

"The Federal Reserve Act"

By CHARLES S. HAMLIN

Assistant Secretary of the Treasury

An Address

Delivered Before the NEW YORK CREDIT MEN'S ASSOCIATION
at its Annual Mid-Winter Meeting and Dinner,
held at the Hotel Astor, New York City,
Thursday, January 15, 1914

Published by
NEW YORK CREDIT MEN'S ASSOCIATION
320 Broadway, New York

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Mr. Chairman and Gentlemen:

I cannot tell you what a pleasure it is to me to be able to come here to-night and speak a few words to you on the subject of the United States Treasury.

First, I want to express the very deep regret of the Secretary of the Treasury, Mr. McAdoo, that he could not be here this evening and speak to you himself, but I think you must appreciate the labors that he has been undergoing in the last few months. He is just about starting on a tour practically of the whole United States in connection with the Federal Reserve districts and banks, and it was plainly impossible for him to leave Washington, and therefore he delegated to me that duty.

When I was first asked I thought it would be impossible for me to respond on account of a very pressing engagement, but, on reflection I realized that an invitation from this body was a thing which no man could refuse, a command which no man could refuse to obey; and more than that, it was a command that it was a real pleasure to obey, so consequently I have come here and have enjoyed this dinner and these speeches immensely.

Now, I am sure all of you realize that the United States Treasury is an immense institution, but I think you will be surprised when you are told there are over 30,000 employees in the Treasury service of the United States to-day. In the Customs service alone there are over 8,000 men, and in the Internal Revenue service there are about 3,600, and in other branches between 11,000 and 12,000.

There are 8,000 in the Executive Department of the Treasury alone at Washington. It costs between ten and eleven millions of dollars a year to collect the customs revenue alone of the United States, and nearly six millions of dollars to collect the Internal revenue.

The Treasury Department also has charge of the Public Health Service, which embraces Quarantine and similar matters. It also has charge of the Revenue Cutter service which enforces the navigation laws and rescues vessels in distress. It has charge of the Life Saving service, a most important service. It has charge of the construction and maintenance of every public building in the United States and the appointment of custodians thereof, and I am sure you will realize what work is involved there. It has charge of the entire accounting system of the United States, every dollar received and spent has to be examined and verified and checked by the employees of the United States Treasury. It has charge of the printing of the bonds and currency of the United States. It has charge of the National Bank currency, and the notes of the United States. It is the fiscal agent of the Government for the payment of the interest on the debt, the redemption of the outstanding notes, and other obligations of the United States.

Now, excluding the postal revenues, there came into the treasury last year over 700 millions of dollars, and in addition, about 266 millions from the postal revenues were collected. From customs taxes there were collected 318 millions, and 31½ millions of dollars from Internal revenue taxes. There was spent on the civil establishment of the Government about 170 millions; on the military establishment 160 millions; on the naval establishment, 133 millions; and on Pensions about 175 millions of dollars. So last year, the fiscal year ending June 30th. we had a surplus of about 41 millions of dollars, excluding Panama Canal disbursements, for which, when the necessity arises, bonds can be issued.

I want to talk to you to-night briefly about some of the measures which have been enacted into law by the present Administration, and I know the temper of those here well enough to be sure that the Administration in Washington and the President is recognized as representing the entire people and that you wish him Godspeed in his every effort, as well as that of the Congress, to help the people of the United States and improve our condition.

Our party went into power having made certain pledges, and in the short ten months which have elapsed since, we have

carried out in part those pledges, and it is for the people of the United States to say whether those pledges which have been carried out are for the detriment or the betterment of the people. We believe that they will be of inestimable benefit to the nation, but, of course, time alone will tell.

In regard to the tariff, we made certain pledges that we carried out. We made a reduction in customs taxation. Some thought it was a too radical reduction and others thought it was not radical enough. Some predicted disaster, but, my friends, the disaster has not come. There has been no flood of imports into the United States such as many feared and predicted. The revenues are keeping up well and I think they will at least equal the estimates. I believe on the other hand that we can see signs of increasing efficiency on the part of the manufacturers in the United States who are making an examination into the cost of production and are making efforts to lower the unit cost, replacing old by new machinery, and I am sure that in a very few years we will have demonstrated that, man for man, product for product, the cost of production in the United States will be the lowest of any nation in the world. (Applause.)

And this leads up to the other question of which I want to speak just a moment to-night, and that is the new financial bill which has just been enacted into law. Now, that was a party measure, and I believe that, in this country, in order to have progress you have got to have a party government. When, however, I say it was a party measure I do not mean that it was a partizan measure. It was far from that. It represented the best thought of the people of the United States crystalized into action, into legislation by our Representatives. You may remember also that it was the product of a Democratic caucus—that is true in a large measure—but that caucus was undoubtedly influenced by the many men in the minority in Congress, patriotic men who criticised what they believed was subject to criticism, who stood manfully for their beliefs, and who undoubtedly had an influence, just as did this great Association, in the recommendations which they made, and unquestionably exercised influence upon the Democratic majority acting through the Democratic caucus. When that bill came to the floor of the Congress it was supported by the Democratic caucus and, modified in some degree as it was by the opposition, when the bill became law, it really did, I believe, represent the best thought of the people of the United

States, and many of the men in the opposing parties showed their independence, their fearlessness, their disinterestedness of purpose by joining in voting for it. I refer especially to one, the junior Senator from Massachusetts, Mr. Weeks. He said that bill, I think, was 75 per cent. good and that he should vote for it. But, my friends, on a question of financial legislation, do you realize how rare it is in the world that you can get any measure, the result of compromise, that will contain much more than 75 per cent. of what all the people believe to be good, wise and just in it? I think 75 per cent. of good in a measure is a hopeful average and experience will soon enable us to make any needed changes in that bill.

Now, that bill brought out some great speeches of great men who were primarily responsible for bringing it through the Democratic caucus and passing it in the House and Senate. There was Representative Carter Glass, of Virginia. I think the painstaking care that that man gave to the bill is worthy of a monument. There was Senator Owen, of Oklahoma, and his speeches are classics on this great question. I think the speeches of these men will go down in history along with some of the great speeches of Daniel Webster, the great defender of the public credit. There was also prominent the brilliant genius of the Secretary of the Treasury, William McAdoo, a great builder of public monuments, a man of marvelous intuition and skill, of a fertile imagination, and one who has demonstrated the ability to project his imagination into the stern reality of successful fact and successful accomplishment; there was also the powerful influence of that eminent Democrat, the Secretary of State, William J. Bryan; and, last but not least, there was the President of the United States, Woodrow Wilson, a man who has demonstrated not only in that bill but in the Tariff bill, and in other measures, his capacity as a great leader, a great intellectual power, not only in leadership but in statesmanship. There were also the members of the opposition who rendered invaluable service in showing where that bill could be remedied and when the bill was finally perfected who showed their patriotism by rising up and, forgetting all partizan considerations, voting to enact that bill into law.

This financial bill is essentially a bill for the business man. That is the object of the bill, to help business men to obtain more effectually the credit which they must have for the successful prosecution of their business. It was intended to remedy certain

defective conditions which all agreed to exist, although there was a difference of opinion as to how they should be remedied.

The first difficulty was that of the independent treasury system, created in 1846, by which the Government revenues were taken out of circulation and put in Government vaults, and which, modified though it was by the National banking depository system, does keep out of the marts and channels of trade money available as reserves, and which will greatly benefit the business men of this country by restoring it into circulation. That was the first condition to be remedied.

The second was to diminish, if possible, the commercial stringencies and panics which occur in this country, and which are much more severe than in other countries and are much more intertwined with the general banking situation in this country than in most of the great European countries. We feel and know that in time of panic and stringency we have a harder time than the European nations or the Dominion of Canada.

There was also recognized another condition, that when the great crops of the country are moved we have financial uneasiness, and the cost of credit increases to the business man as well as those who are trying to move the crops. The banks begin to call in their reserves, and the commercial credit demands are necessarily restricted to protect those reserves. They have to pull back, some times contract, instead of expanding, as we all wish they could, and as the banks would themselves like to do.

We have also other conditions: the greater our prosperity, the greater the amount of crops to move; the greater the business success of our enterprises and genius, by so much greater is the contraction of credit. When these crops have to be turned over and distributed we know that our National Banking currency does not expand according to the needs of trade; we know that when there is a great demand for commercial credits the National Banking currency expands sluggishly, and conversely when commercial credits fall off we see our National Banking currency often expanding rather than contracting.

Now, the average life of a National bank note is about one year, whereas the average life of a note under the old Suffolk banking system in Massachusetts, generations ago, was only about one month, when it was returned and speedily redeemed.

Now, there are other conditions. We have no discount market in the United States as there are in other countries. We know we cannot bring gold into the United States by reason of the discount rate, because that rate is fixed by the loan market, and it would be very foolish for gold to leave its place of security and come over to the United States in response to some feverish speculation of the call loan market.

These are some of the difficulties which have been facing the people of the United States, and for which we desire remedies. We have seen violent fluctuations in rates in the United States. We have seen that rates have depended on speculation rather than on commercial conditions. In Europe it is otherwise. We see stability of rates in Europe and instability in the United States, and that was one condition we desired to have improved. We see that the reserve money of the United States is not used as a reserve at all. We know country banks can deposit part of their reserve with the reserve city banks. They in turn can deposit half of their reserves with the Central reserve Banks and these deposits are in large part devoted to call loans in the speculative market.

The financial bill is an honest endeavor to remedy that condition of affairs. It provides, as you know, for Federal Reserve banks. I want you to remember that the capital of these reserve banks, is to be paid in gold or gold certificates, so we shall have Federal Reserve banks every dollar of the capital of which is in gold or gold certificates. In addition they will have perhaps a hundred or one hundred and fifty millions of dollars of Government deposits, and in addition to that a certain proportion of the reserves of the member banks. Thus we will have an immense reservoir of money—Government money, reserve money and capital the sole purpose of which is to help the business men of the United States, through the banks, and not one dollar of which will be put out except for real commercial purposes as distinguished from speculative or investment transactions. I am confident you can see that banks of that character will, in a few years, prove of inestimable value to the business people of the United States. In addition to that the Government receives the profits of those reserve banks above a certain limited rate of return and a certain amount in surplus. The Government will have the most careful supervision over those banks and every National bank as well, and I believe out of that can only come the greatest of advantage to the American people.

Now, what will be the result of this system of banks? I believe it will lower the rate of interest generally over the United States. I believe that the phenomenon of a tight money market is going to disappear in the United States under the operation of this Act as soon as it can be safely installed and in good working condition. It will encourage investments by banks in quick commercial assets, in commercial paper, the safest and soundest of assets in the world. It will create a discount market for notes in the United States and your notes can be sold in any part of the United States as if they were cotton or corn or wheat, because of the provisions in this Federal Reserve Act for the re-discounting of these notes. You may say that an endorsement of one bank may not be as good as that of another bank, but the examination and supervision by the Federal Reserve Board will remedy this. I believe it is safe to say that we will have a universal discount market for commercial paper over the whole of the United States, and you all know what an advantage that would be to-day to the business man.

We will mobilize the reserves of the United States. The Reserve Board will be brought in to assist any bank at any time, and a bank can come and get a re-discount without creating the slightest suspicion. It is simply obeying the laws of the United States when doing it.

Now, there are reserve notes also that may be issued by the reserve banks. A great many people believe that these notes should not be issued directly by the United States Government. I do not believe there is any practical difference whether these notes are bank notes or Government notes. I have heard it said that they are greenbacks, as if they were a forced loan. Going back to the time of the greenbacks of the Civil War, my friends, the greenback was a forced loan, it was paying a debt with a piece of paper or a promise, and the promissor could make as many more promises of the same kind as he cared to make, and the result was that we saw general depreciation as compared with gold in this country. But that is not the case with the Federal Reserve notes.

Do you realize, gentlemen, that not one note can be issued by the Government of these Federal Reserve notes that would not have been issued by the banks if they alone issued them? The Government has no power to issue one of these notes except when called upon by

an individual bank, and that bank wants that note for its own purpose in helping its own customers whose duty it is to assist. The amount is fixed by the commercial demand for that sort of paper in the United States.

I believe there is not a note in the United States, in the world rather, as well secured as those of the Federal Reserve Banks. What is the security they have? They have behind them one hundred per cent. collateral in liquid commercial paper; they have the guarantee of the bank that endorses them; they have the reserves of the banks that are in the Federal Reserve banking system; they have a Government lien on the assets of the bank; they have the stockholders liability and, in addition, they have the whole power of the United States behind each and every one.

The United States, by this bill, is given absolute power to raise as much gold as it needs to redeem these notes by the issue of short term notes or by the issue of gold bonds; the holders have the absolute assurance that these notes outstanding will be redeemed on demand by the Government, in gold, backed up by the first lien on the Federal Reserve banks' assets, together with the capital of the reserve bank, also the reserve deposited by the National banks and the individual liability of every member bank. Can there exist in the world a note stronger than these Federal Reserve notes?

There are many other benefits to be derived from this Act that I have not time to dwell upon here to-night. The banks are given a limited power to assist our import and export trade, and all of you know what a power that is, and you also know that it can be used in the furtherance of that trade.

The lessened reserve requirements of all National banks will also release a large amount of loanable capital. I feel certain that every one of those reserve notes will be promptly and speedily redeemed. They have got to be redeemed. Any Federal Reserve bank taking such a note has got to send it back to the bank that issues it. I feel there is not the faintest danger of fear of inflation.

Inflation is caused primarily by no limitation of the amount of notes, if we speak of inflation of notes rather than credit. It is also caused by improper laws as to reserves, and yet on all these questions the Federal Reserve Board is given absolute power. It has the power first as to whether the note shall be issued in response to the request of the reserve banks. It has the power to charge interest on those notes. It has the ultimate power to fix the rate

of discount; and there is a provision, as you know, in the bill, by which, when the reserves fall below a certain amount they are automatically taxed. I feel further confident that these notes, redeemable in gold, will not result in the expulsion of gold as do the National bank notes to-day. With all these provisions in the bill I feel that the circulation will expand and contract in absolute proportion to the legitimate needs of the business of the country.

There is no question but that the credit facilities under our system have been outgrown and that they are not responsive to the demands of trade. The people of this country at certain periods of the year are in a straightjacket, so far as credit facilities are concerned, and the object of this bill is to so loosen that jacket as to permit the credit of the country to expand, but to contract the circulation when the necessities and best interests of trade demand that it should be contracted.

No doubt there are some people who fear the great power that has been given to the Reserve Board. But, gentlemen, you cannot accomplish reforms without giving power to individuals. These individuals will be men sworn to protect the Constitution and the laws of the United States. They will hold their great office in trust to do what they believe to be wise for the best interest of the people of the United States. They are justly given great powers and are charged with great responsibilities; but, until you trust somebody and give somebody power in this country you cannot carry out any great reforms.

I believe that under this new legislation every man who deserves credit will be able to obtain credit. I believe that under it the business men of this country will have the present commercial shackles stricken off, which have been put upon them by our antiquated laws and our unsound financial system.

Gentlemen, I believe the result of this bill will be for the greatest good of the greatest number of the people of the United States. (Applause.)