ABSTRACT OF ADDRESS OF C. S. HAMLIN, GOVERNOR OF THE FEDERAL RESERVE BOARD, AT THE CONVENTION OF THE AMERICAN BANKERS ASSOCIATION, AT RICHMOND, WEDNESDAY, OCTOBER 14, 1914.

001.411
Hamlin
Chas S

Mr. Hamlin said in part:

In behalf of the Federal Reserve Board, I wish to express my thanks for this invitation. The deliberations of your Convention will be watched with interest by all students of finance, and the country expects to receive from it most valuable suggestions in the determination of the many problems pressing upon us for solution. I feel, however, that my function today must necessarily be for the most part that of a listener.

The present crisis, caused by the European war, must bring home to all of us the real interdependence of nations, and the fact that commercial disaster suffered by one nation must necessarily, in the long run, be shared by the others, and that enduring peace is a condition to be sought for by all.

The duty of the Federal Reserve Board is to administer the law as enacted by Congress, and I know we shall all listen with the deepest interest to the distinguished member of the House of Representatives, the Honorable Carter Glass, who will shortly expound that law to you. The genius and painstaking industry of Mr. Glass, and Senator Owen and the Secretary of the Treasury, was in large measure responsible for it, and no man in the country is better able than he to explain it.

The Federal Reserve Act, while the immediate result of the legislation of the present Congress, represents by no means a sudden flash of financial revelation out of a clear sky; it rather stands as the culmination of discussion and debate spread over many years. While it was a party measure, it was not a partisan measure. On final enactment it received the support of many who were glad to forget political differences.

The corner-stone of this legislation was laid by your Association when, in 1894, it advocated the so-called Baltimore plan of currency reform. Following this came other plans,- that of Secretary Carlisle, of the Indianapolis Monetary Convention, the so-called Fowler plan, and many others. Next came the legislation known as the Aldrich-Vreeland Act, now on the statute books, but amended.

None of these plans seemed to satisfy the present needs and problems of the American people, and finally there was evolved the plan prepared by the National Monetary Commission. After long, continued, discussion, it became evident that the people distrusted the centralization which they believed to be involved in this plan, and no action was taken upon it.

As a culmination of all these efforts, came the Federal Reserve Act, which became law December 23, 1913. Under its provisions the member banks will be assisted by the Federal Reserve Banks in furnishing credit to the farmer, the merchant and the manufacturer. When in complete operation, the funds of the people deposited under the national system will be brought together in the vaults of the member banks, and in the twelve Federal Reserve Banks. The assets of these Federal Reserve Banks, and the Government deposits which may be made in them, will be pledged to strictly commercial uses, and cannot be used for speculative purposes. The money of the people will be kept in circulation and a system of note issues is provided which will in the truest sense be both elastic and safe. I believe that the soundness of this legislation will soon be apparent to all.

In this connection also, I wish to acknowledge the fine spirit many of the banks and bankers of the United States have displayed in helping to restore the present disturbed financial conditions resulting from the European war.

The American people have demonstrated to the world the inherent strength and soundness of the resources of the United States, and our determination and ability to discharge every international obligation in gold or its full equivalent.

To this end the country has had the benefit of the statesmanship and sound leadership of the President of the United States, the trained judgment of the Secretary of the Treasury, and, as well, the able cooperation of the Comptroller of the Currency. Furthermore, the crop moving money, and the legislation authorizing increase in the so-called Aldrich-Vreeland currency, have gone far towards reestablishing normal conditions.

Our present difficulties do not appear to arise from the scarcity of actual money, or its equivalent in bank notes. There seems to be an ample supply in the United States, and much more can be issued, if there is a real need for more. For example, the total of Aldrich-Vreeland notes throughout the United States available for issue amounts to over a billion, two hundred million dollars, while there have actually been shipped to banks only a little over 340 millions; in the Southern States alone there are available about 169 millions, while there have been shipped only between 50 and 60 million.

The real difficulty would seem to be one of credit. Mutual trust and confidence have been disturbed. In addition, as to certain great crops, the demand has temporarily greatly decreased in consequence of the foreign war, and, as a result, value has left its moorings,- the cost of production. The problem, normally, can be worked out only by a diminished supply or an increased demand. Ordinarily such a condition would quickly adjust itself, but the suddenness of the shock of war has led to many plans being initiated, most of which depend upon assistance from the national Government. We should see to it that the remedies proposed are not worse than the disease itself, for no remedy, even if efficacious for the immediate problems, can be justified if,,in the end, it can only add to our commercial trouble and perhaps even shake the foundations of our national credit.

Fortunately the United States Treasury is in sound financial condition. It possesses ample funds of gold and ample power to increase the gold reserve, should it ever be necessary. The Federal Reserve Act has added to the powers of the Treasury by providing that the Secretary may issue gold bonds to maintain the parity of all forms of money issued or coined by the United States, as well as to strengthen the gold reserve, and it is believed that no Government on earth today is better equipped than the United States to deal with any financial emergency.

The Federal Reserve Banks are quickly approaching the time of opening and operation. The directors are all elected or appointed, and as soon as certain necessary preliminaries have been accomplished, such as the election of officers, securing of headquarters, appointment of the necessary clerical force, and other preliminaries, their doors will open for business. There is to be a conference in Washington on October 20th, at which committees representing the directors of the various reserve banks will be present and report as to progress, and it is hoped that then an authoritative statement may be made of an early date when the banks will open.

It should be remembered that the reserves to be paid into Federal Reserve banks will not reach their maximum until after the expiration of three years. At the opening of the system, however, the reserve banks will begin operations with a paid in capital of about 18 millions of dollars, and reserve deposits of about 250 millions, of which latter not exceeding one half may be paid in in commercial paper discounted by the member banks. It has been asserted that the assets of these banks when they b[illegible]n operations will give only a [illegible]ited lending power. It should not be forgotten, however, that this lending power may be greatly increased by the deposits of public moneys, which the Secretary of the Treasury is authorised, at his discretion, to place with the Reserve banks as fiscal agents of the Treasury; practically all of the Government revenues, excluding trust funds, could be so deposited and the Government debts paid by check against such deposits. Moreover, the Federal Reserve Act largely increases the lending power of the member banks by reducing their required reserves. One can state with confidence that the Federal Reserve system at the outset will increase the lending power of the national banks and the Federal Reserve Banks by some hundreds of millions of dollars, and at the expiration of three years this will be very largely increased, at which time the reserves will all be kept either in the vaults of the member banks or of the Reserve banks.

An amendment is now pending in Congress, under which member banks may keep all their reserves in the Federal Reserve Banks. If availed of by the member banks, and to the extent availed of, this will greatly increase the lending power of the Federal Reserve Banks, thus tending to put these banks at the opening, more nearly in the position they would be in after the expiration of three years, and increasing their power to cope with the present abnormal conditions.

Some people may be of the impression that the organization of these banks has been proceeding very slowly, but I think some of the difficulties which have had to be solved will be realized when we consider for example, the choice of the Government directors, of which there are three upon the Board of each Federal Reserve Bank. It was necessary to secure as directors men of ability, experience and high standing, who could and would agree to attend directors' meetings, and to devote to these banks at the expense of their own private affairs, the time necessary for their proper management. The vast area covered by the reserve districts has

/has made this an intensely

difficult proposition to work out. For example, the reserve district of which Dallas is the Federal Reserve city covers an area of over 430,000 square miles,- more than double the area of the German Empire, excluding its colonial possessions. This district has a population of nearly six millions of people, being greater than that of the Netherlands, Sweden or any South American Republic, excepting Brazil and Argentina.

So, also, the Federal Reserve District of which San Francisco is the Federal Reserve city, has an area of over 683,000 square miles. This area exceeds the combined areas, excluding colonial possessions, of the German Empire, France, Italy and Great Britain.

Similarly, the population of the Chicago district is greater than the combined populations of Sweden and the Netherlands, or of Belgium and Switzerland. Finally, five of the twelve Federal Reserve Districts are larger in area than the German Empire, excluding its colonies; four of the Federal Reserve Districts are larger than the total areas, excluding colonies, of France, Italy, Belgium, the Netherlands, Denmark and Switzerland.

There are many important questions, arising under the law, which are now pending before the Reserve Board, and which are receiving its careful consideration. Among these are clearances of checks, the definition of eligible commercial paper, and many other important questions. It is impossible for me to touch upon these here. I may say, however, that we want light thrown upon them, and any suggestions emanating from your body will be carefully and conscientiously considered.

In this connection, I want to emphasize the necessity of establishing branches of our national banks in foreign countries. We have already approved applications for two branches in South America and one on the Isthmus of Panama, and we feel that along these lines our financial energies should operate to the great benefit of agriculture, commerce and the manufacturing industries of our country.

In conclusion, I wish to say that the Federal Reserve Board is fully mindful of the trust and confidence imposed in it, and we shall use all our energies in so administering the law that it shall redound to the best interests of the greatest number of the people of this country.