

ADDRESS BY BENJAMIN STRONG
GOVERNOR OF THE FEDERAL RESERVE BANK OF NEW YORK
at the Luncheon of
THE BOND CLUB OF NEW YORK
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Mr. Strong: This meeting is to me the visible manifestation of what is taking place all over the country: the consciousness is growing that we are at war, and with that consciousness is developing a sense of personal responsibility in the mind of each citizen. The discharge of that responsibility can only be effected by organization, and without invitation, without any more stimulation than the consciousness that we have a responsibility, we are organizing to discharge it.

Your organization we look upon as an adjunct of the Federal Reserve Bank of this city, and I would like to say a few words about the particular functions which this bank performs generally in the Government's financial transactions in connection with the war - there are three.

One is generally to supervise the selling of the Government's obligations. For that work of course the Reserve banks were not equipped and they could not be equipped without the assistance of the bond men and of the bankers - it wouldn't have been possible without the help of you men - we had to rely upon the voluntary organizations which were created and which did the work so effectively when the last issue was sold. You know the work in detail - I won't enlarge upon that feature of it.

Our supervision of it is indirect, is through committees, which at this time I think are organized along lines that will cut out a great deal of lost motion and make it easier for all of us.

The second function (and in some ways a more important one from our standpoint) is to conduct the financing of these payments that have to be made when the instalments become payable. We are too apt to consider that when the Government places a loan amounting to thousands of millions of dollars, that we are handling money. We are not handling money, we are handling credit. These

Government loans are simply the instruments through which the Government finds it possible to buy goods and services, and to the extent that the Government borrows money for that purpose, the production of goods has to be increased over normal production and consequently the mills have to work faster, the farms have to produce more wheat and cereals; everything has to move faster, and one element in the problem is to make credit move faster.

You might say that the Reserve banks in a sense are the bookkeepers in this transaction. They must see that this great tide of credit flows from its original owners, the subscribers to the bonds, through the subscribing banks, into the Reserve banks, to the credit of the Government out again into the depository banks, when it is finally distributed by the Government and ultimately flows back where it came from, to those very people who are producing these very goods that the Government is buying out of this great credit fund. To do that successfully, to conduct this so called bookkeeping operation successfully, very extensive machinery has to be devised.

Our experience in the last loan has thrown a good deal of light upon the problem. I think you will all agree that, considering the magnitude of these transactions, for the Reserve banks now having borrowed for the Government a total of nearly three and one half billion dollars since the war started, they have been conducted with reasonable success and without great disturbance of money conditions. If the reserve banks can continue to do that, our function as bookkeepers will be successfully performed.

The third function is that of the Government's fiscal agent in a direct sense in handling the Government's funds. It is now eighty years since the Government had a true fiscal agent, and I think it is no exaggeration to say that these transactions could not be conducted with our complicated banking machinery, with 27,000 banks to be dealt with in the United States. without the employment of a machine of that character, and the Government is fortunate in having had a Reserve System to employ for managing these great Government transactions. This

function of handling the Government's deposits, which is conducted, of course, under the direction of the Secretary of the Treasury, has been going on for some time, but its magnitude and importance has only developed in the last few months. I think the Reserve banks have handled practically all of the money that has been paid in from the proceeds of the certificates of indebtedness and the issue of two thousand million Liberty Loan bonds without any of it going directly into the treasury of the United States, as it did in former years. Had it been paid into the treasury of the United States, we would certainly have had money market convulsions that would have paralyzed business in this country. In that sense again however, the Reserve banks are simply bookkeepers.

You are going to be confronted, in handling this next issue of bonds, with statements by many bankers that they hesitate about putting in very large subscriptions for bonds for fear that the payment of these subscriptions to the Reserve banks will reduce their deposits too seriously. I think the bankers who make that statement overlook one very important thing: that the payment which they make is first simply a credit entry on their books in favor of the Government; that it is then transferred temporarily to the Reserve banks, and under the plan which has operated successfully, and will, I believe in the future, it is disbursed almost simultaneously and soon must return where it came from. The difficulty which the country banker fears particularly is that that credit may not flow back to his particular locality promptly enough to enable him to meet his various engagements; but we must remember that every part of the United States is producing goods that directly or indirectly are entering into war purposes.

Take the Pacific coast: they are starting to build immense numbers of ships on their seaboard; they are shipping timber to the East; they are shipping timber to the East; they are shipping vast amounts of oil; they are enlarging constantly the area of distribution of their sugar; they are shipping grain, cattle and the products of their mines, not necessarily directly to the Government,

but indirectly they are filling the vacuum that is created by the draft of the Government on sections that are nearer the Atlantic seaboard. As payment for their products gradually progresses throughout the year that credit automatically flows back to that very section which has subscribed to these bonds. I anticipate no difficulty whatever so long as we have the Reserve bank machinery to fall back on, or the bookkeeper to fall back on, during the interval between the time when the subscriber pays for the bonds and the time when the Government's disbursement of the money effects its return to the section it came from originally.

I have already said more than I intended to say, but I want to conclude with one word suggested by Mr. Vanderlip's remarks. He spoke about the difficulty of compensation for the work that was being done by this organization and by many others, in assisting the Government in financial and other matters. I look at it in this way: it would certainly be presumptuous of me or of the Government, to say "thank you" for that work. If thanks are due, they are due from the American people. You are acting for them, for all of them, but as a reward - and I have seen evidence of it, as all who have been to Europe since the war started have seen - there are millions of anxious, careworn people there who have their eyes turned toward this country; they are looking to us for help. Our entrance into the war is interpreted by those millions of people as the harbinger of some brighter day that is going to dawn, and if you gentlemen want your reward, your real reward, you will find it by searching the hearts of those careworn people that need help.