To be released on next
Thursday, June 24th. 1915 ?

This is the first general convention of the bankers of the State of New York since the establishment of the Federal Reserve System, and, therefore, the first opportunity to address all of the bankers of the state in regard to the work which has been done by the Federal Reserve Bank and in regard to some of the larger aspects of the system. Your President has asked me to refer to our plan for collecting checks and to the new regulation regarding state banks, but I want first to briefly review some of the work that has been accomplished by the bank since its organization last November.

On October 26th, 1914, it was decided by the Secretary of the Treasury that the situation brought about by the war in Europe necessitated the immediate organization of the Reserve Banks, and November 16th was fixed as the date when they should open for business. On November 2nd, $3,321,950. of gold was received from the member banks of this district in payment of the first instalment of our capital. On the morning of the 16th of November, an organization, largely temporary, consisting of seven officers and eighty-five clerks had been assembled, and on that day $99,611,670 of reserves were transferred to the bank by the member banks. We had been successful in renting satisfactory offices already equipped with the furniture and fixtures necessary for our accommodation. Our temporary organization has since been gradually converted into a permanent organization, consisting now of five officers and fifty-two clerks, including stenographers, messengers, watchmen and porters.

Two additional instalments of capital have been received, making the present paid in capital $9,961,650, being 50% of the statutory amount. Reciprocal accounts have been established with the other eleven reserve banks for the purpose of handling inter-bank transactions, such as collections and investments. Through these accounts, the Federal Reserve Bank of New York has up to this time handled $426,300,000. of exchange and $25,000,000 of currency shipped to us to create exchange. Balances have fluctuated widely, the net amount due the New York bank at times exceeding $20,000,000. On May 19, 1915, for the purpose of facilitating prompt settlement of these balances at minimum cost, there was deposited in Washington by all the Reserve Banks, and placed under the control of the Federal Reserve Board, a fund of gold sufficient to enable them to effect settlements between themselves without transferring any currency and simply by exchange of telegraphic advice. These settlements are at present made weekly, but if a larger volume of transactions makes it necessary, the fund can be increased and the settlement effected daily.

After some months of study by the Federal Reserve Board and the officers of all the reserve banks, the Federal Reserve Bank of New York, in common with the other banks, has taken the first step toward the creation of machinery for collecting checks for its member banks within its own district. Plans for establishing a system of bank transfers have been agreed upon by all twelve of the reserve banks and will shortly be placed at the disposal of the member banks, to enable them to effect prompt and economical transfers to all parts of the country. This system will be gradually developed and enlarged. Service of this character is made possible largely through the establishment of the Gold Fund in Washington, by means of which balances between the reserve banks created as a result of these transfers will also be settled.

In the first seven months of our business the New York Reserve Bank has discounted for its member banks 1,501 notes, amounting to $8,284,349.70. It has also purchased in the open market 387 acceptances of a total value of $9,315,158., and it has made forty-one investments in short time municipal warrants of a total value of $11,160,000. In addition to the investments made for its own account, it has purchased $23,697,508.93 of acceptances and municipal warrants for account of eight of the other reserve banks, on their instructions.

From these discounts and investments, the bank has to date made gross earnings of $158,710.38, its current expenses have been $116,948.84, leaving $41,761.54 of net earnings, which will be applied to organization expenses amounting to $181,654.36. These are partly made up of the cost of initial purchases of necessary supplies and fixtures, and making changes in our office. $35,424.18 however, consists of the assessments levied against the bank for its proportion of the expenses of the Federal Reserve Board and $98,180.98 represents the actual cost of preparing Federal reserve notes issued and to be carried in stock. The directors of the bank have authorized the preparation of a total of $300,000,000. of notes of various denominations, determined by experience gathered from all sources available as to the demand for currency. This will involve a considerable outlay by the bank, but the assurance to the member banks that we have on hand at all times not less than $250,000,000 of currency available against emergencies, well justifies the cost. There is at present on hand over $183,740,000 of notes and the supply is being increased so as to complete the amount in a few weeks. To this date there has been issued $34,600,000 in denominations of $5 to $100 inclusive, of which amount $34,420,000 now outstanding are covered by a like amount of gold deposited with the Federal Reserve Agent.

Of course the ability of the reserve banks to increase their gold reserves, beyond the amount of the member banks' deposits, is dependent upon their ability to issue notes against deposits of gold. This process is now in successful operation, the New York bank alone having issued, as stated, $34,920,000 of notes against a like amount of gold deposited with the Federal Reserve Agent, and all twelve of the reserve banks show $58,291,000 of gold so held.

The New York Clearing House Association has admitted the bank to limited membership, thereby giving us facilities for clearing checks without imposing liabilities which we are not authorized to assume; and in all matters pertaining to our organization and the development of our business, the clearing house has given us loyal cooperation. The work of the bank is being carefully departmentalized under the direction of experienced men. Owing to the simplicity of the work to be performed and the machinery for handling it, I am confident that in due time the bank will be more economically managed than any other bank of its size in the world. Simplified methods of bookkeeping, and permanent statistical records, are being studied and adopted without, however, attempting to burden the organization with unnecessary detail. Credit files have been started to record the condition of our member banks, as well as information gathered in regard to paper offered for discount by those banks which avail of our facilities. In time this record will be one of the bank's most valuable assets, enabling it to promptly and safely meet unusual demands that may be made upon its members.

This brief review of the past seven months' work must not give the impression that it has been an easy task or accomplished without arduous labor. Everything pertaining to the organization has been new and untried. It may be said that on October 26th the bank's equipment consisted of little more than a printed copy of the Federal Reserve Act; whereas, to-day, it is a fully equipped bank with an organization perfectly capable of meeting any emergency, and is promptly transacting the business entrusted to its care.

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Any sound system of banking reform for our country involves assembling our gold reserves. By that means the foundation is laid for a flexible note issue, and by that means the assets of the member banks are made liquid and convertible in time of need. The reserves so assembled must in part be those formerly held in bank vaults, but must also largely consist of those formerly redeposited with other banks in the reserve centers. Of course there will be no difficulty with the reserves which have heretofore been held in the vaults of the member banks. But a different question arises with respect to those that have been on deposit with reserve agent banks, which have been used as the basis for check collection services by the agent banks. Two years hence a still larger proportion of these reserves will have been transferred to the reserve bank, and the problem of check collections will become acute for the small country bank unless it is in process of solution prior to that time. Consequently the country bankers should now face that issue squarely, and unless you are willing at the outset to agree that facilities for collecting checks must be created by the reserve banks before the reserve balances have been entirely transferred, it will be hopeless to expect you to view this matter from a judicial and far sighted point of view.

Please, therefore, consider that the work planned by the reserve bank, after conscientious study of the problem, is undertaken with the object of performing a necessary service for the member banks, and not with the object of depriving them of legitimate revenues.

The chief difficulties to be overcome may be summarized under three heads:

First, the so-called "float."

Second, the possible duplication of reserves, or necessity for excess reserve balances, for collection purposes.

Third, the loss of revenue from exchange charges.

First, as to the "float:" the Federal Reserve Act is silent as to the method which the country banks shall follow in computing deposited reserves. Theoretically, these reserves have in the past been cash balances in bank; in fact, they have not been real cash balances to a considerable extent. By the old practice, which has always been permitted, the country bank each day remits a cash letter to its collecting agent in a reserve city, and on that day charges the amount of that cash letter to its reserve agent and considers it a cash balance, and part of its reserve. These checks in transit to the reserve agent constitute the real "float." After they reach the reserve agent, they become a reserve balance, because the reserve agent advances the amount of the checks, for which it gives immediate credit and allows interest on the balance after deducting the time estimated for collecting the checks. The Federal Reserve Act provides that the member banks shall "establish and maintain" reserves on deposit with the Federal reserve banks; it does not say that the reserves so "established and maintained" shall consist partly of cash and partly of these uncollected checks, which are in the post office on the way to the bank. Stated differently, I think it means that the reserves to be deposited in the reserve banks shall be as shown on the books of the reserve banks, and not as shown on the books of the member banks.

If this were not so, the amount of reserves to be maintained on deposit in the reserve banks would not be as stated in the law, but would be those amounts, less the amount of all the checks in the mail, on the way to the reserve banks from all the member banks.

Now, if the old method of handling checks should be adopted by the reserve banks, instead of the one proposed, these reduced reserve balances would be further reduced by advances of the amount of checks received by them for collection, as is now done by the reserve agent banks, thereby further depleting the resources of the reserve banks by the amount of checks sent out for collection for the reserve banks themselves. Such a reserve situation would be absolutely unsound. The resources of the reserve banks would be too largely invested in uncollected checks, and the reserve balances of the member banks would be too largely paper balances. This new definition of what constitutes a deposited reserve is in reality the correction of a banking abuse in the use of checks as reserve, which should have been corrected before it reached the present unsafe proportions. It is, in fact an unavoidable consequence of the transfer of reserves now being made, unless the reserve provisions of the act are to be ignored.

So summarize, therefore: The difficulty in respect to the "float" is that the member banks after two years will be obliged to calculate their reserves as shown on the books of the reserve banks. In the case of member banks of this district, they will not, after two years, be able to count a cash letter as a cash reserve with the reserve bank until the letter reaches the bank and the checks are cleared, which means one day's time only, If this is a hardship, as it doubtless appears to be, let me remind you that it is also a hardship for the victim of a drug habit to give up the use of drugs.

<u>As to the second point of excess reserves:</u> The situation appears to be as follows: The country banker requires and will continue to require certain services of its correspondent, which at the present time, the reserve bank is unable to perform. The correspondent is compensated for the performance of

these services by a profitable balance. The member bank fears that while it must carry a large reserve with the reserve bank without interest, it must also carry other balances at 2% interest with its old correspondents in order that it may have these services performed. There are, I think, the following services performed:

1st: The collection of all checks drawn on non-member banks and on points outside of the district, which the reserve bank is not now able to handle.

2nd: The checking, purchase and collection of commercial paper.

3rd: Investigation, purchase, custody and sale of bonds.

4th: Making general inquiry regarding banks and other credits.

5th: Loaning surplus funds on collateral security on the New York Stock Exchange.

6th: The collection of notes.

Many of the services above enumerated can, in time, be performed by the reserve banks, and I believe with such care and intelligence as will make the service satisfactory to the member banks. For example, when as a result of the establishment of the reserve system a true discount market is created with a large volume of bills accepted by banks of first credit, there will be little difficulty in arranging, if necessary, for the reserve banks to purchase bills for its members and such bills can be held in portfolio as a secondary reserve available at any time for rediscount in case of need. They should in time, to some extent, take the place of call loans and purchased commercial paper. And it must not be forgotten that the Federal Reserve Bank of New York at present has only 479 accounts requiring such services and when New Jersey adds its quota, 610 accounts. With this small clientele, there should be little difficulty in making the service the promptest and most efficient that can be rendered for a bank correspondent.

The necessity for a considerable excess balance, however, grows out of the present inability of the reserve banks to handle checks payable outside of the district or those drawn on non-member banks. The development of the inter-district collection plan will come along in due time so that you may send us checks on member banks located in the other eleven districts, and the machinery for handling these items can be made to reduce the transit time materially.

It has been estimated that over 50% of the the checks handled by the country banks are drawn on banks not now members of the reserve system and our members have assumed, without good cause, that the reserve banks will never be able to handle these items. This is a pretty broad assumption. The problem may solve itself through the admission of a great body of state banks to membership in the system. Failing that, however, if the interests of the member banks demand that they should be permitted to send their items drawn on state banks to the reserve banks, I think you may assume that every effort will be made to enable them to do so. I even doubt whether this would involve any amendment to the law; but should this be possible only by an amendment, you can be assured that the Reserve Bank of New York will endeavor to have the law amended. This statement must not be understood to mean that our collection facilities will be developed for the benefit of customers of banks which do not join the system. If the state banks do not take membership, under terms which are fair and equitable, and the member banks find that they will require the services of the reserve bank to effect economical collection of non-member checks, the terms upon which this service is performed ought to afford some advantage to the member banks. But, in my opinion, no attempt of this character should be made until the basis of membership for state banks has been so fairly and justly established that no criticism can possibly arise as a result of preferences shown to the banks which are members.

For many member banks, it will be no hardship to carry balances with their old correspondents, which will not count as reserves. It has been a more or less general practice, and will doubtless continue. The reports of the Comptroller rarely show reserves held by the national banks, to be less than $240,000,000 above those required by law. They have fluctuated from $242,000,000 in 1900 to $435,000,000 excess in 1911 and $734,000,000 on March 4th last. Such excess reserves can be made the basis for the performance of such services as the reserve banks may not be able at first to extend to their member banks.

Every effort will be made to avoid the necessity for carrying excess balances with the reserve bank merely in order to meet unexpected charges. We have suggested that this may be accomplished by arrangements with us and with other correspondent banks in New York City, to make regular transfers in order to reduce or restore balances carried with us.

If the member banks using the system are unable to send sufficient exchange to offset charges, we must, of course, consider whether it may not also be necessary to restrict immediate credit of checks to those which come to us directly from banks that have adopted the collection plan and give deferred credit to those which come to us through clearing banks but in reality for the benefit of banks which have not adopted the plan. This we would be most reluctant to do unless it was found necessary in the interest of those banks using our par service.

To the extent that each member bank avails of our collection service, to just that extent will it be relieved of the necessity of carrying balances elsewhere for collection purposes, and as new members join in the plan the relief in this regard will show almost geometrical progression.

Now as to Exchange Charges:

Undoubtedly the chief objection to the collecting plan for many banks of the district lies in the third difficulty, that is, the loss of "exchange charges." In view of this objection, and in order to avoid imposing hardship upon member banks, the intra-district collection plan was made a purely voluntary matter. The changes which we hope will result from the operation of this plan are fundamental and can only be brought about gradually by patient effort. They include the correction of a number of abuses, such as excessive exchange charges, in some sections of the country, undue lengthening of transit time, circuitous routing of checks in order to avoid points where collection charges are imposed, drawing against uncollected items and others with which you are familiar.

A large volume of items is now handled by banks not located at natural exchange centers, which should go more directly to destination. Outside of the few sections of the country where par collections have been brought about by the establishment of country clearing houses, false exchange points are being created, giving rise to a species of inflation which is bad enough in itself, and which also encourages other abuses. Where abuse exists, it must gradually give way to better practice. Where legitimate revenues, however, are in danger of being lost, we must find means to avoid the losses or to create other sources of revenue which will make them up.

Through the courtesy of some of our member banks, we now have a staff of experts at work in their offices, making an analysis of their accounts in order to assist in a solution of this exchange problem. The plan contemplates ascertaining what is the real profit from exchange, where those profits can be made up if lost, and what effect generally the Reserve System will have on the earnings of member banks. It is the purpose of the reserve bank to furnish every member bank of this district with the best system which can be devised for analysis of its business and of the accounts of its customers so as to determine where economies may be effected, losses avoided and new income created. The expense of making this study might be prohibitive to any one of the smaller banks and will be borne by the reserve bank for the benefit of all the country banks, who can well afford to cooperate in order to avail of the results.

In this connection, I would like to ask the bankers from the central part of this state whether they make more money from exchange charges than they now lose by the payment of excessive rates of interest on deposits. Too many bankers measure the prosperity of their banks by the footing of the balance sheet, rather than by the annual turnover of profitable business. If you will examine the statements and annual reports of the great banks of Europe, you will find that the managers of those banks point with pride to the "turnover" and pay much less attention to their "footings." You will find that they publish elaborate lists in which are stated the amount of charges for all sorts of services performed for their customers. You will find that the interest which they allow on their deposit accounts is measured by the profit which they are able to make on the account, rather than by what some next door neighbor is willing to pay without regard to profit.

Exchange is not a matter that can be dealt with by general rule or regulation. Conditions in each bank and each district differ. An analysis of the books of one bank may disclose that the loss of revenues from exchange can be made up by a more conservative policy in the payment of interest on deposits. In other banks, it may be found that customers receive accommodation and have services performed for which they do not pay adequate compensation. In still other banks, it may be found that abalances maintained for the purpose of collecting checks are unnecessarily large under the new conditions created by the Reserve System. Some part of the loss of exchange can be made up out of the use of reserves now released by the statute, and conditions as they now exist under the Federal Reserve System will enable the country bank to employ a maximum of its resources to meet the needs of its own community and at the rates which there prevail, as it now has the means of immediately converting a large percentage of its paper into a reserve balance at the reserve bank in case of need. Many of the country banks receive savings deposits on which only 5% reserve is now required, and from which hereafter larger profits will be realized.

The customer of a bank now enjoys the privilege of sending his checks to any part of the country in payment of bills, and has used this privilege to the point of abuse. On the other hand, the charges imposed upon the payee of these checks are gradually arousing resentment from the public. It seems to me that we should be able gradually to change our system so as to eliminate abuses and overcome complaint. Payments made to distant points should be effected to a greater extent by bank transfer checks and for this we shall gradually develop facilities. Charges for handling checks sent to distant places should be borne by the person for whom the service is really performed, that is, by the drawer of the check, and that will aid in developing the use of bank transfer checks. Some of the present revenue of the country bank from exchange charges, if lost, should be replaced by a moderate charge for effecting transfers, and these charges should be more equitably based upon the cost of settling net exchange balances.

Of the $152,621,000. of resources of the Federal Reserve Bank of New York, only $11,274,500. are contributed by the country banks of this state. While an improvement in our collection system may appear to benefit the banks of the reserve and central reserve cities, the plan now adopted aims particularly to meet the needs of these country banks.

It gives the customer of the country bank the advantages of having his checks handled at par within the district as freely as the customer of a New York City bank; and it will materially strengthen our banking position by reducing the volume of floating checks heretofore considered as reserve balances. In concluding this part of my address, let me sincerely urge upon the country banks that their cooperation will enable us to perfect facilities which will minimize loss and inconvenience that otherwise may be incurred when their reserve accounts are finally transferred. A fair trial of the plan will afford experience which will facilitate our efforts to make it satisfactory.

One of the objects to be accomplished by the Federal Reserve Act is "to establish a more effective supervision of banking in the United States," and membership by state institutions was made a part of the plan so that our whole system might be bound together for greater strength and protection. There appears to be a somewhat prevalent though erroneous belief that the law left the whole matter of state bank membership to the discretion of the Federal Reserve Board. Before considering the discretionary powers dealt with by regulation, you should study those provisions of the statute as to which the Board has no discretion. The act provides that any state bank has the right to make application for permission to become a member bank, and it requires the Board to establish by-laws to govern its action upon such applications. It specifies the capital and reserve requirements which are made to apply to such state banks. It prohibits excessive loans, purchases or loans by member banks of or upon their own stock, impairment of capital or payment of unearned dividends, and certain other transactions, all of which now apply to the business of national banks. It authorizes the continuance in part of existing reserve accounts for three years from the date the reserve banks are established, requires compliance with rules for examinations, but authorizes the acceptance of examinations made by state authorities. The Act clearly recognizes, as we all do, that a stronger banking system and better banking methods can only be brought about by assembling reserves of both national and state banks, and by more uniform methods of supervision and examination. To accomplish this, the Federal Reserve Board has so exercised the discretion conferred by the statute that no state bank need hesitate in applying for membership if it believes in the system, is in sound condition and its business complies with the law.

The regulation just published will permit the kind of cooperation between the banking department of this state, and the Federal reserve bank which should insure a munimum of expense and inconvenience to state banks which become members. I hope to see arrangements made by which the regular examinations by the state examiners can be conducted jointly with those of the reserve bank. Likewise, it should be possible to have copies of the reports now regularly made to the state banking department filed with the reserve bank and with very few, if any modifications in the forms now used. In this connection it must be noted that the new banking law of this state adopted last year made express provision for state banks and trust companies joining the reserve system. The procedure for admission in this state, where the examinations have been thorough and effective will be simple and prompt. The applying bank should fill out the application blank and send it to the Federal Reserve Agent at our office. It would be desirable to have an officer personally explain its contents to our own examiner, to acquaint him in advance with the character of the business conducted by the applicant. Whatever examination is required by the Federal Reserve Board can then be made. In most cases, I hope to have such an arrangement with the state banking department as would enable us simply to review the last examination made by the department, provided that will be authorized by the Federal Reserve Board. If a special admission examination is made it should, if possible, be made jointly at the time of the regular examination by the department. The application and examiner's report will then be passed upon by a committee, composed of the Federal Reserve Agent, one other director, and the Governor of the Federal reserve bank.

The director who serves on this committee shall in no case be an officer of a bank located in the same city or town, as the applying bank. A report by this committee will then be transmitted to the Federal Reserve Board for final action. The application and report of examination will be intended to disclose the financial condition and character of the management of the applicant. They must show the nature of the powers exercised, and make clear that they are not inconsistent with membership in the system or indicate in what respect they are inconsistent. The Board may impose conditions if thought necessary to insure compliance with the general standard of membership and to remove any inconsistency. The Federal Reserve Board will then pass upon the application, and if approved, issue its certificate, whereupon the applicant is required to subscribe for an amount of stock of the reserve bank equal to 6 per cent of the applicant's capital stock and surplus, of which one-half is at present required to be paid. It must also open and maintain with the reserve bank a reserve account equal to what is now required for national banks. Each institution applying for membership can be dealt with under the new regulation, with due regard to the conditions surrounding the business of that institution; its assets, its policy, the character of its management and its charter powers can all be taken into consideration under joint or separate examination and as soon as membership is obtained, future uniformity of supervision is reasonably assured.

This necessarily involves the sort of co-operation between the federal and state authorities which has long been desired and which has been developing naturally, quite apart from the provisions of the Federal Reserve Act.

As to investment and other charter powers: You will observe by the terms of the regulation that each applicant for membership must conform to certain statutory provisions made to apply to state institutions, and that compliance with further conditions imposed by the Board will be determined only after examination of the facts disclosed in the application for membership and in the report of the examination of the applicant. This leaves it to the discretion of the Board to determine in each case to what extent further restrictions authorized by the Act, should be imposed for the general security of the Federal Reserve System. It is clearly indicated that any such restrictions will be based upon recommendations submitted by the committee of the Federal reserve bank of each district, such recommendations, of course, resulting from an examination, which will bring the officers of the reserve bank in touch with the officers of the applying bank and afford opportunity for a clear understanding of the business and the requirements of the applicant.

The regulation does not contemplate surrendering charter powers which are not inconsistent with membership and which are clearly incidental to the business of banking. It does involve protecting the system against membership generally by institutions that are conducting a business involving special hazards and not incidental to banking.

One effect of a large membership under the term of this regulation will be to gradually develop uniformity of methods in banking, tending to security and stability.

Membership will, in time, come to be regarded as evidence of a standard of condition and management which will reflect credit on institutions enjoying it.

The most important matter, however, the right of withdrawal, is not specifically dealt with by the Act, but has been well covered by the regulation. National banks have become involuntary statutory members of the system. In order to avoid or to abandon membership they must surrender their national incorporation and reincorporate under state laws. Very few of the national banks have done so, - in fact no tendency in that direction has developed. State institutions, however, have hesitated to subject themselves to dual supervision, and to possible future regulations of the Reserve Board, the terms of which are not yet disclosed, without some definite means of withdrawal, which would not involve their liquidation. They could not reincorporate as state banks without abandoning powers and good will of too great importance to be jeopardized.

This situation has incorrectly been assumed to be an absolute bar to membership by state institutions. One of the main purposes of the Federal Reserve Act, in fact, could not be properly accomplished were state banks required to take membership without means of withdrawal. On the other hand, the interests of existing members had to be regarded and no undue advantages extended to state banks which might operate to the disadvantage of the national banks. By the terms of the regulation, a method of withdrawal is provided which should relieve state institutions from doubt as to the effects of dual supervision or the effect of future restrictive regulations. Its terms are so conservative, however, as to protect the interests of existing members and protect the system as a whole against excessive reduction of its resources as a result of indiscriminate withdrawals.

The success of a banking institution does not depend solely upon the size of its capital, the amount of its resources or the character of its supervision. Its success really depends upon its ability to perform satisfactory service to its customers and to maintain its credit unimpaired. This will apply to reserve banks as well as to a national or state bank. Every banker is conscious of the necessity of so managing his institution that he will keep his customers and add new ones. How, therefore, may the reserve system expect to succeed unless it is managed just as though all of its members were, in fact, voluntary members, notwithstanding what may have been the terms of admission in the first instance? If the system is badly managed it will lose membership and fail, and if it is well managed and performs valuable services to its stockholders and depositors, it will succeed and increase its membership. Upon this basis, the state institutions are invited into membership, as voluntary members, and upon this basis we expect to retain our national bank members, whose membership was involuntary.

It may be that the involuntary character of the national bank membership has been responsible for the prevalent feeling that these reserve banks are departments of the government. Such an attitude on the part of member banks might lead them to disavow their responsibility for the management of the reserve banks when, in fact, the primary responsibility for the character of their management rests upon the members, who own all the capital stock, and in fact all the assets of the reserve banks. Many members have not yet recognized the responsibility of ownership which properly rests ipon them. As stockholders, they elect two-thirds of the directors by whom the officers of the reserve banks are in turn appointed. It is clearly the duty of the member banks to elect competent directors and see that efficient and reliable officers are appointed. They should feel free to make suggestions and criticisms regarding the management of the banks and equally free to make the greatest possible use of their facilities.

To these banks, the government in a sense has entrusted its credit. They are authorized to act as its fiscal agents and through them are issued notes which the government is obligated to redeem in gold. The government should, therefore, assume a partial responsibility for their management and supervision. It appoints three of the directors and a board of seven men to supervise the whole system. Concerning this feature of the Reserve Act, after experience with its operation, I entertain strong hopes. Heretofore government regulating bodies have been brought too much into antagonism with the business interests which they are appointed to supervise. In the reserve banks, they are brought into contact with the member banks by participation in the actual management of the reserve banks. They share the responsibility for their management. Difficulties and differences of opinion can be discussed and composed, as would hardly otherwise be possible. Where in other cases of government supervision a line of cleavage has developed between the interests of the government and the interests of business, in these institutions the point of contact will prove to be a point of fusion. May not this prove to be an entering wedge by which antagonism between government officers and business interests may ultimately be removed? In no other section of the country has this prejudice been so apparent as in New York City, and if all such prejudices, political and sectional, against New York and its bankers can be overcome by such measures as have been adopted in the Federal Reserve Act, I should feel that the work now being done has been well repaid.

I should not permit this opportunity to pass without referring to one feature of our banking situation of great importance: The Reserve Act made careful provision for the gradual transfer of reserves by the member banks, but permitted the reduction in required reserves to take effect at once, so that at present large excess reserves are held by member banks, a part of which within the next two and one-half years must be transferred. The amount of these later transfers and the amount of funds required to eliminate the "float" from reserve balances, will make quite a hol in present excess reserves, and should be allowed for in future calculations. The Federal Reserve Act on November 16th released cash and deposited reserves in the national banks, amounting to $465,000,000. The Comptroller's report of March 4th, showing the condition of national banks, disclosed that this excess reserve had increased to $734,000,000 held by the national banks alone. It may be assumed that another very large excess reserve, but probably less than this sum, is also held by state institutions. There is, in fact, held in trust by the banks of this country a credit of such vast proportion that its custody and use impose a hugh responsibility. The situation is one that might easily lead to a riot of speculation, inflation and exploitation, if the bankers were so unwise as to permit it. We may, on the other hand, employ this vast credit to meet the demands of the commerce of the world at a time when we alone, of all the great nations, are able to fill the gap in the world's credit system which has been created by the European War. No banker at this time should undertake to prophesy what will be the economic consequences of the War. The proportions of the conflict are so vastly greater than anything known in history that precedent affords little guide by which to measure its results. Study of trade reports, bank reserves and interest rates, government borrowings and note issues, will only serve to indicate a tendency; it will not disclose the result. What now seems to be taking place all over the world is the general mobilization of the gold reserves by every effective means, so that each party to the conflict may with the greatest degree of security expand credits to the greatest degree possible. Each nation should be regarded as a bank, and all the bank, commercial and government obligations of the nation regarded as deposit and note liabilities: the gold reserves of the banks should be considered as an insurance fund established to demonstrate the ability of the debtor to pay in gold. By good fortune, due to the passage of the Reserve Act prior to the outbreak of the war, this country has itself mobilized some portion of its gold reserves and the mobilization process is continuing at a satisfactory rate. Our reserves are likewise being augmented directly by gold imports and potentially by liquidation of our debts to Europe. We are therefore in position to fortify ourselves against such developments as the war may bring about. But these reserves must not be misused. The tendency will likely be for them to still further increase as a result of gold payments now being made to us by debtor nations for the goods being exported to Europe at an unprecedented rate, and the temptation to expand will increase with the enlargement of our reserves.

In our trade relations with the nations of Europe, it seems likely that the settlement of balances due us will be effected by one or more of four methods. We are now probably purchasing and will continue to purchase large amounts of our securities held in foreign countries. This is one of the most natural and desirable processes. We may continue making direct loans to foreign countries which to some extent will offset our trade balances. To some extent, also, we are receiving payment in gold, $100,000,000 having come to our shores since the first of January. All three of these operations together have been hardly sufficient to effect payment of current accounts being created every day for purchases now being made. The fourth method of settlement depends upon the activity and enterprise of our large banks and is the one which I am most anxious to see employed. We should at once use a part of our great credit power to finance our own world commerce, instead of continuing to entrust to others this manifest duty.

Our banks do not seem to realize that of our $4,000,000,000 of foreign commerce, over 20%, that is, over $800,000,000, is conducted with the republics to the south of us alone; and this great trade represents 30% of all the foreign trade of the Central and South American Republics. It has largely been conducted upon credits established in foreign lands with foreign banks. It is our trade, and we should extend the credit upon which its continuance depends. If we do not do so, some part of that trade will surely be lost. The same is true with respect to a large part of our commerce with other parts of the world. This country's position, both domestic and international, would be vastly stronger were we able to employ at once a large part of our surplus banking credit in financing our own foreign commerce. Our past dependence upon foreign credits is no longer as necessary as it was, and our customers have a right to expect accommodation, now that we can afford to extend it.

What is most needed is banking machinery and men of expert knowledge. The Federal Reserve Act confers enlarged powers upon the national banks to enable the creation of this machinery. If the powers thus permitted are not sufficient to enable its prompt creation, the member banks should point out the deficiency, and effort should be made to secure any necessary amendments. Experienced men must be developed in the school of experience as promptly as possible. This subject must not be viewed with a narrow vision. This country and its bankers must not be considered to be engaged in an unlawful and underhanded competition in undertaking at last to conduct the business which belongs to it. The extension of our commerce is as much a duty to the rest of the world under conditions now existing as any duty that this country can ever perform. The extension of our banking credits is equally a duty, our existing commerce depends upon it, and we should be about undertaking it.

The Aldrich-Vreeland Act, after having performed a service of value beyond any expectation, expires in a few days. Under its protection our banking system last year withstood a serious shock, without disaster, largely because our national banks were able to promptly convert assets into currency. Only the resources of our own banks were available, and they had to be husbanded in order to pay foreign debts, while in former emergencies we had been able to buy or borrow gold abroad. After having shipped about $130,000,000 gold to Europe in the first half of 1914, we sent about $120,000,000 more after July 1st, and were able to pledge a total of nearly $200,000,000 for payment of maturing foreign debts. Without the Aldrich-Vreeland Act this would not have been possible. Some doubt has occasionally been expressed as to the ability of the Federal Reserve Banks to deal with a similar situation should it arise. These doubts may be dismissed. The machinery for issuing Aldrich-Vreeland currency took time to prepare and start in operation, no banking or credit organizations were actually in existence for the purpose, and of course, the associations had no true banking reserves. The reserve banks, however, have the facilities and will require no further preparation. Their relations with the member banks are established, credit information regarding their affairs is now being systematically assembled, and the Reserve Banks will have constantly on hand and ready for prompt issue, an amount far in excess of the $500,000,000 of currency authorized by the Aldrich-Vreeland Act. They now hold in their vaults and with the Federal Reserve Agents $300,000,000 of gold and $35,000,000 of lawful money, a practically untouched reserve. In ordinary times, the value of this insurance for the stability of our credit position would be well worth the cost of its establishment and maintenance. At the present time its value cannot be estimated. To what extent may not the complaisancy with which our bankers are viewing possible consequences of the war be due to the assurance that at last we have at hand the means to protect our own banks without regard to affairs in foreign countries, - self-reliant and self-sufficient?

In that assurance lies the answer to those members whose allegiance to the system has been in doubt, and the strongest argument for membership to those who hesitate. Most of the member banks of this district I believe are giving us their loyal support. Some have withhold it, as have the state institutions up to this time. I have made an earnest effort to satisfy myself as to the cause of this attitude, and now believe that there are but two reasons worth mentioning. As to the member banks, some of them fear losses growing out of the collection system. As to the state institutions, most of them want to see the system demonstrate its value before becoming members. Both attitudes can be overcome. Neither one is sound if confidence is felt in the ability and honesty of the managers of the system. Lack of confidence in the management of the system indicates lack of confidence in your own ability to give the system good management - which I am sure none of you would admit. I can assure you, gentlemen, that the management of the bank is working with an eye single to the strongest and broadest possible development of the system. But we need the active and zealous support of our member banks to whom we are responsible and we need the membership and support of our state institutions to insure the breadth and strength that mean success.