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The Federal Reserve Banks have now been in operation about one year. During that time, so much discussion has taken place and so much has been written in regard to the important features of the Act and the operations of the banks, that one runs the risk of tiresome reiteration in any further discussion of ~~these~~ subjects. Nor can very much be said in regard to the business actually conducted by the banks in this period, for the volume has been inconsiderable and its character of slight importance, compared to the volume and character of the work of organization.

Few difficulties are presented in employing men and organizing the machinery to enable one bank to conduct a large business. A great many difficulties were presented, however, in organizing twelve banks on very short notice, and so developing their machinery that they will work in harmony and unison. I shall not attempt any detailed review of the methods that have been employed to bring about the results so far accomplished. The policy of the system as a whole, has been very largely determined by the Federal Reserve Board as

Exhibit

expressed in the various regulations which it has issued. The physical and mechanical organization of the banks and the plans for their harmonious operation have been perfected through frequent meetings of the Governors of the banks, as well as of various members of their staffs, such as ^{The} auditors, and in other cases, ^{The} transit managers and assistant cashiers.

It may be asked why so much time has been devoted to organization in a bank such as ours, which has but \$12,000,000 invested at interest, and where the balance of its assets, consist simply of \$200,000,000 in cash. In other words, why hasten organization work any faster than the business develops? I think a complete answer to this question can be made by calling your attention to the responsibilities which will rest upon this country and upon the Federal Reserve Banks as an important part of its banking machinery, in effecting necessary readjustments which ultimately must be made as a result of the war.

It would be foolhardy to prophesy what this process of readjustment will be, but some of the effects of the readjustment I think can be discerned at this time. People who have been accustomed to doing business

with banks, to a great extent measure the ability of the banks to meet their liabilities by the amount of the bank's gold resources. The degree of confidence felt in a bank by its customers, may also be felt in a large way by an entire nation as to its banking system, and this is particularly true in those countries whose banking systems are based upon a centralized control of gold reserves which are held by central banks that have the exclusive right of note issue. During this present period, we are exporting vast quantities of goods to Europe and notwithstanding the huge loans which we are extending to foreign nations and banking institutions and notwithstanding our purchases of large amounts of American securities formerly held abroad, our customers in foreign countries find it necessary to ask their banks to ship us large amounts of these gold reserves in payment for their purchases.

Since the gold movement started in our favor, we have received about \$400,000,000 in this way. Much of this gold, if not all of it, immediately finds lodgment in banks, and to some extent in Reserve Banks. In other words, our ~~proportion~~ ^{ratio} of reserves to bank

liabilities is become unduly large, and the ^{ratio} ~~proportion~~ abroad is being correspondingly reduced. In order that these payments may be made, the belligerent nations have induced their citizens to give up their gold to the banks, thereby enabling the banks to enlarge their loans and note issues at the same time that they are shipping gold to us. The result is plain enough to be seen: Liabilities, both national and banking in belligerent countries, are out of usual proportion to gold reserves; our gold reserves, in a sense, are out of usual proportion to ~~the~~ bank liabilities.

We, also, know that there is nothing quite so fluid or which readjusts quite so promptly as credit. In normal times, when credit becomes extended and money rates are abnormally high in one part of the globe, money is attracted to that point. Balances of trade, financial operations, the expenditure of tourists and investment transactions ^{generally, about} offset each other, just as in the clearings at the Clearing House debits offset credits and but a very small balance is settled in gold.

Just now, however, in an international sense, the clearings are out of balance. We are presenting more checks at the Clearing House than

are being presented against us, the balances are constantly in our favor and gold moves in our direction in ~~unprecedented~~ ^{unprecedented} volume.

What will be the reaction from this development and in what way

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~~will~~ the Federal Reserve Banks involved in this operation? It

seems to me that when the war is over, or at any rate, whenever

our export balance of trade disappears, readjustment will begin

to take place. This will be the world's cheap money market. If

foreign nations and banking institutions emerge from the war with

their credit maintained, normal credit operations will be resumed.

Borrowings in this market or sales of goods in this market or the

re-sale of securities to this country or other international trans-

actions in such volume or sequence as we cannot now forecast will

begin very promptly to ~~effect~~ ^{cause} the return of some part of this gold

ving House

to restore depleted bank reserves. To express it in the simplest

language, those nations and banking institutions which have unduly

expanded their liabilities, will begin to build up ^{a stronger foundation of} ~~their~~ gold re-

serves, if they have credit, or the goods, or securities to sell

which will enable them to acquire the gold. It will be the first

time in our history, with the exception of the development-

outbreak of the war, when this country will be called upon to exhibit its strength and resourcefulness in international finance. I feel very certain that with the immense resources in gold now being accumulated by the Federal Reserve Banks, we will be able to bear our part in this readjustment with credit to the country and to the system. Just how the operation will occur cannot be prophesied. From the standpoint of the member banks, it seems to me that we can feel great satisfaction and assurance, as well as a security never before felt, in having ~~the~~ command of the resources of institutions which can convert bank assets of a liquid character, such as commercial paper, into credit or currency at notice. It seems to me that we should then be able to demonstrate, as I have no doubt we will, that proper banking machinery will enable us to meet the demands upon our banking resources which may then be made without the shock and confusion and without the humiliation which we suffered in 1893 and 1907. While it would, as I have stated, be hazardous to attempt to forecast the various steps or order of events by which these adjustments will be required

of us, we can, nevertheless, face with equanimity, the necessity

of a large loss of gold if we have gold on hand and in our custody.

And that is where the Federal Reserve System will demonstrate its value.

No small part of the work of the last year has been directed toward

providing both the machinery and the material means of protecting

the interests of member banks against ^{These} demands which ~~may~~ ^{are likely} be made

upon them as a consequence of the war.

It may be that some of our members have allowed their attention to be direct-

ed too intently upon other considerations than those which are of

national, as well as individual, importance. I am reminded of this

by a letter just received from a banker in this state who calls my

attention to the dissatisfaction of some of the member banks, aris-

ing from the possible loss of interest and possible loss of exchange

profits, as a result of the gradual transfer of reserves and the

enlargement of the collection system. I hope the ^{member} ~~other~~ banks

will not permit this consideration to influence them too strongly

in their attitude toward the system and I particularly hope that

they do not assume that the difficulties, and all of the difficul-

ties which they have been discussing among themselves are not quite

as fully well-known to the management of the Reserve Banks.

The work of the past year has developed a belief in the minds of many of us that we have not yet established as close relations with the member banks as are necessary to a complete mutual understanding, this being due no doubt, to the engrossing character of the work of organization and the lack of time for more frequent meetings than has heretofore been possible. Steps have been taken, however, to overcome this difficulty. At the last meeting of the American Bankers Association, a National Bank Section was organized and an Executive Committee representative of the National bank members appointed. This is an encouraging development. For the first time, the entire membership of the Federal Reserve System is organized and has appointed a representative body with which we can deal. You will be interested to learn that the officers of our bank have already held one meeting with the members of the Executive Committee of the National Bank Section. We have further arranged for a Conference ~~of~~ the Governors of the Federal Reserve Banks with this Committee to be held in Washington next week. At the conclusion of the meeting, a joint conference

will be held with the members of the Federal Reserve Board.

Thus, for the first time, opportunity is presented for an organ-

ization ^{representing} of all the member banks to discuss all of those problems

face to face ~~with~~ ^{with} both the body which supervises the system in

Washington and ^{with} the officers who are running the banks in the dif-

ferent sections of the country. I am hopeful that these meetings

will be productive of satisfactory results. We, furthermore,

have under consideration, a plan by which the Federal Legislative

Committee of the American Bankers Association may hold a similar

conference sometime during the month of January. These meetings

will be devoted to making earnest effort to reconcile conflicting

views as to the meaning of the statute ^{as to} and how it should be put

into practical operation and careful consideration will be given

by the officers of the reserve banks to such recommendations as

are submitted.

^{trust} I ~~hope~~ that the members ~~in~~ in this district will accept my assurances,

which I earnestly make, that every effort will be given to make

the operation of the banks in every way satisfactory to them and

to their legitimate interests so far as the law permits. You should not lose sight of the fact that all of our stock is owned by the member banks, that all of our deposits belong to them, — the member banks elect two-thirds of the directors, by whom the officers are selected and our direct responsibility is to our own membership. We have no objects or interests to serve save theirs. I hope, ^{also} ~~therefore~~, that the various steps which we are taking to put the law into operation, as required by the terms of the statute, can be undertaken with the cooperation of our stockholders and that we can ^{with your aid} develop relations of mutual confidence and cooperation. ^{You who are}