know, so far as possible, what these things mean to me - how much they are valued, and to what extent they are a practical help in ~~fighting~~ solving our daily problems. End

S E R V I C E.

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

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Mcd

(2) Organization of Publicity Committee at Chicago (Sub. Committees)

- Distribution thro' Banks & Bankers
- " " Large Employers of Labor
- " " Investment Bankers (utilizing Large numbers of bond salesmen) (592
- Moving Pictures & Speakers

1
592

- Churches
- Press
- Posters
- Public Schools & Municipal Employes
- Dept Stores & Merchants
- Secret Societies & Lodges
- Advertising
- Insurance Companies
- Chicago Assn of Commerce (78 Sub Committees reaching every business and profession in the city)
- Foreign Language Newspapers
- Public Utilities

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Secty of the Treasy

Fed Res Banks as Fiscal Agents of the U.S.

Fed. Res. Bank of Chicago

Liberty Loan Com. 7th Dist. Gen. Exec. Coms

Publicity Com. (SEE (2) for sub. Coms.)

A.B.A. Com. for 7th District member for each State — Special work, Interesting the Farmers

Local Liberty Loan Coms.
186 Chairmen appointed to 5/24
cities of 5000 or more
(as an example of local organizations Grand Rapids, Mich. has 20 Coms. at work)

Sav. withdrawal

Tax exempt.

Large amts.

Paymt - 2 %

18 % - June 28

20 % July 30.

30 %. Aug 15

30 % " 30.

2367

"EXCHANGE OF CHECKS AT PAR"

ADDRESS BEFORE THE

CHAMBER OF COMMERCE

OF THE

UNITED STATES

Seventh Annual Meeting in St. Louis

April 30th, 1919

By WALLACE D. SIMMONS
President, Simmons Hardware Company

"EXCHANGE OF CHECKS
AT PAR"

EXCHANGE OF CHECKS AT PAR.

During the last few days the officers of the Chamber have asked me to present at this meeting the subject of collecting checks at par. It would of course be much easier to cover it if I had two or three hours at my disposal instead of a few minutes, but I will endeavor to give you what seem to me to be the essentials of the question in as condensed a shape as possible.

I find, in the study of most of these banking and currency problems, that if we get away from the use of the technical terms and expressions which mean more to the professors or to the experts than they do to the average business man, and if we get right down to the A, B, Cs of any of these propositions, we do not find them complicated or difficult to understand. I ask you, therefore, to permit me to endeavor to make the real problem before us a simple one, by going back to first principles and refreshing our memories with reference to the primitive transactions out of which we have developed our present methods of business, including those of commercial banking.

We must remember that our commerce of today is simply a refinement or development of the barter of yesterday, that our modern devices of money and credit and banks, are what the textbooks define as, "instrumentalities to facilitate exchange," which in more simple language means that they are tools to make it easy to trade.

Therefore, whatever a bank does in the performance of this function, it must do to benefit and facilitate the bringing about of exchanges between individuals or communities. Its usefulness is in proportion as it does so, and correspondingly, it is worse than useless in proportion as it places handicaps or unnecessary burdens upon the operations of commerce.

Let us see, therefore, wherein the bank may render real service and justify itself, and wherein it may do otherwise.

In primitive times, in barter between two communities, the articles which were traded for each other had to be carried to one place where the swap was made. "Fair days," that is, assemblies of people who wished to make exchanges, were arranged to eliminate some of the difficulties. Later on money was invented and taken in exchange for anything, and then that money was exchanged for something else of equal value.

Within the memories of many men still active in business, the goods from one section of this country were paid for with gold and silver money carried to some other section for that purpose; then, if that community wanted goods from the community from which the money came—back it went, and other goods were returned in exchange.

Of course, under the system of barter between two communities the total value of the goods given equalled the total value of those received in exchange. That is what value means. The value of anything is what you can get for it. That is what it is worth, and the introduction of money as a measure of that value does not change a thing's value.

So the amount of money which measures the value of what goes out of a community is equal to the value of that which comes back in exchange.

Our present use of the term, "exchange on New York," of course harks back to the time when all settlements were made that way. The cost of exchange was really the cost of transferring the money from one place to another; not only the cost of transportation, but also of insurance, which was large in proportion as the hazards on the journey were great.

Let us take a simple case. Until comparatively recent times, the farmer out in Missouri who quoted to the grain dealer in St. Louis, one hundred bushels of wheat at a dollar a bushel f. o. b. his home town, shipped his grain and received in return one hundred silver dollars. If it cost the St. Louis grain dealer, say, one per cent to get the money there in safety, the wheat cost the dealer one dollar and one cent a bushel at the point of shipment. And when that farmer wanted to buy anything of like value in St. Louis, he had to spend one of his dollars to send the other ninety-nine back where they came from. He could get only ninety-nine dollars worth of goods in St. Louis for his wheat, instead of one hundred and one dollars worth which he could have gotten by accepting payment where his grain was bought and where he expected to get other things in exchange for it.

The result was that he had paid two dollars to give this money a round trip, and while it may have been only a fair charge for the actual service involved, the needless expense of that sort of performance became apparent. So they devised paper money which, of course, cost less to transport, but the risk of loss from fire, storm, theft, etc., was still there.

Then men said, "Why should we send out and back again, money of any kind?" "Why not let the money stay in some safe place and send checks which are good only to the persons for whom they are intended?" "This would avoid the expense of having to insure these checks in transit, and the people who receive them in payment for their grain or other products, can endorse them to others from whom they wish to obtain something in trade for those products, the cost of such a plan being only a postage stamp each way."

This plan was still further simplified by passing these checks through banks, which would in turn mail many of them in one envelope, thus reducing the cost of sending them back and forth.

The bank's service was still practically that of transferring the money to the point where it was due and payable. The service was rendered by the paying bank and rendered to its customer whose obligation it was to place that exact amount in the hands of his creditor at a distant point. The service was to the party making the payment, not to the one receiving it, and therefore any charge for such service should be paid by him to whom the service was rendered, viz., the buyer who orders his banker to make the payment for him.

To express it another way, it is the obligation of the debtor to place in the hands of his creditor, and at the place where his debt is payable, the full value of the debt in money or its equivalent. Any tender which involves the creditor in an expense in actually getting the money or its equivalent, is not payment in full, it is rather an attempt to force creditors to take less than one hundred cents on the dollar.

Barter or trade practically begins with the producer of new wealth whose surplus products, beyond the needs for his own consumption, he wishes to exchange for the products of other sections or for manufactured goods.

Business starts by either offering for sale at the point of their production, or by shipping to some central market, the new wealth of a producing community, and therefore the money given in exchange for these products must originate in the markets to which they are shipped.

This means that the first movement of money is toward those districts which produce the new wealth, and if the money is due and payable in the district where this new wealth is produced, then the cost incident to placing it there must be paid by the party buying those products—that is, the party in the central market—and the services of the bank in the central market are rendered to its customer and should be paid by him.

The first trip which the money takes is from the central market to that which produces the new wealth, and whatever it costs to send the money from the central market to the outlying district is paid by the party in the central district who is the buyer. This sending of the money at the expense of the buyer, half completes the exchange of the new wealth for other things which are desired by the people of the community where that new wealth has been produced. The money is their evidence of their having delivered something of that value and of their being entitled to receive in return whatever they desire of equal value.

When this half of the exchange is completed and the money is delivered at the point where the new wealth originated, and when that community wishes to obtain the products of some other community and give this money in exchange for them, it is then the province of the local banks to render to their customers the service of transferring the money back again to that community. The services thus rendered by the local banker are rendered to his customer, and whatever is charged for them must be charged to his customer and not to anybody else.

This appears to be so simple and self-evident that it would hardly be worthy of mention, but for the disregard of the principle and the intentional undermining of it which has obtained in some parts of this country, developing a situation which has merited and received the attention of our Government officials and definite regulation by our Federal Reserve Board.

The course of events which we have hastily reviewed, naturally led a good many merchants in the smaller places to open bank accounts in the larger cities which were their natural markets and to which they were constantly having to send remittances which were due and payable in those markets. These country merchants frequently took from their farmer customers produce to be marketed and applied the proceeds to accounts owing to them by the farmers. These products were sold in an adjoining city and the merchant usually received in payment for them a check drawn on some bank in that city.

He then forwarded that check to his own banker in that city, and had the amount of it credited to his account. This being promptly done, he was in a position to draw his own checks upon that account and use them in payment for his debts which were due and payable at that point. The only cost of this to him was for the stationery and postage and the little time involved in sending these checks to the city in question.

A few years ago the local banker began to approach these country merchants with this kind of a proposition: "Keep your account here at your home bank, deposit your checks, drawn on the metropolis, with me. I will place the amount of them to your credit without charging you for collecting them. Then you can draw your checks on my bank and send them to your creditors in payment of your bills instead of paying those bills with checks on the bank in the metropolis."

This, of course, was all right so far as outlined, but when one of these checks was received by the city creditor of the country merchant, and when the country banker on whom it was drawn received it from the metropolitan banker, he proceeded to deduct a charge for what he called "collecting the check," and remitted that amount less than the check called for.

The charge was, of course, not a collection charge, it was a payment charge, because the check was on order by his depositor to pay the amount named, out of that depositor's funds which were in the keeping of his local banker. The check was therefore a demand obligation on that banker, and he was in duty bound to pay it on demand and in full.

If a man should owe you $10.00 due May 1, and if on that day you should send a messenger to his office with the request that he pay that messenger the $10.00 which he owed you, you would probably not take kindly to the suggestion that he should retain a certain part of that $10.00 as a charge against you for collecting from himself what he owed you. But that is practically the position which the country banker took when he proposed practically the same thing camouflaged by the word "collection," or "exchange."

When he attempted to make a charge for doing what he was obliged to do he was not only attempting to make a charge for a service which he was not rendering, he was not only attempting to liquidate his demand obligation at less than one hundred cents on the dollar, but he was endeavoring to make the people of another community pay for the service he was rendering to the people of his own community. He was endeavoring to levy toll upon business done with his depositors.

These bankers coached their depositors to reply to objections to such highhanded proceedings, by making the acceptance of and compliance with them a condition of continued patronage. They said to their depositors, "You tell the people you buy goods from, that if they won't accept your check on this bank and pay the current rate of exchange, you will buy goods from someone else who will."

Of course the current rate of exchange was whatever the banker proposed to levy as tribute for the service he was rendering to his depositors, not to their creditors. It was pure brigandage, but he depended upon the fact that it was only a few cents in any one instance and that nobody would drive away a good customer for so small an amount.

This abuse went so far that in some cases banks were purposely established in out of the way places and checks drawn upon them in order that there might be considerable delay in getting returns on them during which delay of course the creditors were deprived of the use of the money which was due and rightfully belonged to them. Then, when at the end of this delay a remittance had to be made, it was in the form of a check drawn upon some other bank, generally a bank owned by the same coterie. This was an excuse for a second delay and a second so-called collection charge or exchange charge, and then this second bank would probably send a check or draft upon its correspondents in some metropolitan city.

When the Federal Reserve System provided for handling this function along equitable lines, the schemers who had been holding up the commerce of their sections and making it pay toll to them, very much as did the road agents of old, objected strenuously to the Government's plan. They tried, and are still trying in every way they can, with the most plausible sounding arguments and representations, to block the progress of the modern and equitable method which the Federal Reserve Board is putting into effect.

When all other arguments fail and they have to acknowledge that they are endeavoring to continue something that is not right, they fall back upon the statement that those charges have constituted a large percentage of the net revenue of their banks and that without them they could not live, because the people of their communities will not pay what it is right and proper that they should pay for the services rendered to them by the local bank.

The trouble is that these local bankers have educated their own people to believe that they should be privileged characters, that they should get something for nothing, or something at the expense of somebody else, that they should enjoy the services of a local bank and somebody away from that community should pay the bill. And the now practically say that as the result of that education the only way for them to continue in business is by continuing to levy this tribute on others at a distance and they propose to go on and do that just so long as they can make other people stand for it.

They object to the plan of the Federal Reserve Board of having checks handled throughout the Federal Reserve System, at par, because it will put a stop to their custom of having their depositors evade paying their share of the general cost of our great and economic banking and currency system, the benefits of which they expect to share at the expense of the rest of the people of the country.

Of course, the idea that these bankers give their depositors, which is that by this scheme these charges are shifted on to others and not paid for by the people of their own community, is a fallacy similar to the old idea in connection with the tariff, that the "foreigner pays the tax." You can readily see that the firms who have to pay these charges must in turn charge them on their books into the cost of doing business, and their cost of doing business must be covered in their selling prices; which means that this expense must go back in the shape of a charge for their goods and must be paid for in that shape by the depositors of the local banks in question and ultimately by the people of their community. The chief objection to having those people pay in this way, for the cost of operating their own banks, is that by reason of the many hands through which these charges must be passed to get back to the people, by reason of their being passed through the local bank, and the postoffice organization, and the railroads, and the Federal Reserve banks, and the city banks, and so on back again, the cost to the people must be higher than it would be if they paid a reasonable charge for that service in the usual way and paid it direct. That would save the expense of all this unnecessary detail work and the labor of the many people who are engaged in it all along the line.

However, the Federal Reserve Banks are making steady progress toward the universal adoption of the Par Collection plan which goes back to the old principle of barter by which the products of one community are exchanged for the products of another. The money or banks or other instrumentalities used to facilitate that exchange, are only incidents to it and do not in any way affect the fundamental principle that the value of what goes out equals the value of what comes back. If, therefore, there is any service on the part of the banks of one community rendered to the banks of another community for which it might be considered proper that they should make a charge, there will always be a corresponding return service for which a like charge should be made, and one will cancel the other. By the par collection plan all of the work of keeping tab on these individual items and making all the different charges back and forth with the entries and bookkeeping and stationery and postage involved, is all done away with, and properly so, because in the end it all balances.

Therefore, in principle the par collection plan is not only equitable but absolutely sound, in that it follows the modern practice of eliminating unnecessary labor. Ultimately whatever may be the cost to the country as a whole, of maintaining a system of banks to facilitate exchange, the cost is and should be paid by those who enjoy the benefits of the service through their own banks and in proportion as they use it.

The objections to par collection come from those who try to so manipulate and juggle the situation as to get more than their share of the advantages and throw the cost of them upon somebody else.

The Par Collection System has already been so thoroughly established by the Federal Reserve Board that the great bulk of settlements throughout the country are handled through it. The system will be universally established just as rapidly as it can be made clear to all bankers throughout the country, first, that the plan is equitable, and second, that the time has passed when the people of this country will allow anybody, to so abuse his position, in connection with a public service of this kind, as to take a toll disproportionate to the service rendered and take it from others than those to whom the service is rendered. He must give good service and be compensated fairly for that service by those to whom it is rendered.

I had a gentleman who lives in a large city and keeps accounts with two very large banks there, say to me the other day: "Our banks collect a large percentage of the checks sent by my customers, without any collection charge or exchange, but they make charges on some, and tell me that they charge me only what the local banks charge them. Why is it that some of these local banks impose these charges through my banker and others do not? Is there anything in the situation that makes it right for some of them to do that and not right for others to do it?"

I explained to him that I thought he would find that it was one of the cases where a large city bank, with a lot of desirable connections with country banks whose accounts are quite valuable, is disposed to follow the line of least resistance, in its attitude toward this scheme of the local banks to levy tribute upon the city banker's depositors.

"Well," said he, "if that is my banker's attitude toward the value of my account; if he thinks so much of the accounts of the small country bankers that he makes no objection to their working this graft on me; if he makes no effort to stop it, which he ought to do if he values my account as he pretends to; if his acceptance of that sort of thing at my expense, is one of the ways he uses of getting and holding country bank accounts; then I think it is about time for me to shift my account to some bank that will show its appreciation of my account of protecting my interests whenever I have occasion to have him act as my agent."

"But," he said, "let me ask you one more question. Suppose this city bank, which is acting as my agent, should decline to stand for the local banker's charge for paying his own check, and suppose the local banker then should say that under those circumstances he would make remittances in money, could he not charge for the cost of transporting the money and insuring its safe delivery, etc.? In other words, could he not charge for exchange, under those circumstances?"

I answered by explaining to him that the Federal Reserve Banks had that kind of bluff made on them by the country bankers and had called the bluff by agreeing at all times to pay express charges on any money which these bankers sent in payment of checks drawn upon them.

Local banks cannot afford to send money out of their communities in that way because in a very short time their supplies of money, necessary for their own local uses, would be exhausted and they would have to send for more and pay the express charges themselves. Whenever they have only the alternative of sending away the money without expense to them, or of paying drafts or checks upon them, by giving in return, checks on the balances which they carry in par points, they elect to do that as the more desirable, because all they are doing then is drawing upon exchange which has been placed to their credit without cost to them.

Then again, when they remit with a check on a par point, it takes at least a day or so to get around and be charged to them. Meanwhile they are getting interest on those amounts as balances still standing to their credit.

Since money and credit and commercial banks are all established to serve and facilitate commerce, they must justify themselves by conformity to whatever will help the public to complete its commercial transactions with the greatest promptness and the least expense. Any group of men who seek the patronage of the public but who abuse it by setting up their own personal interests as coming first and as being opposed to the general good, should be required to promptly change their tactics or find their patronage shifting to others. Our manufacturers, merchants, and farmers, should require conformity to those methods which leave the largest net results by reducing, as far as possible, the operating cost incident to making exchanges between the different sections of the country.

Anyone who has shipped any product and is entitled to a certain amount in payment, at a certain point, should say to the debtor: "You may send money, or you may send a check, or any other instrument which is worth the same as the money, but since anything is worth only what we can get for it, you must send some instrument from which we can get the amount due—not a less amount. When you send us a check we will credit your account with only what it is worth. Certainly you cannot fairly ask us to credit you with more than it is worth.

"Any banker can now arrange to make your checks worth one hundred cents on the dollar anywhere.

"You cannot afford to put your name on any check that is worth less than its face value.

"If your checks, drawn on your account at your bank, are not worth what your signature indicates, you should transfer your account to a bank which will make your checks worth one hundred cents on the dollar and strengthen your credit and the value of your signature accordingly.

"If you prefer to continue to keep your account with a bank which will not honor your checks for the full amount of your deposits—a bank which will not pay out on your order the full amount you have paid in—if you think you can afford to keep your account with such a bank, then the least you can do is to write your checks in such amounts that what your creditors will get for them will be the amounts you owe—and no less."

To whatever extent these principles are being disregarded, the farmers, merchants, and manufacturers of the country, and in the end, the people, are being made to pay to these bankers a tribute for which no corresponding service is given.

Par collection will be universal, and the Federal Reserve Banks will no longer be hampered by those who now oppose it, when the business men and the public generally, understand what it really means to them.

It will mean that any good check you receive will be worth one hundred cents on the dollar and that whatever it costs to make them so will be a matter to be settled between the persons signing them and the bankers on whom they are drawn.

It will mean the elimination of a lot of unnecessary steps and the expense of them, with the corresponding reduction of the cost of everything upon which the unnecessary tribute has been paid.

The business men of the United States have been overly good-natured, patient, and long-suffering in this connection, and it is time that one and all should insist upon universal conformity to the methods established by the Federal Reserve Board.

Speeches - Mr. McH -

Lewis B. FRANKLIN

Director of National War Loan Organization

Jan - 29 - 1919
Luncheon Congress Hotel

Outline of Government's Finance Program

Victory Liberty Loan.

Immediately upon assuming his duties as Secretary of the Treasury, Mr. Glass, realizing the necessity and importance of keeping intact the efficient machine which has to date successfully performed in the matter of floating the various Government war loans, proceeded with a determination not only to hold the present organization intact but to strengthen it, if possible.

Mr. Lewis B. Franklin, Director of National War Loan Organization, is here today for the express purpose of conferring with the Liberty Loan Organization of the Seventh Federal Reserve District. He is one of those who responded promptly to the call of the Government for assistance and left his position as Vice-President of the Guaranty Trust Company of New York to assume the great responsibilities of the office he now holds. Beyond this I am very glad to say he is one of those who has expressed determination to stand by the Treasury Department until the great job is finished. At this point I wish to make acknowledgment to Mr. Franklin of the splendid and liberal treatment which he has accorded to our Loan Organization in connection with the many questions which naturally arise from time to time. Those present today are representatives of our organization from all sections throughout the district, and I am confident that the generous response to our invitation must be satisfactory and stimulating to Mr. Franklin, and may be accepted as an indication that our organization stands ready to perform.

It is my understanding that we are to have a frank statement of the Government's financial program insofar as possible, and I have great pleasure in introducing

MR. LEWIS B. FRANKLIN

5/25/17
Group 4 - Iowa Bkrs Assn
New Hampton Ia

I consider it a privilege and an honor to have been invited to spend this day with the members of Group Four of the Iowa Bankers Association. In accepting your Secretary's invitation I told him I ~~would~~ should be delighted to come and discuss informally any points pertaining to the operation of the Federal Reserve Bank.

The Federal Reserve Banking System has now been in operation for two years and a half. You are all informed, at least in a general way, as to the character of the internal organization, ~~and~~ therefore I do not intend to go into this particular phase excepting to say a word in recognition of the splendid services rendered to the Federal Reserve Bank by the three Iowa members of its Board of Directors. Mr. Johnson, Mr. Meredith and Mr. Hutchison, all from your state, are highly representative of the best there is in banking, agricultural and commercial pursuits, just such men as the framers of the Federal Reserve Act intended should officiate. These men have given liberally of their time and their energy, and the Chicago Bank considers itself most fortunate in having the benefit of of their counsel and loyal co-operation in its efforts to secure every possible benefit intended under the Act on behalf of our member banks, and through this medium on behalf of the public at large.

The time has passed when any one can question the success of the Federal Reserve Banking System. While I shall be pleased to answer questions in so far as I am able to do so, I have thought it would be an opportune moment to say something concerning some of the points that appear to be uppermost in the minds of the banking public.

ALLOWING INTEREST ON RESERVE BALANCES

One of the objections to the Federal Reserve System which from the beginning has frequently been cited by member banks, also State banks and Trust Companies contemplating membership, lies in the fact that no interest is paid by the Federal Reserve Banks on the reserve balances. It has been most gratifying, however, to observe that such banks when presented with the underlying facts have, as a rule, admitted that payment of interest by the Reserve Banks on reserve balances would be unscientific and unsound. In substantiation of this, we have but to revert to the financial disturbance of 1907. At that time banks throughout the country maintaining so-called reserve balances with their correspondents in reserve and central reserve cities, were receiving interest thereon at rates varying from 2 to 3% in accordance with the city in which their deposits rested. Most of you during this period were brought face to face with the fact that what you believed to be dependable reserves were not available when needed - this for the simple reason that the contract under which the large banks were paying interest made it absolutely necessary that these banks in turn invest their funds; therefore, when in 1907 and again in 1914 the demands upon the reserve city banks became general, in other words banks from all parts of the country were calling for help, the reserves at the centers were gradually depleted to a point approaching exhaustion; whereupon, owing to the fact that the surplus reserves were invested, and moreover, to the fact that their good bills receivable and other assets could not be realized upon short of London or other foreign centers, suspension of money payments followed.

Is not this in itself convincing that the reserves deposited in the Federal Reserve Banks should be maintained as actual reserves, which would be impossible if the Federal Reserve Banks were permitted and undertook to pay interest on the balances?

As indicating the situation which would confront the Federal Reserve Bank of Chicago under a program of allowing 2 per cent interest on deposits, I have made some calculations, based on the statement of condition as of April 27th, 1917:

On that date the bank's capital was in round figures $7,000,000. on which the cumulative dividend is $420,000. per annum. The operating expenses for the year 1916 were in excess of $230,000. The member banks' reserves were $97,000,000. and government deposits $8,000,000. the total deposits being $105,000,000. on which interest at 2% per annum amounts to $2,100,000. The minimum requirement for earnings therefore, including the payment of 2% interest on deposits would be $2,750,000. per annum.

If we assume that the capital and deposits aggregating $112,000,000. were all in the shape of cash, and then set aside the legal reserve of 35% on deposits amounting to $36,750,000 there would remain for investment a maximum of $75,250,000. without making provision for maintaining balances for exchange purposes in New York or elsewhere. In order that the assets of the Federal Reserve Bank may be kept liquid, the law wisely restricts its investments, and the investment yield is necessarily low. Suppose, for the sake of argument, we assume that the $75,250,000. could be invested at 3%. The yield would be $2,257,500. or approximately $500,000. less than the requirement for earnings previously stated. It is therefore apparent that in order to pay interest on deposits the law would have to be amended to permit the Federal Reserve Banks greater latitude in the selection of investments, at the expense of safety and maintenance of the assets in a liquid condition. Furthermore, a forced increase in the volume of investments would result in competition with member banks, a thing which has been studiously avoided from the outset.

Great pressure has been brought to bear on the Bank of England time and again to pay interest on deposits, but the Governors of the bank successfully resisted such pressure, though much courage and breadth of viewpoint was at times required. They have consistently adhered to the principle that so long as the Bank of England held the reserves of the joint stock banks it could not afford to invest so large a proportion of its assets nor at such rates of interest as would enable it to pay interest on deposits. The Management of the Bank of England has not allowed the temptation to make large profits for its stock holders to influence its judgment as to the policy which would best preserve the liquid condition of its assets. Without adherence to the policy of "no interest on deposits" by the Bank of England, it is inconceivable that London could throughout so many generations have retained its commanding position as the financial center of the world.

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CURRENCY ISSUING POWER OF THE FEDERAL RESERVE SYSTEM

Considerable interest has been manifested in the extent to which the Federal Reserve Banks could supply demands for currency in an emergency. The Division of Reports and Statistics of the Federal Reserve Board prepared figures for the Federal Reserve Banks based on the condition of the banks as at the close of business March 23, 1917. On that date the total reserve held by the 12 banks was $573,201,000. The required reserves for 35% against deposits and 40% against Federal Reserve Notes aggregated $252,532,000. Gold held by the banks in excess of their reserve requirements aggregated $320,669,000. In addition to the reserve held by the banks, the Federal Reserve Agents on the same date held $349,519,000. gold against outstanding Federal Reserve Notes.

Omitting the details of the calculation with which we need not concern ourselves at this time, it was shown that gold aggregating $540,556,000. was available as a basis for the issuance of additional Federal Reserve Notes. The system as a whole therefore had the gold basis to issue additional Federal Reserve Notes to the extent of $1,350,000,000. while maintaining reserves of 35% against net deposits and 40% against Federal Reserve Notes.

The Federal Reserve Bank of Chicago on the same date had the gold basis for issuing $136,000,000. of Federal Reserve

Notes in addition to those outstanding, maintaining the reserve percentages just mentioned. Since that time, by the process of exchanging Federal Reserve Notes for gold, our basis of note issues has been increased. On April 20 the note issuing capacity of the Chicago Bank had been increased some $30,000,000. over the figures of March 23.

As a measure of preparedness to most extraordinary demands, arrangements are being perfected to keep available for immediate use a reserve stock of Federal Reserve Notes sufficient to meet demands whether ordinary or extraordinary.

If the Federal Reserve Notes issued by the entire system were increased by $1,350,000,000. every dollar's worth of notes would be secured by at least one hundred cents in commercial paper bearing the endorsement of member banks or prime bankers' acceptances, in addition to which a 40% reserve in gold would be held by the banks; moreover the notes are a first lien on all of the assets of the Federal Reserve

Banks, and finally, are direct obligations of the United States Government. Surely no one can question the safety of our Federal Reserve Notes.

<u>NOTE</u>:

Amount of Gold in United States 5/1/17 -	$3,121,887,443
Amt. in Fed. Res. Bks. 5/18/17 - $541,000,000.	
Amt. with Fed. Res. Agts. 448,000,000.	989,000,000

THE COLLECTION SYSTEM

In legislating to compel the transfer of reserve funds from commercial banks to the Federal Reserve Bank, the framers of the Federal Reserve Act had in mind the important functions performed by reserve city and central reserve city banks in the collection of checks and felt it necessary to provide for a similar service in establishing the Federal Reserve Banks, so that any member bank which desired to carry funds only in its own vaults and in its Federal Reserve Bank would have available, adequate and economical facilities for the collection of checks deposited by its customers. The law as it now stands provides that after November 16th, 1917, legal reserves will be restricted to balances actually maintained in the Federal Reserve Bank and cash in vault. There is pending in Congress an amendment to the Act which, if enacted into law, would readjust the reserve provisions so that there would be only one reserve requirement for each given bank, viz: that certain fixed percentages of the demand deposits and the time deposits be maintained in the

Federal Reserve Bank. The amendment, if passed in the near future, would considerably advance the date after which balances with reserve agents would no longer count as legal reserve.

Many member banks desire to continue relations of long standing with their city correspondents, while others desire to loan their funds as closely as maintenance of reserve requirements will permit, relying on the privilege of rediscounting with the Federal Reserve Bank to take care of extraordinary demands. The latter class particularly needs a comprehensive system of check collection through the Federal Reserve Banks.

In the effort to meet this need in accordance with the provisions of the Federal Reserve Act and under the authority of the Federal Reserve Board, the Federal Reserve Banks inaugurated a system of check collection last summer, under which checks on all of the more than 7,600 member banks, and a still larger number of state institutions, are now collectible through the system, practically at par. More than 16,000 banks out of a total of some

28,000 in the United States are now included in the Federal Reserve Bank par list. In the New England States, the State of New York and in the Pacific Coast States, all banks are included in the par list. In the Seventh Federal Reserve District, the Federal Reserve Bank of Chicago collects checks on its 1,044 member banks and nearly 1,900 non-member banks.

You will note the statement that these collections are made practically at par. There is a service charge made against the depositing bank on all items payable outside of Chicago of 1½¢ per item. No service charge is made on Chicago items. This service charge of 1½¢ per item is estimated to cover the actual cost of handling in the Federal Reserve Bank of Chicago. It includes postage, clerk hire, depreciation of machines, a portion of the rent, and other miscellaneous expenses properly chargeable to the operation of the Transit Department. It does not include a fee to collecting banks, and feeling that it is essential to treat all alike in the operation of the collection system, this bank has consistently declined to even furnish postage for return remittances in the few cases where requests for such postage have been made.

The non-member banks which have undertaken to remit at par for checks drawn on them have done so as a service rendered to their customers, the drawers of the checks, in order that the checks might be more acceptable in the hands of holders. Knowing that we make this charge of $1\frac{1}{2}$¢ per item against the depositing banks, many banks have offered to remit for checks on themselves at the same rate. They apparently do not take into consideration that our charge is made against the depositing bank for collecting out of town items, and that we make no charge for checks on the Federal Reserve Bank, or for that matter for checks on any bank in Chicago.

The rule requiring that member banks provide funds to cover at par checks received from or for account of their Federal Reserve Bank, does not prevent the member banks from charging its depositors for the service of collecting out of town items. The Federal Reserve Board has publicly stated that there is nothing in the law nor in its rulings to prevent a member bank making reasonable charges against its depositors for the service of collecting checks, and such charges may even include interest on the credit advanced where the depositor draws against the proceeds of checks before they can be collected. I know a great many country banks believe it is impossible for them to charge their depositors for collecting checks, and that to do so involves a considerable reversal of existing customs. On the other hand, such charges are made in the larger cities, and there can be no question as to the right of a bank to compensation for services rendered. Many of the country banks have followed the line of least resistance by charging for remitting for checks on themselves. In so doing, they have either directly or indirectly been charging each other instead of the real beneficiary of the service. If a country bank which remits for its own checks at par, sends to its city correspondents checks on a bank which charges for remitting, it must keep with its city correspondents a balance of sufficient size to justify the city correspondents in absorbing the expense involved. It therefore pays for the service in one form or another and should recover the expense from its own depositor.

As previously stated, more than half the banks in the United States are now included in the Federal Reserve Bank par list. Is it exactly fair that the minority should make charges for remitting for checks on themselves at the expense of the majority?

It is a recognized fact that a check on a bank is payable in cash at the bank's own counter. While the holder of a check cannot compel the drawee bank to pay the check in exchange on another city, he can compel payment in full in money at the bank's counter. It is usual for country banks to remit in payment of their checks, exchange on Chicago or some other financial center. Many banks hold the view that in making such remittances in exchange, they are rendering a service for which they should be paid.

I am going to ask you to look at the transaction from another angle. Let us suppose that some of the checks on a country bank came into the hands of the Federal Reserve Bank of Chicago for collection and that it appointed a local collecting agent to whom it forwarded all checks on the country bank, with instructions to collect actual cash.

How long do you suppose this process would be continued before the country bank would regard it as a privilege to remit in Chicago Exchange without deduction, for all checks on itself?

Now the Federal Reserve Bank of Chicago does not say to the country banker - "You may have the choice of remitting without deduction for all of your checks in Chicago Exchange or of paying for all of them to our authorized agent in money at your own counter" - but instead it says - "We shall appreciate your co-operation in the development of a universal check collection system by remitting in Chicago Exchange without deduction for checks on your bank, and if you find it desirable to pay for part of such checks in money, you may ship the money to us at our expense."

The privilege of sending his personal check to a distant point to pay for a purchase is a great convenience to the farmer, the professional man and the merchant. It eliminates the necessity of a trip to the bank to buy exchange and in addition furnishes him automatically a receipt for the payment made. If no one ever issued a check before the funds to meet the check were actually at his credit in the bank, the value of depositors' accounts would be greatly increased. The profit in the banking business has been curtailed by the practice of issuing a check to make a payment in anticipation of the receipt of funds which are expected to be available before the check is presented to the drawee bank. The accounts of depositors who practice such methods are usually unprofitable and I strongly urge your consideration of the custom prevailing in many cities of making charges of 50¢ or $1. per month against the accounts of depositors whose balances average less than a fixed minimum.

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MEMBERSHIP OF STATE BANKS

See special memorandum.

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It is highly gratifying to those upon whose shoulders the management of the Federal Reserve System rests, to notice increasing interest and satisfaction with the workings of the new banking system. Member banks should not forget that these banks are organized on lines substantially the same as their own banks - that is with a Board of Directors, the majority of which are elected by the stockholders, the officers of which in turn are elected by the Board of Directors. In other words, the management is dominated by its stockholders, who are the member banks.

In so far as the rediscounting operation is concerned we have now progressed to a point where there is no question in the minds of the majority of our shockholders as to their having an abundance of eligible paper, moreover we have succeeded in convincing member banks that the rediscounting procedure is a very simple one and that the resources of the Federal Reserve System are available to member banks at all times.

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<u>LIBERTY LOAN</u>

<u>See special memorandum.</u>

LIBERTY LOAN

As a matter of immediate and pressing importance the flotation of the Liberty Loan must be considered as occupying first place among the subjects touched upon in these remarks. No doubt you have all received copies of the official prospectus of the Loan issued by the Secretary of the Treasury, and the official application blanks There is little for me to add by way of information as to the Loan itself, and rather than trespass upon your patience by repeating facts with which you are familiar I would prefer to answer at the proper time such questions as may occur to you.

Before leaving Chicago last evening I received two telegrams from one of the cities of this district having a population of more than one hundred thousand, calling attention to the fact that Associated Press dispatches indicating that the initial two billion dollar offering would be over-subscribed, are acting as a damper on the efforts to obtain subscriptions. This seems particularly unfortunate. The initial offering is not over-subscribed, and furthermore the earnest efforts of each one of us will be necessary to accomplish the desired result. Two billion dollars is an enormous sum to raise at a single operation even in this day of large figures in the realm of finance, and none of us should gain the impression that it can be raised if we stand idly by and expect the ordinary investors to take the entire sum.

Comment has been received from your own state to the effect that we could not expect to sell a Government Bond bearing three and one-half percent interest in communities where four percent is paid by some of the banks. Frankly such comment has been received with surprise. Aside from all question of ones patriotic duty to support the Government in this undertaking, surely the obligation of the United States yielding three and one-half percent is a better investment than a credit at a bank yielding four percent. I cannot believe that comments of this nature represent the feeling of any large percentage of the citizens of Iowa.

Let me express the sincere hope that every one present will go home after this meeting impressed with his personal responsibility that each individual whom he meets from now until June Fifteenth becomes a purchaser of one or more Liberty Bonds.

In the words of our President - -

"The World must be made safe for Democracy."

"The right is more precious than peace, and we shall fight for the things which we have always carried nearest our hearts - for democracy, for the right of those who submit to authority to have a voice in their own governments, for the rights and liberties of small nations, for a universal dominion of right by such a concert of free peoples as shall bring peace and safety to all nations and make the world itself at last free."

"To such a task we can dedicate our lives and our fortunes, everything that we are and everything that we have."

Talk given at Riverside, Ill 5/28/17

THE LIBERTY LOAN OF 1917

On April sixth President Wilson signed the measure declaring the existence of a state of war between the United States of America and the Imperial Government of Germany. Five days later a war loan bill was introduced in Congress and on the twenty-fourth of the same month this bill, having passed both houses of Congress, was signed by the President and became a law. As the bill now stands the Administration at Washington is authorized to increase the National debt of the United States by issuing bonds up to the huge sum of seven billions of dollars. This amount is more than nine times the entire National debt of the United States as at the beginning of the current year. It is 14 times as large as the first war credit arranged by Great Britain. Of the proceeds of this great bond issue it is expressly provided that 3 billions is for use in extending credit to our foreign allies engaged with us in this was against Germany. The balance is intended to finance the requirements of the United States in providing food and clothing for our soldiers, munitions for the army, funds for building ships, and in general for all expenses incurred in carrying on the war. This great loan has properly been designated "The Liberty Loan of 1917." This loan, and more to follow, must be absorbed by the American people.

The Secretary of the Treasury has designated the 12 Federal Reserve Banks of the United States as Fiscal Agents of the Government for the purpose of handling the loan. It may be of some interest at this point to know how the Federal Reserve Bank of Chicago is proceeding.

(See cards)

DENOMINATIONS

In order that small investors may participate in this loan, as well as the larger ones, the bonds will be issued in denominations as low as \$50. Other denominations are \$100., \$500., \$1000., \$5000., \$10,000., \$50,000., and \$100,000.

The bonds will bear date of June 15, 1917; they are tax exempt, excepting inheritance and estate taxes. This bond is the only direct obligation of the United States Government now available to net 3½%. The importance of the tax exempt feature is worthy of particular consideration. The holder of all other forms of personal property or investment securities is liable for taxation. It is said that the combined taxes raised throughout the country average in excess of 2%, when taking into consideration all forms of taxation, under Federal, State and Local authorities. Consequently, this yield may be considered as equal to 5½% on taxable securities.

We are involved in a war which threatens the very foundation of our country, and there is no more effective way in which every man, woman and child can do his part than by purchasing a bond. As some one has aptly said, "Each dollar invested in this great loan is a blow for liberty."

Subscriptions will be received by any National Bank, State Bank, Investment Banker or Private Banker throughout the country. Moreover, arrangements are being perfected whereby the Post Offices, Express Companies, Department Stores and other agencies will handle the bonds. With a view to assisting those who are not in a position to pay cash even for a $50. bond, the banks throughout the country have arranged, and are ready to offer, easy terms under which the subscriber may pay a dollar a week or more, and receive his bond when payment has been completed. Furthermore, the Federal Reserve Bank of Chicago has given an order for the engraving of a large amount of $10. participation certificates. These certificates will be available th those who have $10. for investment, with the understanding that when they have paid for 5 of the certificates they may be exchanged for a $50. Government bond. Subscribers in larger amounts will be expected to pay,

2% on application
18% on June 28
20% on July 30
30% on Aug. 15
30% on Aug. 30

WHERE IS THIS MONEY TO COME FROM AND WHERE WILL IT GO?

Strange as it may seem to the average citizen, this tremendous financing operation will entail the use of very little actual cash or currency. The Transaction is primarily one of credits and by way of illustration we will assume that a resident of Riverside subscribes for a $100. bond. He goes to his bank and transfers this amount from his credit balance to the Government. This credit in turn is passed along by the Government in payment for its purchases from various industries. These industries use the credits to pay their employees and others, thus the circulation goes on through various channels. The effect of the entire operation will be to stimulate all forms of legitimate business activities. With this fast sum released for the Government's use, every dollar of which including that advanced to the Allies, is to be spent in America, it is generally believed that legitimate business will be more active in this country then ever before known.

The Liberty Loan offers an opportunity to purchase an investment without an equal. No form of security obtainable today is as safe as a United States bond, and as Secretary McAdoo has stated, the greatest immediate service the American people can render in this war for universal liberty throughout the world is to furnish the means for its vigorous prosecution.

O'Connor

Group 4, Iowa Bankers Assn

Framing

New Hampton Ia 5/25/17

I consider it a privilege and an honor to have been invited to spend this day with the members of Group Four of the Iowa Bankers Association. In accepting your Secretary's invitation I told him I should be delighted to come and discuss informally any points pertaining to the operation of the Federal Reserve Bank.

The Federal Reserve Banking System has now been in operation for two years and a half. You are all informed, at least in a general way, as to the character of the internal organization, ~~and~~ therefore I do not intend to go into this particular phase excepting to again say a word in recognition of the splendid services rendered to the Federal Reserve Bank by the three Iowa members of its Board of Directors. Mr. Johnson, Mr. Meredith and Mr. Hutchison, all from your state, are highly representative of the best there is in banking, agricultural and commercial pursuits, just such men as the framers of the Federal Reserve Act intended should officiate. These men have given liberally of their time and their energy, and the Chicago Bank considers itself most fortunate in having the benefit of their counsel and loyal co-operation in its efforts to secure every possible benefit intended under the Act on behalf of our member banks, and through this medium on behalf of the public at large.

The time has passed when any one can question the success of the Federal Reserve Banking System. While I shall be pleased to answer questions in so far as I am able to do so, I have thought it would be an opportune moment to say something concerning some of the points that appear to be uppermost in the minds of the banking public.

ALLOWING INTEREST ON RESERVE BALANCES

One of the objections to the Federal Reserve System which from the beginning has frequently been cited by member banks, also State banks and Trust Companies contemplating membership, lies in the fact that no interest is paid by the Federal Reserve Banks on the reserve balances. It has been most gratifying, however, to observe that such banks when presented with the underlying facts have, as a rule, admitted that payment of interest by the Reserve Banks on reserve balances would be unscientific and unsound. In substantiation of this, we have but to revert to the financial disturbance of 1907. At that time banks throughout the country maintaining so-called reserve balances with their correspondents in reserve and central reserve cities, were receiving interest thereon at rates varying from 2 to 3% in accordance with the city in which their deposits rested. Most of you during this period were brought face to face with the fact that what you believed to be dependable reserves were not available when needed - this for the simple reason that the contract under which the large banks were paying interest made it absolutely necessary that these banks in turn invest their funds; therefore, when in 1907 and again in 1914 the demands upon the reserve city banks became general, in other words banks from all parts of the country were calling for help, the reserves at the centers were gradually depleted to a point approaching exhaustion; whereupon, owing to the fact that the surplus reserves were invested, and moreover, to the fact that their good bills receivable and other assets could not be realized upon short of London or other foreign centers, suspension of money payments followed.

Is not this in itself convincing that the reserves deposited in the Federal Reserve Banks should be maintained as actual reserves, which would be impossible if the Federal Reserve Banks were permitted and undertook to pay interest on the balances?

As indicating the situation which would confront the Federal Reserve Bank of Chicago under a program of allowing 2 per cent interest on deposits, I have made some calculations, based on the statement of condition as of April 27th, 1917:

On that date the bank's capital was in round figures $7,000,000. on which the cumulative dividend is $420,000. per annum. The operating expenses for the year 1916 were in excess of $230,000. The member banks' reserves were $97,000,000. and government deposits $8,000,000. the total deposits being $105,000,000. on which interest at 2% per annum amounts to $2,100,000. The minimum requirement for earnings therefore, including the payment of 2% interest on deposits would be $2,750,000. per annum.

If we assume that the capital and deposits aggregating $112,000,000. were all in the shape of cash, and then set aside the legal reserve of 35% on deposits amounting to $36,750,000 there would remain for investment a maximum of $75,250,000, without making provision for maintaining balances for exchange purposes in New York or elsewhere. In order that the assets of the Federal Reserve Bank may be kept liquid, the law wisely restricts its investments, and the investment yield is necessarily low. Suppose, for the sake of argument, we assume that the $75,250,000. could be invested at 3%. The yield would be $2,257,500. or approximately $500,000 less than the requirements ~~for earnings~~ previously ~~stated.~~ It is therefore apparent that in order to pay interest on deposits the law would have to be amended to permit the Federal Reserve Banks greater latitude in the selection of investments, at the expense of safety and maintenance of the assets in a liquid condition. Furthermore, a forced increase in the volume of investments would result in competition with member banks, a thing which has been studiously avoided from the outset.

Great pressure has been brought to bear on the Bank of England time and again to pay interest on deposits, but the Governors of the bank have successfully resisted such pressure, though much courage ~~and breadth of viewpoint~~ was at times required. They have consistently adhered to the principle that so long as the Bank of England held the reserves of the joint stock banks it could not afford to invest so large a proportion of its assets ~~nor at such rates of interes~~t as would enable it to pay interest on deposits. The Management of the Bank of England has not allowed the temptation to make large profits for its stock holders, ~~to~~ influence its judgment as to the policy which would best preserve the liquid condition of its assets. Without adherence to the policy of "no interest on deposits" by the Bank of England, it is inconceivable that London could throughout so many generations have retained its commanding position as the financial center of the world.

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CURRENCY ISSUING POWER OF THE FEDERAL RESERVE SYSTEM

Much ~~Considerable~~ interest has been manifested in the extent to which the Federal Reserve Banks could supply demands for currency in an emergency. The Division of Reports and Statistics of the Federal Reserve Board prepared figures for the Federal Reserve Banks based on the condition of the banks as at the close of business March 23, 1917. On that date the total reserve held by the 12 banks was $573,201,000. The required reserves of 35% against deposits and 40% against Federal Reserve Notes aggregated $252,532,000. Gold held by the banks in excess of their reserve requirements aggregated $320,669,000. In addition to the reserve held by the banks, the Federal Reserve Agents on the same date held $349,519,000. gold against outstanding Federal Reserve Notes.

Omitting the details of the calculation with which we need not concern ourselves at this time, it was shown that gold aggregating $540,556,000. was available as a basis for the issuance of additional Federal Reserve Notes. The system as a whole therefore had the gold basis to issue additional Federal Reserve Notes to the extent of $1,350,000,000. while maintaining reserves of 35% against net deposits and 40% against Federal Reserve Notes.

The Federal Reserve Bank of Chicago on the same date had the gold basis for issuing $136,000,000. of Federal Reserve

Notes in addition to those outstanding, maintaining the reserve percentages just mentioned. Since that time, by the process of exchanging Federal Reserve Notes for gold, our basis of note issues has been increased. On April 20 the note issuing capacity of the Chicago Bank had been increased some $30,000,000. over the figures of March 23.

As a measure of preparedness ~~to meet extra-ordinary demands,~~ arrangements are being perfected to keep available for immediate use a reserve stock of Federal Reserve Notes sufficient to meet demands whether ordinary or extraordinary.

If the Federal Reserve Notes issued by the entire system were increased by $1,350,000,000. every dollar's worth of notes would be secured by at least one hundred cents in commercial paper bearing the endorsement of member banks or prime bankers' acceptances, in addition to which a 40% reserve in gold would be held by the banks; moreover the notes are a first lien on all of the assets of the Federal Reserve

Banks, and finally, are direct obligations of the United States Government. Surely no one can question the safety of our Federal Reserve Notes.

NOTE:

Amount of Gold in United States 5/1/17 -		$3,121,887,443
Amt. in Fed. Res. Bks. 5/18/17 -	$541,000,000.	
Amt. with Fed. Res.Agts.	448,000,000.	989,000,000

THE COLLECTION SYSTEM

In legislating to compel the transfer of reserve funds from commercial banks to the Federal Reserve Bank, the framers of the Federal Reserve Act had in mind the important functions performed by reserve city and central reserve city banks in the collection of checks and felt it necessary to provide for a similar service in establishing the Federal Reserve Banks, so that any member bank which desired to carry funds only in its own vaults and in its Federal Reserve Bank would have available, adequate and economical facilities for the collection of checks deposited by its customers. The law as it now stands provides that after November 16th, 1917, legal reserves will be restricted to balances actually maintained in the Federal Reserve Bank and cash in vault. There is pending in Congress an amendment to the Act which, if enacted into law, would readjust the reserve provisions so that there would be only one reserve requirement for each given bank, viz: that certain fixed percentages of the demand deposits and the time deposits be maintained in the

Federal Reserve Bank. The amendment, if passed in the near future, would considerably advance the date after which balances with reserve agents would no longer count as legal reserve.

Many member banks desire to continue relations of long standing with their city correspondents, while others desire to loan their funds as closely as maintenance of reserve requirements will permit, relying on the privilege of rediscounting with the Federal Reserve Bank to take care of extraordinary demands. The latter class particularly needs a comprehensive system of check collection through the Federal Reserve Banks.

In the effort to meet this need in accordance with the provisions of the Federal Reserve Act and under the authority of the Federal Reserve Board, the Federal Reserve Banks inaugurated a system of check collection last summer, under which checks on all of the more than 7,600 member banks, and a still larger number of state institutions, are now collectible through the system, practically at par. More than 16,000 banks out of a total of ~~some~~ about

27,000 in the United States are now included in the Federal Reserve Bank par list. In the New England States, the State of New York and in the Pacific Coast States, all banks are included in the par list. In the Seventh Federal Reserve District, the Federal Reserve Bank of Chicago collects checks on its 1,044 member banks and nearly 1,900 non-member banks.

You will note the statement that these collections are made practically at par. There is a service charge made against the depositing bank on all items payable outside of Chicago of $1\frac{1}{2}$¢ per item. No service charge is made on Chicago items. This service charge of $1\frac{1}{2}$¢ per item is estimated to cover the actual cost of handling in the Federal Reserve Bank of Chicago. It includes postage, clerk hire, depreciation of machines, a portion of the rent, and other miscellaneous expenses properly chargeable to the operation of the Transit Department. It does not include a fee to collecting banks. ~~and feeling that it is essential to treat all alike in the operation of the collection system, this bank has consistently declined to even furnish postage for return remittances in~~

~~the few cases where requests for such postage have been made.~~

The non-member banks which have undertaken to remit at par for checks drawn on them have done so as a service rendered to their customers, the drawers of the checks, in order that the checks might be more acceptable in the hands of holders. Knowing that we make this charge of 1½¢ per item against the depositing banks, many banks have offered to remit for checks on themselves at the same rate. They apparently do not take into consideration that our charge is made against the depositing bank for collecting out of town items, and that we make no charge for checks on the Federal Reserve Bank, ~~or for that matter~~ nor for checks on any bank in Chicago.

The rule requiring that member banks provide funds to cover at par checks received from or for account of their Federal Reserve Bank, does not prevent ~~the~~ member banks from charging ~~its~~ their depositors for the service of collecting out of town items. The Federal Reserve Board has publicly stated that there is nothing in the law nor in ~~its~~ the Boards rulings to prevent a member bank making reasonable charges against its depositors for the service of collecting checks, and such charges may even include interest on the credit advanced where the depositor draws against the proceeds of checks before they can be collected. I know a great many country banks believe it is impossible for them to charge their depositors for collecting checks, and that to do so involves a considerable reversal of existing customs. On the other hand, such charges are made in the larger cities, and there can be no question as to the right of a bank to compensation for services rendered. Many of the country banks have followed the line of least resistance by charging for remitting for checks on themselves. In so doing, they have either directly or indirectly been charging each other instead of the real beneficiary of the service. If a country bank which remits for its own checks at par, sends to its city correspondents checks on a bank which charges for remitting, it must keep with its city correspondents a balance of sufficient size to justify such ~~the city~~ correspondents in absorbing the expense involved. It therefore pays for the service in one form or another and should recover the expense from its own depositor.

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check collection system by remitting in Chicago Exchange without deduction for checks on your bank, and if you find it desirable to pay for part of such checks in money, you may ship the money to us at our expense." As previously stated more than half the banks in U.S. are now on the FRB par list.

The privilege of sending his personal check to a distant point to pay for a purchase is a great convenience to the farmer, the professional man and the merchant. It eliminates the necessity of a trip to the bank to buy exchange and in addition furnishes him automatically a receipt for the payment made. If no one ever issued a check before the funds to meet the check were actually at his credit in the bank, the value of depositors' accounts would be greatly increased. The profit in the banking business has been curtailed by the practice of issuing a check to make a payment in anticipation of the receipt of funds which are expected to be available before the check is presented to the drawee bank. The accounts of depositors who practice such methods are usually unprofitable and I strongly urge your consideration of the custom prevailing in many cities of making charges of 50¢ or $1. per month against the accounts of depositors whose balances average less than a fixed minimum.

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MEMBERSHIP OF STATE BANKS

See special memorandum.

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Rediscounting

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O'Connor
Frame
Johnson

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"The right is more precious than peace, and we shall fight for the things which we have always carried nearest our hearts - for democracy, for the right of those who submit to authority to have a voice in their own governments, for the rights and liberties of small nations, for a universal dominion of right by such a concert of free peoples as shall bring peace and safety to all nations and make the world itself at last free."

"To such a task we can dedicate our lives and our fortunes, everything that we are and everything that we have."

THE FEDERAL RESERVE BANK DURING THE WAR

INTRODUCTORY

It would, of course, be gross presumption to class myself with those who have placed their services at the disposal of the Government for the period of the war, many of them at great personal sacrifice. You will, however, not misunderstand me when I say that it has been a privilege through my connection with the Federal Reserve Bank of Chicago to be at least a small factor in the development of the financial machinery which has made victory possible.

There is no doubt in my mind that without the facilities of the Federal Reserve System it would have been impossible to build the credit structure which enabled us, first, to supply the Allies with funds, food and munitions and, finally, to throw into the breach that wonderful army which at the critical moment stemmed the tide of invasion and was a vital factor in the drive that resulted in the collapse of the military machine of the Central Empires.

FEDERAL RESERVE BANKS
ORGANIZATION AND GENERAL FUNCTIONS

While a certain amount of publicity has been accorded the organization and development of the Federal Reserve Banks since the enactment by Congress of the Federal Reserve Act approved December 23, 1913, it has been apparent in my talks with business men that many of them have a vage impression that the Federal Reserve System is a new department of the Government and they have little accurate information as to the real character of a Federal Reserve Bank and its functions.

It may not be amiss, therefore, to say that in many respects the Federal Reserve Bank is a bank pure and simple. It is governed by a Board of Directors composed of nine members, six of whom are elected by the stockholders. These stockholders are not individuals, but are banks, members of the Federal Reserve System. All of the national banks are members and, therefore, stockholders and such state banks and trust companies eligible for membership as have elected to co-operate in the development of a unified banking system for the entire United States.

The Federal Reserve Bank is a bank of deposit and discount, as much so as a commercial bank. It is true that the relations of depositor and borrower can be entered into only by member banks, but the general public benefits through the facilities which are placed at the disposal of member banks. The member bank has the privilege of re-discounting paper which has been made the basis of the extension of credit to individuals, partnerships, and corporations, provided the paper is eligible for re-discount under regulations promulgated by the Federal Reserve Board at Washington. 3

The Federal Reserve Board under the provisions of the Federal Reserve Act is composed of seven members, the Secretary of the Treasury and the Comptroller of the Currency being ex-officio members 4 and the other five being appointees of the President. The Board has large powers in connection with the shaping of the general policy of the Federal Reserve System.

The framers of the Federal Reserve Act in providing for the organization of these banks gave them a broad scope of activity, but it is doubtful if anyone at that time foresaw the variety of functions that have been developed within the brief space of four years since the banks opened for business. In addition to the functions of deposit and discount already mentioned, the Federal Reserve Banks now issue the great bulk of currency which passes from hand to hand; they hold over $2,100,000,000 of gold, a sum larger than the total amount in the United States before the war; they are now an important factor in the collection of checks payable in all parts of the United States; they exercise a certain amount of control of the domestic and foreign exchanges of the country; they direct the Liberty Loan selling campaigns, receive subscriptions and make deliveries of bonds when payment has been completed; they have been intimately connected with the control of capital issues and have recently been charged with the responsibility of the administration of the War Savings movement.

Several of the functions enumerated have been developed under the authority of Section 15 of the Federal Reserve Act, which provides that the monies held in the general fund of the Treasury, except the five percentum fund for the redemption of outstanding national bank notes and the funds provided in the Act for the redemption of Federal Reserve notes, may upon the direction of the Secretary of the Treasury be deposited in Federal Reserve Banks, which banks when required by the Secretary of the Treasury shall act as Fiscal Agents of the United States, and the revenues of the Government or any part thereof may be deposited in such banks and disbursements may be made by checks drawn against such deposits.

RESERVES AND NOTE ISSUING FUNCTION.

When we consider the magnitude of the changes frequently shown in the weekly statement of the New York Clearing House Banks in these days of war financing, and think that fluctuations of, say, 50 millions in the reserves are allowed to pass with hardly a comment from newspaper financial writers, it is interesting to recall that under our banking system in the years before the war a change of 25 millions in the reserves of the New York banks would often mean the difference between ease and discomfort.

The disappearance of the surplus reserve in the years before the passage of the Aldrich-Vreeland Act in 1908 has been attended by very high call money rates in New York and something of a shiver throughout the country. On the other hand, an increase of 25 millions in the surplus reserves of the New York banks has been followed by a drop in the call money rate to less than two per cent and a material lowering of the rates for commercial loans.

Thus whenever the expansion or contraction of credit exceeded very narrow limitations the inevitable result was a certain amount of disarrangement of the financial structure and interference with commercial and industrial development.

It goes without saying that under the banking system of a decade ago the United States could not have sold seventeen billions of securities in a two year period. What has made possible the great expansion of credit which we have witnessed in the last three years? The answer may be summed up in two phrases: Mobilization of Reserves and the Note Issuing Power of the Federal Reserve Banks.

The scheme of banking indicated by these two phrases, though in its infancy in this country, had been thoroughly tested in the financial systems of Europe. Its adaptation to our system of nearly

30,000 individual banks has presented many interesting problems, the solutionsof which are being gradually accomplished.

In the matter of reserves the original provisions of the Federal Reserve Act have been modified more than once, the changes being made as the result of experience gained in the actual operation of the system. It was at the outset evident that if the reserves of the banks were pooled in a common reservoir they would be more effective than separate reserves held by each bank. The changes in the law have tended towards greater concentration of reserves in the Federal Reserve Banks and a smaller percentage of reserve for the entire country, as experience demonstrated that, relying upon the privilege of re-discounting at the Federal Reserve Banks, the member banks could be safely operated with a lower ratio of reserves to deposit liabilities.

The value to member banks of the rediscounting privilege is intimately related to the note issuing power of the Federal Reserve Banks. By way of brief explanation of this power let me say that the Federal Reserve Banks may obtain from the Federal Reserve Agent as the Government's representative Federal Reserve notes upon the deposit of collateral security consisting of the various kinds of obligations upon which the Federal Reserve Bank is authorized to make advances to member banks, or certain bills of exchange or bankers' acceptances purchased in the open market, or gold or gold certificates.

In order to assure the ability of the Federal Reserve Bank to redeem Federal Reserve notes as presented, the law requires the maintenance of a forty per cent reserve in gold against outstanding Federal Reserve notes. This reserve under the law may be either part of the collateral securing the Federal Reserve notes or may be free gold under the bank's control.

As a means of providing a solid foundation for the country's credit structure, the Federal Reserve Banks have for some time pursued the policy of exchanging Federal Reserve notes for gold wherever possible. As a result of this policy while to-day all of the Federal Reserve Banks have outstanding more than $2,600,000,000 of Federal Reserve notes, there has been concentrated in the Federal Reserve Banks more than $2,100,000,000 of gold or gold certificates. The resulting net expansion in the country's stock of money through the issuance of Federal Reserve notes is, therefore, only about $500,000,000. This it will be noted is only about half the increase in the country's stock of money due to the net excess of gold imports over gold exports in the past four years.

The reserve position of the Federal Reserve System to-day is very strong as compared with the great European central banks. It could handle a much greater expansion of credit than we have yet seen. In view of the fact that in all human probability the peak of the present wave of credit expansion in this country will be passed within the ensuing twelve months (if, in fact, we have not already entered a period of credit contraction), we have no occasion to fear that the Federal Reserve System may not meet every legitimate demand upon its resources.

LIBERTY LOAN ACTIVITIES

Shortly after the passage of the Act approved April 24, 1917, now designated as the "First Liberty Bond Act," the Secretary of the Treasury, about May 4, 1917, advised the Federal Reserve Banks that in accordance with the provisions of the Federal Reserve Act and of the Act of April 24, 1917, he had decided to authorize and direct them to act as Fiscal Agents of the United States in receiving subscriptions and payments for and making deliveries of the bonds of the First Liberty Loan of 1917.

The Federal Reserve Bank of Chicago immediately proceeded to develop an organization for the purpose of discharging the new duties and responsibilities thus placed upon it. On May 14, 1917, the Secretary of the Treasury offered for public subscription, through the Federal Reserve Banks, $2,000,000,000, 15-30 Year 3-1/2% bonds to be dated June 15, 1917. Of this total there was allotted to the Federal Reserve Bank of Chicago $272,702,000.

On October 1, 1917, the Secretary offered for subscription $3,000,000,000, 4% 10-25 Year bonds of the Second Liberty Loan, to be dated November 15, 1917, reserving the right to allot additional bonds up to one-half the amount of any oversubscription. The total amount allotted for the United States was $3,808,766,000, of which there was allotted to those subscribing through the Federal Reserve Bank of Chicago $525,956,000.

On April 6, 1918, the Secretary offered for subscription $3,000,000,000, 4-1/4% bonds to be dated May 9, 1918, and to mature September 15, 1928, reserving the right to allot additional bonds up to the full amount of any oversubscription. The total allotment to the United States under this offering was $4,176,516,850, of which there was allotted to those subscribing through the Federal Reserve Bank of Chicago a total of $608,878,600.

The campaign for subscriptions to the \$6,000,000,000 or more 4-1/4% bonds of the Fourth Liberty Loan to be dated October 24, 1918, maturing October 15, 1938, was opened on September 28, 1918, the Secretary reserving the right to allot additional bonds up to the full amount of any oversubscription. The total allotment of this offering was \$6,989,047,000, of which those subscribing through the Federal Reserve Bank of Chicago took \$969,209,000. This to date represents the greatest financial transaction in the world's history.

To sum up, the Government has floated since our entrance into the war four issues of long term bonds, aggregating nearly 18 billions of dollars. Of this amount those subscribing through the Federal Reserve Bank of Chicago have taken \$2,376,745,600.

FISCAL AGENCY DEPARTMENT OF THE
FEDERAL RESERVE BANK

There has been developed a Fiscal Agency Department commonly known as the "Government Bond Department," which now numbers more than 250 employes and occupies almost an entire floor in the Rookery Building, which handles the enormous volume of accounting detail incident to the flotation of these Government loans of a magnitude unprecedented in the history of the world.

This Department handles correspondence, receives subscriptions and payments, makes deliveries of bonds, Certificates of Indebtedness, War Savings Stamps and Thrift Stamps, makes exchanges of denominations of coupon bonds of the several Liberty Loans, as well as exchanges of denominations of Certificates of Indebtedness, pays coupons clipped from United States bonds of any issue; also pays maturing issues of bonds, handles the conversions of lower rate bonds into higher rate bonds when such conversion privileges arise, and many other operations incidental to the principal functions outlined.

CERTIFICATES OF INDEBTEDNESS

Prior to the offering of each Liberty Loan, the Secretary of the Treasury has sold through the Federal Reserve Banks short time Certificates of Indebtedness of the United States. He has also sold Certificates of Indebtedness in anticipation of taxes. The Federal Reserve Bank of Chicago has made sales of such Certificates as follows:

In anticipation of the First Liberty Loan ...	$ 77,693,000
In anticipation of the Second Liberty Loan ..	$ 138,597,000
In anticipation of the Third Liberty Loan ...	$ 325,355,000
In anticipation of the Fourth Liberty Loan ..	$ 663,204,000
In anticipation of the Fifth Liberty Loan, up to and including issue of January 7, 1919	$ 289,072,000
Tax Certificates sold up to and including Tax Issue of November 7, 1918	$ 288,765,000
	$1,782,686,000

The aggregate of the Certificates of Indebtedness and Liberty Loan Bonds sold through the Federal Reserve Bank of Chicago up to the closing of the subscription books on the Certificate Issue of January 7, 1919, is $4,159,431,600, an amount more than twice as large as the total issue for the entire United States of bonds of the First Liberty Loan.

WAR SAVINGS CERTIFICATES AND THRIFT STAMPS

While a considerable part of the War Savings Stamps and Thrift Stamps taken by the public have been purchased through the postoffices, nevertheless the Federal Reserve Banks have supplied these stamps to banks and other agents for their sale.

In September of this year the Secretary of the Treasury transferred the Administration of War Savings from the National War Savings Committee to the Federal Reserve Banks, pursuant to the policy of co-ordinating the activities of War Savings and Liberty Loan Organizations.

These two organizations have now been brought under a central control in this Federal Reserve District and the problem of co-ordinating their activities is receiving constant consideration with a view to securing the best possible results.

Topics for address on Federal Reserve Act.

Organization:

Capital stock; Deposits; Borrowers

Directors: 6 elected by stockholders
3 appointed by Federal Reserve Board

Federal Reserve Board, Secretary of the Treasury,
Comptroller, etc.

Functions:

Deposits. Rediscounts. Note issuing function.

Fiscal Agency:

Liberty Loan activities
Government bonds
Certificates of Indebtedness
War savings

Get copy of our statement also combined profits

Ill. Bkrs Assn

Danville Ill

I am very glad that your President, Mr. Woodruff, has paved the way for me by explaining in advance that I am not here for the purpose of making a speech. Several weeks ago it was my pleasure to meet a prominent Iowa banker, to whom I was presented as an officer of the Federal Reserve Bank of Chicago, whereupon he soberly remarked that he had heard of the Federal Reserve Bank but would not dare to tell me what he had heard. It is a matter of regret that I could not be here last evening and thus missed the splendid addresses that most of you listened to. It is possible that I missed hearing from Danville's distinguished citizen, Mr. Cannon, the views that the Iowa man had in mind.

I am not here to discuss the merits of the Federal Reserve System, of which there are many, nor am I here to reply to those who criticise it. Since, however, much interest has been manifested concerning the volume and the character of the investments of the Federal Reserve Bank of Chicago, and also as to what has been accomplished in the direction of earnings, it occurs to me that those of our stockholders who are present, and other bankers as well, may be interested in a brief statement bearing on these points.

During almost the entire period since the opening of the Federal Reserve Banks most of the member banks have had a surplus of idle funds and conditions have, therefore, not been such as to afford the Federal Reserve Banks opportunity to exercise their chief money making function, that is, rediscounting for member banks. Nevertheless, since the date of opening, the Chicago bank has received 2,165 applications for the privilege of rediscounting, every one of which has been acted upon promptly on the day of receipt. The proceeds have been sent out in the form of currency, or credited in the ledger account, or transferred to New York, or deposited with some Chicago correspondent, in accordance with the wish of the discounting bank. The bills discounted or rediscounted have ranged in amount from $15.00, the smallest one, to $250,000. Our rediscounts at the present time are about two and one-half million dollars, a very small amount - less, as a matter of fact, than one or two of our Chicago banks could loan to one individual without exceeding the lawful limit. You may be interested to know that the last mentioned amount comprises loans to about 130 of our member banks.

In addition to these loans, our investments at the present time include about five million dollars of the so called dollar acceptances, bills drawn against exports and imports and accepted at different points, principally in New York, though some have been accepted in Chicago and some elsewhere.

Beyond this, we have about four million dollars invested in municipal warrants issued by municipalities, principally in New England in anticipation of the collection of taxes which are, in each case, due under penalty ~~prior to~~ on or before the maturity of the warrants.

We also have Government bonds aggregating $7,600,000. against the larger part of which we have taken out bond secured circulation. The circulation, however, is not to be used unless some future emergency should make it necessary.

As the result of the investment of so small an amount of our resources in the manner described, it may be of interest to the member banks to know that the Chicago Federal Reserve Bank is taking good care of all its expenses and during the last three months its earnings have been, in round figures, $28,000. in excess of its dividend requirements. Whatever your opinion may be in regard to the Federal Reserve Act, or with respect to the Chicago bank and its management, member banks should bear in mind at all times one thing - the bank is yours. You supply the entire capital stock and all of the deposits. You are responsible for the selection of six of its nine directors and have every reason for congratulation upon the selection that you have made. Please understand that I am not one of the directors.

The Board of Directors has been striving from the outset to develop a policy under which every benefit possible under the Federal Reserve Act will be cheerfully and promptly available to the member banks. Whatever the defects in the Federal Reserve Act may be, all banks should undertake to perform their duty in conformity with the provisions of the Act; it is not possible, as some speaker stated at the Kansas City convention, for the Federal Reserve Banks or the Federal Reserve Board to undertake to operate the affairs of the System in accordance with the wishes of the seven or eight thousand individual member banks. We ask all member banks to co-operate with us. We are willing and ready to co-operate with them in considering necessary changes, and I take this opportunity of telling you all, whether you are representatives of national or State banks, that we shall be very glad to hear from you in regard to any points concerning the Federal Reserve law or the Federal Reserve Banks, and shall be particularly happy to have a personal call from you at any time that you may be in Chicago.

I thank you, gentlemen.

At Mid Day Club

Mr. McNeil stopped at the bank a few days ago and presented a sort of double-barrel invitation ~~asking~~ inviting me first to meet with you all here this evening at dinner and second, requesting that I take this opportunity of talking to you on the subject of the Federal Reserve Act. The first part of his invitation I immediately accepted as it always affords me pleasure and profit to meet with such good company. In accepting the invitation, however, I expressly stipulated I would not undertake to deliver any address or make any speech, a~~s~~ there are very good reasons for my declining to do so. I did tell Mr. McNeil, however, that I should be very glad to undertake as best I could to answer any questions which any of those present might care to ask concerning either the Federal Reserve Act or the functions of the Federal Reserve Banks.

It is fair to presume that most of you are informed, at least in a general way, with respect to these matters, but for the benefit of those who may not be familiar with the subjects, I might say that the Federal Reserve Banks are now ~~under operation and are~~ operating under the provisions of the new banking laws passed by Act of Congress in December 1913.

The Federal Reserve Banking ~~Law is an act~~ Law is an act ~~to~~ provides for the establishment of Federal Reserve Banks to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish effective and more efficient supervision of banking throughout the United States, anf for other purposes. Under the

Act an organization committee was provided for, consisting of The Secretary of the Treasury, Secretary of Agriculture, and The Comptroller of the Currency. This committee was empowered to designate not less than eight nor more than twelve cities throughout the United States to be known as Federal Reserve Cities, and also to divide the Continental United States into districts, each district to contain one of such Federal Reserve Cities. This committee, after deliberate and careful investigation, concluded to designate twelve ~~cities as~~ Federal Reserve Cities and therefore, divided the United States into twelve districts and proceeded under authority of the Act to organize a Federal Reserve Bank to be located in each of these Federal Reserve Cities.

(The cities chosen so are probably ~~familiar~~ known to you all. At any rate
(there are 12 in number and each is designated by number from
(1 to twelve. - Boston, New York, Phila., Cleveland, Richmond,
(Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas
(and San Francisco.)

Each of these Federal Reserve Banks is conducted under the supervision of and controlled by a Board of Directors nine in number. Three of these directors are chosen by a representative of the stock holding banks, three other members are chosen by the member bank stock holders representing the commercial, agricultural and industrial interests of the district. The remaining three directors are appointed by the Federal Reserve Board, one a person of banking experience is designated as Federal Reserve Agent, another of banking experience as Deputy Federal Reserve Agent and the third is representative of the commercial interests.

Under the Federal Reserve Act every National Bank in the United States was required to subscribe for an amount of the capital stock of the bank organized in the district in which it is located, to an amount equal to six per cent about 70 million of these notes, which is more than four times the largest amount of clearing house certificates issued by the Chicago Clearing House Assn. in 1907 and outstanding at one ~~that~~ time.

The F. R. Banks up to the present time have not exercised their principal money making function, that is rediscounting for member banks. This is easily accounted for by the tremenduous surplus reserves which have been accumulated at the centers, thereby making ~~having~~ available an abundance of loanable ~~loaning~~ funds for legitimate purposes without calling upon the Federal Reserve Banks. It is not to be expected that the F. R. Banks in normal times will have much demand from their member banks for the rediscounting privilege, and this no doubt explains the action of the framers of the bill in providing other means of investing funds. For instance, we are permitted to purchase U. S. bonds also short time municipal warrants and bonds. We are also permitted to purchase in the open market bankers' acceptances, provided they involve the exportation or importation of merchandise. Furthermore, the F. R. Banks are authorized to engage in foreign banking to some extent. They may open bank accounts and establish agencies in foreign countries for the purpose of buying and selling two name bills of exchange having not more than 90 days to run.

Chicago, May 8, 1917.

Lord Cunliffe dinner

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We have with us distinguished guests, one from the greatest city of the British Empire, the other from the Capital City of our own Nation. Lord Cunliffe, Governor of the Bank of England and the Hon. Charles S. Hamlin of the Federal Reserve Board, and formerly its Governor. We trust that the pleasure which they in this way give us may be at least to some extent requited by pleasure they may receive at our hands. We give them a cordial welcome and we highly appreciate the honor which their presence does us.

<u>WILLIAM A. HEATH</u>, after serving with fine ability and signal success in the affairs of our commercial bankers has recently been appointed Federal Reserve Agent of the Federal Reserve Bank of Chicago and Chairman of its Board of Directors. I am happy to introduce Mr. Heath.

<u>GEORGE M. REYNOLDS</u>, President of the Continental & Commercial National Bank of Chicago, requires no introduction to any one present in this room, whether he be from this city, from another city or from other countries. I am pleased and honored to present Mr. Reynolds.

CHARLES G. DAWES. I had intended to use as few words in introducing Mr. Dawes as Mr. Reynolds, but pleasant memories enforce the recollection that when ~~Mr.~~ William McKinley, 25th President of the United States, appointed Mr. Dawes Comptroller of the Currency, Mr. Dawes in turn appointed me, an obscure bank teller, to the post of National Bank Examiner. I have always had a tender spot in my heart for the former Comptroller as well as gratitude and admiration. Let me present Mr. Dawes, President of the Chicago Clearing House Association, banker, philanthropist and good citizen.

In the Congress Hotel last week was gathered what was probably the most significant meeting held in Chicago since the days of the American Civil War. Fourteen hundred men and women had quietly assembled, to hear a message from Ex-Ambassador Girard. There was enthusiasm but there was no excitement. Instead a sober earnestness prevailed, such as I had never felt in any public meeting. The great address of our former Ambassador reached an audience awake, heart and soul, to national peril, eager for information, guidance, and ready for service. It was a representative and intelligent assemblage. The mixed nature of our citizenship was never better exhibited. Despite racial or national differences, all were Americans. None other were present. In listening to Mr. Girard, I could not help recalling history of over two thousand years ago when Demosthenes, recognizing the designs of Philip of Macedon against the integrity of Greece, thundered his unheeded warnings in the ears of the Athenian people. He could not awake his fellows, and although Greek thought still dominates the world, Athens as a political power fell. But America is at last aroused. The United States Government has been called the greatest business in the world. Perhaps, with apologies to our English cousins, this is true. At any rate her machinery has started and preparedness in this Country is under way on a mighty scale. This preparedness in its present thoroughness would have been an impossible thing without the existence of the Federal Reserve Act, which has been called the most important legislative enactment in half a century of National Life. It is interesting to note the existence today of an unformulated but generally held conviction that this Act represents the beginning and the foundation of all physical preparedness in the Nation's affairs. I do not think this statement can be challenged. But the new banking machinery would be useless without able administrators, one of whom is here and has agreed to speak. I feel happy and privileged to present, and once more to greet, our brilliant and very distinguished friend and fellow citizen, MR. HAMLIN, of the Federal Reserve Board.

LORD CUNLIFFE

The history of the English fiscal system from the time of William, the Conqueror, down to the present day, is a long record of patient adjustment of practice to conditions. This can be illustrated in no better way than by events of the last three years. Since the outbreak of the great war, the conservation and mobilization of English financial resources has astonished the world. Nothing could be more scientific. Its success surpasses imagination. We have with us one of Britain's most distinguished ~~greatest bankers~~ men and an administrator of large affairs. Without further words and in full realization of the distinction and honor which his presence affords us, I present Lord Cunliffe, Governor of the Bank of England.

<u>IN CLOSING</u> we give our thanks and express our appreciation to Lord Cunliffe, to Mr. Hamlin, and to all who have participated in tonight's program. We earnestly trust the reciprocal relations recently established between the Reserve Banking machinery and the English banking system will energize and develop the material resources of both nations, and aid in uniting the English speaking peoples of the world in common defense and pursuit of the principles of freedom and democracy.

This meeting is now adjourned.

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 unequaled 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 facinates 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, delcared 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 rund 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 <u>in totum</u>:

"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.

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 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 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~~

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.

Topics

ADMINISTRATION AT WASHINGTON

WAR LOAN BILL, Passed April 24.
5 billions bonds,
2 billions certificates
3 billions for Allies
Estimates expense first year
10 billions, half of which will
go to Allies

FEDERAL RESERVE BANKS FISCAL AGENTS
Each of the 12 districts given
its pro rata quota

ORGANIZATION FOR HANDLING THE LOAN

LARGELY A CREDIT TRANSACTION
Will stimulate business in most
lines, and moreover will encourage
thrift and the habit of saving,
which ultimately must revert to
the benefit of the entire country.

FOOD SITUATION THROUGHOUT THE WORLD