



FEDERAL RESERVE BANK
OF DALLAS

March 19, 1920.

TO THE STATE BANK ADDRESSED:

I am sending you herewith a copy of the address delivered by Mr. Henry A. Moehlenpah, Member of the Federal Reserve Board, at the meeting of the Fifth District Texas Bankers' Association, held in Dallas on February 11th, last.

Let me suggest that at the earliest opportunity your officers take occasion to read this address, and when this is done, if your local newspaper will publish the same, hand it to them for that purpose. Mr. Moehlenpah's address deals principally with the problems which are presented with the reconstruction period. He has especially stressed the great importance of increased agricultural and livestock production. It seems to me that his words are most appropriate at this time, and a sound of warning of which everyone can well take heed.

Your attention is especially directed to his message to state banks, on pages 13 to 15. It touches upon the advantages of membership in the Federal Reserve System, and refers to the workings of the System in the momentous days of the war, and the part it will take in the reconstruction days.

It is hoped, when you have fully considered the matter, that you will let us have your application for membership.

We will be glad to furnish additional copies of the address upon request.

Yours very truly,

A handwritten signature in cursive, appearing to read "W. S. Brown", written in dark ink.

Federal Reserve Agent.

CCH/MK
Encl.

2441

Address

BY

HENRY A. MOEHLENPAH

MEMBER
FEDERAL RESERVE BOARD



Delivered at the Convention of
the Dallas Group of the Texas
State Bankers Association

February 11th, 1920

A BIT OF TEXAS HISTORY

The story of Texas grips me. Its traditions and the achievements of its men stir the pride and excite the imagination of every American who contemplates them. The glory of the Lone Star State has been written into the history of the nation. The spirit of Texas, with its vigorous optimism, is congenial, and its atmosphere of wholesome frankness is one in which the average American should be able to breathe freely and deeply. Frankly I feel at home among you. You speak a language I understand. Therefore, may I express the hope that I will be able to speak the language you will understand.

I desire to sit with you as a banker and citizen, to confer with you in a frank, ordinary way concerning the problems confronting our Republic. May I ask you to forget for the time the supervisory relationship I occupy, that we may take counsel together to the end that we may serve better our communities, our country and the world.

Texas is a State of big things. You boast of a territory greater than the States of Massachusetts, New York, Pennsylvania, Virginia, North Carolina and Georgia—the area of which totals 256,919 square miles—and of a territory which is two hundred and twelve times greater than that of the smallest State of the Union—Rhode Island. You have a population estimated at five millions. In 1919 you produced crops of cotton worth \$475,000,000; of corn \$240,000,000; of wheat \$63,000,000; of oats \$60,000,000 and of hay \$23,000,000. You possess horses, mules, cattle and sheep of a value of \$572,000,000, and who can estimate the value of your oil, your sulphur and coal and other sources of wealth?

In the value of your crops, for the first time you now head the nation, for in 1919 you had a "billion-dollar crop."

You are also the second State in the Union in the value of your live stock.

These things are of outstanding material importance, but when I come to Texas I am reminded of other things of no less importance. Your illustrious Sam Houston and Colonel Bowie, and Davey Crockett, that hero of every American lad, speak of a spirit that is more than the spirit of Texas, that is the spirit of America, the spirit that is in my heart today and in the heart of every true American who is permitted to live in these momentous times.

PHENOMENAL GROWTH IN BANKING RESOURCES

A statement recently issued by the Comptroller of the Currency indicates that the three leading States whose National Banks have shown the greatest actual increase, proportionately, in resources in the last twenty years are Oklahoma, \$357,722,000, or 6,537 per cent; California, \$1,000,214,000, or 1,685 per cent, and Texas, \$869,611,000, or 1,013 per cent. This will indicate the increase in the banking resources of your State. Truly indeed, "Westward the course of empire takes its way."

Your war record is only another evidence of the greatness of your State. Asked to subscribe a quota of \$362,695,550 towards the various issues of Liberty bonds, you did far better than that; your subscriptions in all amounting to \$405,772,000, or \$40,000,000

more than your quota. And of the 3,441,000 men in the military service, 155,000 of those who answered to the call of their country were from Texas.

As we felicitate ourselves on the greatness of our achievements of the past, let us not fail to recognize that they constitute a challenge to us for the future.

As citizens we are proud and happy indeed to know that while our sons were baring their breasts to the enemy, we, their elders, in the common, ordinary pursuits of life, made some contribution to their support. Chagrined indeed we would be today if we had not done our best. Proud we are of the fact that, under the leadership of just such patriots as sit here today, we who stayed at home raised twenty-two billions of dollars to equip and maintain our military forces, and ten billions of dollars to lend to the allied nations. This seemed like an impossible task. In fact you will remember that the leading financiers of our country thought a sum in excess of one-half billion of dollars on the first loan would be more than our nation could absorb. The response to the call of the Secretary of the Treasury was over four billions of dollars. This proof of the spirit that possessed our people is only an index of what our country may do in the days before us. Let us remember that at the beginning of this war we owed the nations of Europe a trade balance of 400 millions of dollars, and besides that they held and controlled our bonds and securities in the sum of over four billions of dollars, representing a signal portion of the railroad, commercial and industrial capital of our country.

Just as our sons assisted in forcing back the enemy who believed that "might makes right," so we did our part, citizens and bankers, a splendid part of which we may always be proud, a magnificent achievement in finance equaled by no other nation in all history.

OUR DUTY TO "CARRY ON"

I would bring to you a message, a spirit of optimism, of endeavor, like unto that carried by our sons to the distracted nations of Europe in their hour of peril. Is it possible, my fellow-bankers, that, after such sacrifice and such an example, we can go back to the old days of isolation, of selfishness, to the old narrow program as business men? Shall we not in the economic strife and strain just ahead go to our sectors, as our boys went to theirs, in the first line, and there, like true Americans, "Carry on"? Some of us may have felt at the beginning of this war that from a military point of view we were not equal to the job confronting us, but we knew where our duty lay, and with the spirit which is peculiarly American we took the shortest way to the job. Every industry was organized to accelerate production. The energies of the nation were co-ordinated. Labor unselfishly co-operated with capital. Economy and thrift were enforced in every home. The American people organized for teamwork, and overnight a plan of campaign was under way. We had a will to win. This proves to me that we are a democratic people, that this is a government of the people completely capable of self-government under the greatest strain.

A writer says of Pershing that nothing typifies his character so vividly as the driving force he put

into his campaign from beginning to end. He had a definite plan, and he stuck to it through thick and thin, letting nothing get in the way.

General Pershing only reflects the traditions of our American spirit—the spirit of George Washington at Valley Forge, General Jackson at New Orleans, and General Scott, upon your own soil and in Mexico—the spirit of Grant and Lee, of Stonewall Jackson and Phil Sheridan. That is the spirit of America and that is what I would like to interpret to you today in terms of present-day problems.

This is a mighty State with a long history of great things done. These can only make big men. And right here, with all the vigor of my soul, gentlemen, I wish to say we have a big job ahead of us—a world job. No great task can be performed unless we have the impulse and dynamic force of the heart behind it. When men like Hoover bring to us the news that two million, five hundred thousand children are being fed daily in Europe, that fifteen to twenty million families are receiving unemployment allowances, and as we read the news the travelers bring that the Armenians are eating grass beside the roadways like dumb beasts, and when we re-read the stories of the devastated cities in Europe and have a picture of the demolished factories and the deserted farms, it drives us to our knees and we are humbled in our pride, and we cry aloud.

EUROPE NEEDS FOOD.

The first need over there is food. The next, raw material, and the third, yes, credit. Where else can our brothers get it? Let me remind you, my countrymen, that the kind of men to whom we shall extend credit is the peasantry of France and Belgium, the kind of men who have made those countries great and who stood with the spirit expressed in the words "THEY SHALL NOT PASS," who kept back the hordes of Germany and stood between us and despotism. These people will pay their debts for we know of what stuff they are made. The citizenship of this, our own country, sprang from their loins. Dare we forget them in their extremity? Can we returning from these heroic tasks which we performed as an unselfish nation go back to the ordinary pursuits of life, the same kind of men we once were, to live again the same narrow, uneventful, uninspired lives? I will not believe it. All human relationship in these days is being spiritualized. We can understand why our boys were made soldiers overnight better now than we could before the war. I love to think of young America, the white-faced doughboy inexperienced in war, with no military training, but with all the traditions of American life, the initiative which came to him from the baseball diamond and the football field—I love to think of him with that democracy imbibed in the public schools, with that justice and honesty and right of the American home, and I am sure these things American found most eloquent expression when they were confronted with false ideals of the giant autocracy.

So we must be loyal to this heritage they have given to us and take our place in the economic strife before us. Shall we be any less loyal? My countrymen, it is our privilege in the Providence of God to take our place forever with the nations of the earth. The Great Teacher said "He that shall lose

his life for my sake shall find it." It was said of Him, "He came not to be ministered unto, but to minister." The great expounder of wisdom, Solomon, also said "Out of the heart are the issues of life."

A DAY FOR BIG THINGS.

I would bring you not a new message, but an old one, along this line; that we can never do our full measure of service as business men, as bankers, or as Americans only as we try to do it by the heart impulse. This principle is axiomatic. If you are here today as bankers, thinking in terms of service to your communities as before the war, get out of the way for your other brother. You are too small for the job. A new day is here. This is my appeal to you as big men, to do the big thing with a big spirit.

There are many economists and leaders and statesmen who are devising plans for solving the many problems arising out of this unprecedented world upheaval. While we wait we do well to recall the tried virtues of our fathers.

This is needed to heal the wounds, economically speaking. Some artificial remedies can be applied. Let us be steady in our thinking. Let us be generous and helpful to those in authority. Let us be free from political bias and snap judgment. Let us set a good example as leaders in the new day's program. We are certain of a few things. This nation must produce more if those people over there are not to starve, and if feeble and new governments are to be made stable.

AFTERMATH OF THE WAR

As we get deeper into the winter, adequate description cannot depict conditions that exist in Europe. One writer gives one phase which tells the story: "For months past the reports of the health conditions in the Central Empires have been of such character that the imagination is dulled, and one almost seems guilty of sentimentality in quoting them. But their general veracity is not disputed. In the last years of the war, in Austria alone at least 35,000 people died of tuberculosis. In Vienna alone 12,000. Today we have to reckon with a number of at least 350,000 to 400,000 people who require treatment for tuberculosis. As the result of malnutrition a bloodless generation is growing up with undeveloped muscles, undeveloped joints, and undeveloped brains. Tuberculosis is nearly always fatal now among adults.

"Nothing can be done against it owing to lack of foodstuffs. 'You see this child here,' the physician in charge of one of the hospitals said: 'It consumed an incredible amount of bread, and yet did not get any stronger. I found out that it hid all the bread it received underneath its straw mattress. The fear of hunger was so deeply rooted in the child that it collected stores instead of eating the food, a misguided animal instinct made the dread of hunger worse than the actual pangs.'"

Mr. Herbert C. Hoover, in a recent statement, said:

"One of the first acts of the Germans was to denude the people of Belgium to a very large extent, and the north of France almost wholly, of their

cattle. In consequence, it has been necessary to maintain a stream of condensed milk and other food especially for children for the whole of the last four years. The European races are absolutely dependent for the rearing of their young on their cattle. There is no cruelty to the population greater than to rob them of dairy stock. Nor can the herd be restored overnight. It takes four years to rebuild the herd by breeding up from a few foundation animals."

"The big problem is the child problem. Just as Belgium was in danger of losing her next generation by numberless cases of tuberculosis brought on by malnutrition, so are these nations going through a period where the child forces are being steadily and increasingly diminished and wiped out."

"Things, however, are as bad as they are painted, or more truly, things aren't painted as bad as they are. Starvation in war is to be expected, but starvation in peace means one thing only, the breeding of anarchy."

Ambassador Morgenthau says, "Nothing on earth except a miracle from heaven can prevent the death by freezing and starvation of from five to ten million people in Europe and the Near East this winter." Do you wonder, gentlemen, the flames of Bolshevism arise in Europe? This is our first task, America alone must lead the way to succor Europe. How?

FARMING AND STOCK RAISING OF FIRST IMPORTANCE

It is an outstanding privilege for me to meet with you bankers because you have to do with the greatest producing class of our country—the farmer. They are producing the essentials most in demand by other countries. It has been my privilege to serve as a country banker for twenty-five years, a community similar to that which most of you serve here. These were the farmers, dairymen and the producers of live stock. You have, in addition, because of your soil and climate, the great cotton industry. You will become more than ever the counsellors, the leaders, in the large new program just ahead. Texas occupied a unique position at one time of being the greatest live stock district of the world. You are without doubt the largest natural live stock breeding district of our nation. You have had the setbacks of seasons, disease, and market conditions, similar to all other sections, but at no time in the history of the world have the demands been so great for the staple products which you produce here. It is gratifying to know that out of the distress and strain of your serious drought of three and four years ago you have emerged to nearly as strong a position as formerly.

As Mr. Paul M. Warburg, a former member of the Federal Reserve Board, in a recent speech said: "We are living in an era where the production of money and credit has increased and the production of goods has decreased. In order to emerge we must produce less credit and money and produce more goods."

We do well to take inventory at this time on the question of first importance, namely, the beef supply. The total exports for the year 1914 were 33,000,000 pounds. Four years later, in 1918, during the war, they were increased to 700,000,000 pounds, and then in 1919, approximately 280,000,000 pounds,

or nearly nine times that of the last normal pre-war year. This increase in five years means that our beef supplies have been cut to the bone. Information from the dairy districts would indicate marked encroachment upon dairy herds for beef slaughter.

At the close of your dry season, in the spring of 1919, it was indicated that your breeding stock has been reduced to less than 50 per cent of normal. At the close of 1919 the same condition prevailed in the Mountain States of Wyoming, Idaho, Montana and Colorado, and for the same reason their herds were reduced, and thin cows, heifers and unfinished beef came to the markets in unusual volume.

During the first eleven months of the year 1919 the total receipts of cattle at the six principal markets, Chicago, Kansas City, Omaha, St. Louis, St. Joseph and Sioux City, were 9,962,000 head, as against 10,751,000 cattle during the corresponding period of 1918, showing a decrease of 789,000 cattle.

As you well know, the big ranges in Texas have been cut up so that the live stock proposition has become more intensive and means that every farmer must have a few head. This is well, for the waste feed on every fenced farm is of immense value. When a country is short of female breeding cattle as the United States is today, the vital necessities of growth require at least seven years to replenish the ranks of breeding females and produce a normal crop of beef steers ready for slaughter.

For the first time in the history of our country a good milch cow is now worth more than a horse.

In 1890, we had 26 cows per hundred population; in 1900, 23; in 1910, 22, and in 1919, 22. If you will bear in mind the increase in population during this thirty-year period and that this population has been centered in the cities, you will readily grasp the importance of an enlarged program if we do our part as a producer of milk products as well as meat in this time of world need.

NECESSITY OF CONSERVING FEMALE STOCK

Serious consideration should be given as to legislative action prohibiting for a period of years the slaughter of all female calves fit for breeding purposes. We protect our wild game, but we should give more thought to the protection and perpetuation of our domestic live stock, particularly of the beef strains.

The record at the live stock markets during the past four years shows the volume of veal calves being slaughtered, which is appalling. The following table shows the slaughter of calves for 1916, 1917, 1918 and 1919:

1916.....	5,773,900 head
1917.....	7,030,790 head
1918.....	7,767,175 head
1919.....	*8,919,000 head

*Estimated.

Last year you had an unusual precipitation which has had its influence on your pastures and your conditions are again normal. The herds from the Northwest and West have been returned in a marked way to your State.

During the three years preceding 1919 when you had a drouth over the Texas country the number of sheep declined greatly. It was estimated that there was a decrease of about 300,000 head up to January, 1919. Since that time the rains have come and you

have had about 300,000 head of lamb come into Texas from the drouth-stricken areas of Montana, Wyoming, Utah and parts of New Mexico and it is said that all of Western Texas to date has been largely restocked in its lambs to the pre-drouth number. Your sheep now total nearly 3,000,000 head.

When the compact or League of Nations or Treaty has been completed and the credit program reconstructed and when the nations of Europe come to buy in this country to replenish their herds, for this is the only country they can come to, you will readily understand what this means. Our exports constantly increasing will make heavy draft upon the production, which is therefore related directly to the home supply and the price levels.

Another important phase of this question is related to the labor problem. Labor was never so well paid and was never in such demand as now. This must continue for many years in this country because of the great need for building operations of all kinds, construction of highways, the rehabilitation of the railroads, the increase of the plants necessary for increased production and manufacturing of all kinds and it can be safely said without contradiction in view of past history that when labor is well employed, meat consumption increases in proportion.

The ratio of slaughter has exceeded that of production during the last five years. The excessive marketing during the war period is no indication of overproduction, but rather of depletion. A cattle increase during the past four years at the seven principal markets of 6,000,000 head, or over 83 per cent, means rapid destruction. It is predicted that the coming census will demonstrate that the annual cattle estimates will show a grossly exaggerated condition in the number of cattle in this country and particularly the breeding stock.

It is claimed by the best informed statisticians of our country that the nation's supply of female cattle is way below normal; that it will take two whole generations of live stock before it will be possible to supply the country with a normal supply of beef for the block.

This is the time to take stock and make our plans for the future. This is a message of prime importance to the bankers and leaders of live stock interests of Texas.

OUTSTANDING NEEDS OF THE FUTURE.

May I suggest therefore two outstanding needs to which every banker must relate himself during the next few years:

First, adequate financing of the farmer for purchase of tractors and all machinery, seeds and labor necessary for increased acreage to take up the slack of available labor.

Second, to provide ample funds wherever character and ability are in evidence to carry over for the necessary period all female stock for breeding purposes. And right here let me state, gentlemen, the Federal Reserve System was established for the purpose of stabilizing agricultural as well as the industrial and commercial activities of our country. No paper will come to the Federal Reserve System that will be more acceptable and more eligible for rediscount than that of your farmers and live stock producers.

The orderly marketing of cotton, both in domestic and foreign commerce, is highly essential to the nation, and especially to you of the South. Your whole civilization is based upon the profitableness of cotton production. Heretofore, the marketing of cotton has been anything but orderly, in fact it has been positively disorderly. This has been due to two things—the lack of adequate credit facilities and of sufficient warehousing facilities. The first difficulty, that of inadequate credit facilities, has been almost, if not entirely, overcome by the passage of the Federal Reserve Act, under whose provisions every member bank is authorized to “accept drafts or bills of exchange drawn upon it * * * which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples.”

Here is authority for the open discount market and for the use of bankers' acceptances. Hitherto the financing of cotton was largely localized. Its burden rested upon the Southern banks, with only small assistance from outside sources. Credits on cotton were extended by the ordinary promissory note, which had no entree into the open market. The Federal Reserve Act throws wide open the door to the money markets of the world, and the only requirement for entrance therein is that the seeker after credit shall come properly clothed.

Under the Act and the regulations of the Federal Reserve Board this dress consists of a warehouse receipt, covering cotton or other staple and nonperishable agricultural products, issued under such safeguards as to guarantee at all times the absolute integrity of its statement of fact.

NECESSITY FOR ADEQUATE WAREHOUSING

Adequate warehousing facilities for cotton would, therefore, seem to be the most pressing necessity in the sane and economic distribution of your great crop. The warehouse receipt to be of the highest credit value should be uniform in its character, just as are bills of lading and other instrumentalities upon which credit is extended. Cotton, when safeguarded against weather, fire and theft, is practically indestructible, and should furnish the basis of the very best collateral upon which to borrow money. Credit only desires to be assured that this commodity is thus protected. This assurance can be made absolute only through a system of standardized warehousing issuing a uniform receipt.

If, as everyone agrees is the case, the lack of credit is the chief reason for the present unsound and uneconomic system of marketing cotton, and if the uniform warehouse receipt, as everyone agrees, is the key which unlocks credit, then it must follow that the providing of adequate, standard warehouses is by all odds the uppermost thing to be done by cotton producer and business man to bring about the solution of the difficulties under which you of the South have been handicapped for so many years. A proposition of setting up a preferential rate on paper secured by warehouse receipts issued under proper state or Federal regulation and inspection should have the fullest consideration.

PRODUCE MORE AND SPEND LESS

The farmer needs your help. Give it to him along these lines. I have only briefly hinted at this

question of increasing productivity. May I suggest the need for a larger campaign of education to stop the people in their debauch, their spree, their extravagant living and spending? A great reaction has come over our people since the war. Economy and even sacrifice when the boys were at the front was universal. Every unit of our country was organized under the county councils of defense to encourage thrift, production and saving. After the signing of the armistice a reaction set in. Signs are appearing that the people are now becoming more serious. In some industrial centers they are beginning to realize that in this hour of need for greater production is their opportunity to save from their earnings for the rainy day. We should encourage our customers and our people by example and precept that we mean what we say. We should take the message to them emphatically that no bank can encourage speculation whether upon the stock markets, in the handling of commodities, or in land. The time has come when we must shift all of our reserves to the point of attack. You are the outstanding officers of the line. The war, financially, has just begun. This lesson must be carried with emphasis and must be put into practice behind the counters of every bank. Every loan should be analyzed and criticized to the end that every dollar should count for production and not a cent for speculation. To withhold products from the market for pure speculation is unwise and hurtful. A regular, orderly marketing is part of your problem.

We hear much these days about the necessity of deflation of credit. Some economists lay it to the expansion of currency, others to prevailing price levels, others to condition of foreign exchange, and so on. Whatever may be the cause for abnormal conditions in our credit structure we are confident of two essential necessities for approach to solution. First, we must increase our production and from our production save more and spend less. We all feel sure that these are the foundation stones in these days of reconstruction. So instead of talking of the inflation or expansion of currency or of credit, or its deflation or contraction, let us, as I have indicated, be steady in our thinking and doing. Let us conservatively regulate our credits and apply ourselves to this new great task with all our energy and power, but with that power under absolute and complete control.

The Edge Act, now a law upon the statute books, will furnish the machinery with private capital and control, but with Government supervision, which will provide in large measure means for financing the operations governing the exports and imports of our country so that credit may be extended and rationed in orderly fashion. It is another great piece of constructive legislation intended to provide credit upon long time, and offering a good investment for the savings of our people.

THE FEDERAL RESERVE SYSTEM A FINANCIAL BULWARK

The Federal Reserve System is now the reservoir of strength to the financial, industrial, commercial and agricultural interests of our country. As bankers we are beginning to understand that this law was put upon the statute books, not for bankers only, that they might profit more, or for any one

class, but for the interest of all our people; if you please the financial traffic regulator. There is not a man in this room today but who will admit that the Federal Reserve System saved, not only our country, but the world from financial chaos and distress. We could not have won the war without American men and money. Every citizen has participated in its benefits. Every stockholder in a bank has had his holdings made more secure and valuable. Does it mean anything to you, my fellow-bankers, as a trustee for your depositors to be a participant in a system the capital of which is \$87,589,000 and the surplus of which is \$120,120,000, and the resources \$6,171,747,000 and in control of over two billion dollars of gold?

The member banks' reserves deposited in the Federal Reserve Bank, and the amount they have paid in for capital stock subscription, are the foundation upon which rest the currency and the credit supply intended for current and emergency use.

Let us take, for example, the case of a strong state bank in one of our largest States. The president stated that his bank entered the System during the war as a patriotic duty, but, as it had never borrowed or rediscounted, the directors were discussing, now that the war is over, the advisability of withdrawing from the System.

This bank had paid in \$9,000 on capital stock subscription and carries an average reserve of \$162,000, or a total of \$171,000, which under the terms of the Act was paid over in gold. This payment increased the loaning capacity of the Federal Reserve Bank by \$285,750 (about one and two-thirds times the amount paid in).

By keeping this reserve in the Federal Reserve Bank, the bank in question has made for itself the best possible provision against credit and currency emergencies, and it has also increased by one and two-thirds times the effectiveness of this reserve as a protection for the credit situation of the country.

From the standpoint of credit protection, it can then be seen from this example that withdrawal from membership diminishes the value of the reserve of the withdrawing bank to only about three-fifths of its potential value while it was on deposit with the Federal Reserve System. In effect, this reduces the margin the individual bank has with which to meet the legitimate or emergency demands of its depositors and also proportionately reduces the ability of the Federal Reserve Bank to care for the banking needs of the country.

The reserve percentage of the Federal Reserve System is now at a lower point than at any time during the war, whereas the credit demands thrust upon us as a direct result of the war, are yet to be provided for and real reconstruction is hardly begun.

It, therefore, behooves every banker to assist in this task of holding the banking reserves of the country where they can fulfill their widest use, not only to the individual bank, but to the entire nation.

Every State member bank has the privilege of withdrawing from the system and, as approximately 30 per cent of the capital and reserve deposits of the Federal Reserve Banks of the country belongs to State member banks, you can see what the effect to our credit structure would be if the privilege were taken advantage of, especially during these days

of reconstruction. The aggregate resources of the State member banks approximates nine and one-half billions. The eligible nonmember banks have resources of about eight billions. The effectiveness of the Federal Reserve System would be increased from 20 to 25 per cent if these eligible nonmember banks entered the System. And when you stop to consider that the Federal Reserve System's task is to maintain confidence and insure commercial solvency, don't you think membership worth while?

It is highly important that the eligible nonmember State banks in Texas, to the number of 341, with a capital of twenty-one and a half millions and a surplus of nine millions and resources of one hundred and thirty-five millions, add their strength to the great structure.

A WORD TO NONMEMBER STATE BANKS

Is it fair for you, as bankers, to stand on the sidelines and participate in the benefits of this great financial system and not make any contribution? Is it safe for you to assume that in the day of stress or strain that your correspondent in the city will be able to care for you regardless of his own needs? Have you the right to put this burden upon him? It is my sincere judgment that your elder brother, your real reserve, will be your full protection, keeping you in full control of your independent relations as a banker in the independent banking system of our country. You owe it to your community. You owe it to this larger program as a banker and as a producer to make sure of your ability to serve. Why should you be dependent? We hear a good deal these days about the possibility of branch banks being established in this country. This is hostile to my sense as an independent banker and citizen, and yet I am convinced a need for this can only come when the local banker cannot or will not serve his community and it becomes necessary for outside capital to come in. You do well, my friends, to consider this independent relationship and you should make safe your position as a financial leader of your community.

May I assure you I am not making this statement with a view to soliciting membership. But, as I stated at the beginning, to be of service and to make those suggestions that I would like to have made to me if I were in your place.

May I briefly recapitulate what I consider the outstanding benefits of membership in the Federal Reserve System:

1. It is an insurance policy, assuring to you complete confidence in your ability to serve your communities and to care for your depositors under every stress and strain.

2. It is a guarantee to your community that any program for development or production can be safely and continuously carried out.

3. It is a guarantee to you as a conservative banker in the district of your business that you can take these deposits with the assurance of security and continuous service.

4. It insures the independent relationship of your bank as to its dependence upon any other bank.

5. It is not a fictitious reserve, but a real reserve. For the first time in the history of our country, we are able to assemble the wealth of our people into the credit structure.

6. You are able to transfer funds without cost. You are able to collect checks at par, either going or coming. You are able to ship currency either way, insured and all charges paid, without any expense to your bank.

7. You have the benefit of the advice of business experts of the country, not only on financial matters, but upon the conduct of your business in particular. You have the privileges of rediscounting eligible paper. This is particularly important at this time because of the need of increased production of the articles you produce in this section.

8. The System has in the short period of its existence brought about better banking methods. You have heard criticism as to the necessity for making reports, etc., but let me remind you gentlemen that it was well for your country that under the National Banking Law a careful examination of banks was adhered to; that when the stress of war was upon us we had little to clean up or remove, but we could go immediately at our job. Bankers now are becoming real bankers and trusted guardians of the people's money.

9. It has given to every bank, a member of the system, the prestige because of the things I have enumerated and it is reflected in the confidence of the depositor, which is above all absolutely necessary.

Have you undertaken to secure the viewpoint of your depositor, very seldom expressed, as to how he feels? If there is any doubt in your minds as to this, reflect upon the four years or more since the World War began. Instead of apprehension or fright our people, for the first time in the history of our country, understood that the Government was behind the banks; that somehow, some way, their interests were fully protected. Bank failures were the lowest in the history of the country during this period. Bank deposits increased, bank stock paid large dividends, larger than ever before, and in spite of all we were able to finance the Government in all its operations as I have indicated before in the sum of approximately thirty-five billion dollars. When I say "we" I do not mean bankers, but I mean the people, our depositors, under your leadership.

But this could not have been done, as you will freely admit, without the Federal Reserve System in operation. May I emphasize this again because it is my thought to get into your minds first things so that the petty, smaller thing will take its right place, and that you will have proper respect because of the accomplishments of the System during this great period.

I am conscious of the fact that there are critics everywhere. No doubt there are some here today who fail to appreciate the fact that the Federal Reserve System stands as the great insurance policy, past, present and future, who still cling to their idea and chirp and whistle because of their petty losses on exchange and their losses upon reserves a year after the war is over, and with the memory of past panics fresh in their minds, and with their deposits doubled and their profits greatly increased, having the complete confidence of the people. In spite of all this wonderful record, there are still some men left who would take us back to the dark alley of narrow thinking and small doing.

Do you realize, my friends, what it means to be a citizen of a country, and the only country on the face of the earth with a stabilized money standard. How would you like to live in a country where the mark, in terms of gold, is today only equal to one-twenty-second of what it was before the war, or where the franc in exchange for gold is equal to less than half its former value, and the lire one-third of its former value? And what shall we say of the previous standard of the world, the pound sterling? Oh, I know there are men here who will begin to talk about the purchasing power of the dollar, but let me remind you that in spite of the present price levels our dollar still heads the list. We are the undisputed creditor nation of the world. Not a national bank failure of any consequence during all these years of stress.

Let me refresh your mind as to how you people in Texas have participated in the Federal Reserve System:

Rediscounts—

1917	\$52,052,600
1918	587,677,766
1919	1,224,948,345

Is that any contribution to the State of Texas? Are you as a banker a debtor? What will be the record for 1920?

In the old days when the stock gamblers would plan their little parties and set the wheels of speculation going, when the game got beyond their control, you will remember, they were playing with the funds the producing people had on deposit and when we desired these funds for their use, and for legitimate purposes to increase production and care for our communities, we were told that we could not have them and we were compelled to resort to one device and another to care for our need. One centralized power controlled. How different today. A democratized system responding to needs of every section of our country.

Let us get it into our minds if we have forgotten it, that the Federal Reserve System is a great Government institution, and is, as I have stated, for the benefit of all the people. There are some bankers who labor under the hallucination that the deposits in their institutions are their property. We do well occasionally to remind ourselves that the funds belong to the people; and that the System is functioning not primarily for the banker, but for the people. That is what we have the Government for, and, after all, you and I are the Government. Has the safety and security that the Federal Reserve System has brought to you as a banker meant anything to your customer? Have you ever tried to get his viewpoint? Have you reflected on how he felt during the war? This System has been the great insurance policy for all of us whether we were members or nonmembers. Your whole district is now on the par basis, and, by the way, is this not in many ways a good thing? Would you not suffer many inconveniences and possible loss if you were to go back to the old days of tardy service? In a short time now, the whole country will be upon a par basis. To use an old illustration, which to my mind is quite clear, of the producer in the old days, who hauled his produce by wagon, forced to go down stream ten miles to find a bridge to deliver his

goods, of course putting the cost of transportation, as to time, labor and all upon the customer. The States or Government came along more recently and put a bridge across this river right at the door of the producer and the consumer and have told them to use it to expedite trade, and save time, labor and money. Do you want to be one of those men who insist upon the use of the old bridge? Think it over, and again let me remind you, always remember that these deposits belong to the people and that the Federal Reserve System is functioning in their interest primarily.

May I have the ear of the State bankers present who are not members of the System, to urge upon you the prime importance of strengthening the System for the job ahead as I have outlined briefly. The day has come when if you expect to use the System directly or indirectly you must make your fair contribution to its reserves in every way. In this brief, plain way I have undertaken to talk to you in a language you would understand, without technique or any effort to give advice.

I would like to do to and for you as I would like to be done by if I were in your place. The time has come for us to relate ourselves as citizens, not only to the financial system, but to the country and to the world in terms of sacrifice and service—for you to put first things first. You may discover that this principle when once worked out will be not unlike the tides of the ocean. They come in with unflinching regularity and when they go out they take with them not only the great war vessels and merchantmen, but the little dory and canoe are lifted alike upon the bosom of the tide. A well-known philosopher put the idea something like this: "Just as in religious hysteria a single text becomes a whole creed, to the exclusion of every other text, and instead of being itself subject to rational tests is made the sole test of the rationality of everything else." That is the mistake of small thinking, which results in small doing. May I urge you again to use your privilege as leaders in the new day of opportunity.

How proud we are of our country and our civilization. But let you be not unmindful of this: That our country in the days to come will be just as great and strong according to our own contribution. It has cost us much, the fathers have paid the price. We will not tolerate on our shores the anarchist or the Bolshevik, but we propose, methodically, steadily, conscientiously, to go at our job of reconstruction, having full respect for the blood and treasure that has been spent to make our country what it is, and hand down to our children the heritage unshattered and prove to all the world that this is a Democracy where people know how to perform the task of self-government.