Address of

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Governor Federal Reserve Board

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Address of Mr. Hamlin

Mr. President and Gentlemen: I cannot tell you what a great pleasure it is to me to be able to come into dear old New England again, if even for a few hours, to meet the members of this great organization. It was also a very great pleasure to hear the remarks of His Excellency, the Governor of this great State, and to hear what ex-President Taft, that great American citizen, had to say to us all last evening. I think I can say with some confidence that the respect and admiration of the people of the United States for ex-President Taft is not confined to any one political party. If it were, I should say it would be a monopoly under the Sherman Anti-Trust Act. I think we can say that the American people, generally and universally, have the greatest admiration and respect for him, and especially for the assistance that he is rendering day and night in the interests of good government, local and national, in the United States.

STATE AS WELL AS NATIONAL.

It is very interesting to me to attend this convention of the bankers of New England, and it is especially interesting to realize that here are represented not only the national banks, but the state banks and trust companies, and, I suppose, the great savings bank institutions of this district. Before leaving Washington I had a compilation made of the banking power of this First District, the center of which is the Federal Reserve Bank of Boston, and I was surprised to find that the national banking power consisted only of about 28 per cent, totalling $928,000,000; the banking power of the state banks and the trust companies was about two-thirds of this, $666,000,000, or a little over 20 per cent of the whole; while the wondrous resources of the savings banks gave a banking power of $1,665,000,000, or 51 per cent of the total. I think that we must realize by these figures that in considering the new Federal reserve system established by the Federal Reserve Act we have got something more than national banks to consider. And only recently the Federal Reserve

Board has issued its circular and regulations as to the admission of state banks and trust companies into the Federal reserve system. I think it must be apparent to anyone that in order to have a really co-ordinated system of banking we need the great state banks of the country, and signs are not wanting that these great banks are going to enter into the Federal reserve system, making it more powerful than it could possibly be when confined to national banks alone.

FINANCES NEVER BETTER.

The condition of the banks of the United States was never stronger, I suppose, in the history of our country, than it is to-day. We have something like $800,000,000 in excess of the legal reserves in the national banks alone, and if you compute what excess is in the state banks and trust companies, it reaches perfectly stupendous proportions. We have reserve deposits in the Federal reserve banks, payments already made, of about $300,000,000, and payments on capital of over $50,000,000, and you have a power in the Federal reserve banks to-day, if necessary, to issue Federal reserve notes between $400,000,000 and $500,000,000. I think it would be a conservative estimate to state that we have the facilities for granting credits of at least five, or perhaps six, billions of dollars, to-day, if any such increase were necessary. I think that gives a faint idea of the soundness of the position of the great banks, state and national, of the United States at the present time.

But I cannot help running back some months to the conditions we had last fall, when our foreign trade was for the time being disrupted and it was found that the United States owed abroad an indeterminate sum, perhaps $400,000,000, or perhaps $500,000,000, payable in gold, and we did not know how we could pay it; we had the gold, but we did not know how we could send it abroad; the conditions in those days were very different from the splendid conditions of to-day. You remember, of course, the gold pool of $100,000,000 which the Federal Reserve Board, just after the members took the oath of office, were asked to collect from the banks throughout the United States. And the fact that these banks gave more than $100,000,000 was a splendid tribute to their patriotism. I firmly believe if we had asked for $200,000,000 or $300,000,000, the amount would have been instantly forthcoming. As a result, uncertainty was turned into certainty. Possible disturbance was turned into

ABSOLUTE CONFIDENCE,

and, as you know, of that gold fund of $100,000,000, a paltry sum of perhaps $10,000,000 was all that had to be sent out of the United States.

You all remember that Sir George Paish, the British economist, was sent over by the British Government, at our request, to confer with the Secretary of the Treasury and the Reserve Board, and devise some method of settling the gold obligations of the people of the United States to foreign countries, which were, as I have said, somewhere about $400,000,000 or perhaps $500,000,000. And we discussed it in the most friendly manner. Each side wanted nothing that was not right. We wanted to do what was right immediately, and we made up our minds that the United States could pay every obligation payable in gold without trouble and without delay, but as our negotiations went on we found that conditions were rapidly changing, and we suddenly woke up one morning and found, after all, that there was no problem at all, that the tide had turned, and that soon we might have to discuss credits to be given to foreign countries and their citizens, rather than credits to the United States. In place of being a debtor nation on current transactions, we woke up to the fact that we were a creditor nation, and, more than that, we have got to give credits to the people of the south—of South America—and people on the continent, who must trade with us, and yet who find it very inconvenient to send us the gold to pay for our huge and daily increasing exports.

But, of course, we must remember that where we grant these credits, in the long run they have got to be met by either the payment of gold, or by sending us back our securities, or by sending us goods in exchange. I think we all realize to-day the importance of international trade, but it is not so many years ago that philosophers and some political economists said that international trade was not gainful; that the precise gain of one nation was the precise measure of the loss to another nation. But that idea has not survived, and we appreciate to-day that in international trade there is a

GAIN TO BOTH SIDES.

But when we speak of international trade we must remember that it must consist of buying as well as selling; in fact, every bale of goods that goes out of the United States, in the long run must be paid for by a bale of goods imported into the United States. And every country that exports, in the long run, must take payment for its exports in imports from the other country, or from some third country on account of that other country; and only the balances are settled—can be settled in gold. A country like the United States could not suppress all imports and continue to export. If it did, in three or four years the United States would have practically all the gold in the world—and what would we do the fifth year? Of course, long before that would happen, the increase of gold in this country would so force up prices, and start such speculative activity, that our exports would soon reach such prices that they no longer could continue.

The United States is in a better position to-day than ever before to increase its foreign trade; to give credit facilities to countries who want to trade with us, and who yet cannot find it convenient to send us gold in direct payment; and also to finance our multitudinous domestic transactions, and that favorable position that we are in to-day is largely due to the fact that we have to-day a system of banking in which the people of the United States

HAVE SUPREME CONFIDENCE.

There were various plans proposed to remedy the evils of the old banking system and some to-day think perhaps some other plan might have been better. But I think all agree that the Federal Reserve Act is a very long step, as ex-President Taft said, in the right direction, and many of us believe that it was the best step that could possibly have been taken. Now that favorable position that we are in to-day, as I say, is due largely to the Federal reserve system established under the Federal Reserve Act through the consolidation of the reserves that it has brought about; through the lowered reserves that it has established; and through the system of truly elastic currency which that Federal Reserve Act has inaugurated.

Such is the confidence to-day in our financial system that the terrible act of blowing up the "Lusitania," from a financial point of view, created hardly any impression in the United States. And I think that is one of the greatest tributes to the soundness of the system which we are enjoying to-day. If that had occurred under our old system—before the Federal Reserve Act enactment, I believe that we should have seen a condition in the United States exceeding in intensity that which we went through in 1907.

We must remember at the outset that the Federal Reserve Act has not increased the money of the United States in circulation or in the banks. It has not added one dollar. It has merely made it

POSSIBLE TO UTILIZE MONEY

held by the banks and the people in a more extensive way than it could have been utilized before. If we consider the old reserve requirements—for example, on March 4, 1915, the latest date that I have, we had an excess of legal reserves in the national banks of over $731,000,000; but if we had applied the reserve requirements of the old law there would not have been any such excess. The excess would have been only $185,000,000, which was actually a lower excess reserve than we had in a critical time during the panic of 1907. So, also, if we applied the old law as to reserves on March 4 of this year, the banks of the central reserve cities would have shown a deficit of $12,000,000, whereas, under the new reserve requirement, they showed an excess of $127,000,000. The lowered reserve requirement of the Federal Reserve Act amounted practically to over $500,000,000. That showed conclusively the confidence of the country that those old reserve requirements were excessive and unnecessary, and, as I shall try to show, unduly hampered and put in a strait-jacket the business and enterprise of the people of the United States.

But before we turn to the Federal Reserve Act it is well to consider two or three glaring defects of the old system. We had under that system 7,500 independent banks and 7,500 independent reserves. There was no co-operation between the banks. There was a kind of co-operation in reserves through the ability to place reserves in the reserve cities, but that co-operation I think all will agree to-day was one of the great dangers of the old financial system. We had, then, 7,500 independent banks, with their 7,500 independent reserves. The great anomaly of that old law was found in the

TREATMENT OF RESERVES.

When you speak of reserves, you ordinarily refer to something that can be used, but under the old National Bank Act that was precisely what you could not do with the reserves. They were hermetically sealed up, and if any bank dropped below the legal requirement, only the forbearance of the Comptroller prevented his putting in a receiver if that condition was carried for thirty days. That, now, was certainly an anomalous condition. On the continent, in times of stress, all banks paid out freely. Under our old law, in times of stress, the reserves were hermetically sealed up to the business men, who could only look on the reserves in the banks—the national banks—of the United States, but could not secure any benefit from their use. They were almost in the position of a man almost dying from starvation, looking through a plate glass window at every delicacy in the way of food, and on which he reads an announcement: "This food is for your express benefit. You may look at it, you may enjoy the delicious fragrance, but under no circumstances can you eat a particle of it." Now, that was the condition of the reserves of the United States before the enactment of the Federal Reserve Act. And as a result of this independence of banks, the banks, being independent, had to fight for their own lives, and in times of stress they had to build up their reserves far beyond the legal limit. In the panic of 1907, in one of the worst stages of that panic, there was over $200,000,000 of excess reserves in banks throughout the United States. If these reserves had been co-ordinated, we never should have had that panic at all. The banks having to take care of themselves they had to fight for their lives and let the devil take the hindmost, the hindmost generally being, it may be said, their poor customers. And in piling up their reserves, they had to call loans and refuse to make new loans; and the moment that the banks began to hoard money that was the signal for hoarding by the individual. I think you will find in the history of finance that hoarding of individuals rarely, if ever, occurs, except following the hoarding of frightened banks. I think there is no more grewsome spectacle in our financial history than a frightened bank calling in its reserves, piling them up, Pelion on Ossa, and allowing its poor customers to get along as well as they can. The national banks under the old system were like an army going into action, an army of individuals, without a single officer, without a single company, battalion or regiment. But all that, as I said, has been done away with by the Federal reserve system.

THE DISCOUNTING OF PAPER.

The banks also, as you know, engaged in the discounting of commercial paper, and that paper was dead until resurrected at the time of maturity. When it was discounted the banks would lower that paper tenderly into their vaults with almost funereal ceremony. In fact, the national banks really were mausoleums for dead commercial paper. And if any bank president with financially ghoulish propensities should open the grave and take out any of that paper and try to sell it before maturity the finger of suspicion would be pointed at him and his directors. The Federal Reserve Act has made that dead commercial paper fairly quiver with life. The bank can now have its cake and eat it, too. It can loan its funds and take commercial paper, and yet that commercial paper is gold in that the bank has merely to step across the street to the Federal reserve bank and there it will be turned into gold or cash credits on demand. The fact that commercial paper was not liquid forced banks under the old system to send their money to some place where they could get it back, and that was the explanation of the call loan on stock exchange collateral. But that was a will-of-the-wisp. Theoretically that was a pure liquid investment, but when you tried to realize on these investments, their liquidity vanished. It was the liquidity of solid ice rather than the liquidity of water. And we saw in 1914, when an effort was made to realize on these liquid assets, the stock exchange quietly closed, and that ended every semblance of liquidity.

NATIONAL BANK NOTE SYSTEM.

Then, we had the system of national bank notes. Those notes were supposed to furnish an elastic currency, but there was very little elasticity in them. During times of increasing business, when we needed to expand, these stupid notes would often contract; and at times when contraction was demanded, they as often would expand; and even when they did comply with the demand for expansion, they often would not begin to expand until the demand for expansion had long since ceased. These notes were tied to government bonds. My friends, government bonds have nothing to do with the interests of trade and commerce. Government bonds represent the dire necessities of the government in the past. They were fixed in amount, they fluctuated in value absolutely regardless of the necessities of trade or business, and yet the national bank notes were tied absolutely to them, and dependent upon their fluctuations. It was certainly an extraordinary alliance; the national bank notes, supposed to be the measure of the trade expansion of the country, were tied to government bonds which represented the destruction, the vast destruction, of the property of the country. In other words, the national bank notes repsenting the expansion of trade of the twentieth century, were linked to government bonds, representing the destruction of trade during the nineteenth century.

Now, there may have been some reason for that strange alliance in the nineteenth century,—the desire to sell government bonds. But there is no reason for such an alliance today, and the Federal Reserve Act provides a method by which these notes can be put out of the way and a truly elastic currency substituted. Why, Japan followed our national banking system at first, and issued national bank notes similar to ours, and after a short trial she sent that system to the scrap heap, just as we would send an old, worn-out warship that had outlived its usefulness, it was so insufficient for the necessities of trade at the present time.

UNDER OLD SYSTEM.

Under the old system, our banks could not finance our foreign trade, through acceptances. They were unable to loan their credit by accepting bills of exchange, and there was a great deal of trouble and expense placed on our merchants, because of that unwise limitation. We import enormous quantities of silk, raw and manufactured, from the Orient. The silk is hurried over on the ships, and special trains take it east, and yet the bill of exchange, drawn abroad by the seller, is drawn on a foreign bank, and while the goods go due east to our country, the bill and other documents go through the Suez Canal to a foreign country, or, worse, it goes right through this country on its way to the continent, sooner or later to be returned so that the purchaser may discharge his obligation. Now this has been changed, so far as relates to the foreign trade, by the Federal Reserve Act. A member bank can accept bills of exchange in relation to that foreign trade, and it means that sooner or later we are going to be able to finance our foreign trade ourselves, and not have to pay tribute in the way of commissions to foreign banks and foreign bankers.

The Federal Reserve Act is a very long and somewhat detailed document, and it is not easy to extract all the essentials from it from a casual reading, but the underlying principles of that Act

ARE SIMPLICITY ITSELF.

The country is divided into 12 districts, and each district contains from 500 to 700 national banks. The national banks of each district form a new bank, called the Federal reserve bank. That is simplicity itself. The capital of these 12 Federal reserve banks varies from $5,000,000 to $20,000,000, and the total capital of the 12 banks, as they stand to-day, is something over $107,000,000, so that you have these 12 Federal reserve banks looming up like mountains, supported by the national banks and the state banks that later come in, in the respective districts. That, as I see it, is simplicity itself.

Now there is a great difference in the population of these 12 Federal reserve districts. There are a good many bankers, men of the highest ability, who would prefer one central bank in the United States, like the one suggested in the so-called Aldrich Currency Act. They thought that would be more economical and better. It would not have been more economical as investigations that we are making will show that the expenses of a central bank would be greater than any possible expense incurred by the Federal reserve system, but that is another story. They wanted, as I have said, one central bank in Washington, with branches all over the country, in analogy to the great central banks in foreign countries. That is a question I will not enter into to-day. I merely want to point out one thing. The words "Central Bank" on the Continent mean an entirely different thing from one central bank comprising the whole of the United States. For example, the Federal Reserve Bank of Chicago has a population of about 12,000,000 people, larger than the population of Norway, Sweden and Switzerland combined. I think you will agree that is a very respectable-sized central bank in itself. Again, the area of the Federal Reserve District of San Francisco is so large that you could put within it Great Britain, Continental Italy, France and the German

Empire, and then you would have area left over larger than the total area of New England, excluding only the State of Maine. So I think you will realize that the Federal Reserve Bank of San Francisco is a

BANK OF ENORMOUS AREA,

and, of course, having a very large population, I think you will also realize that we have 12 essentially central banks. And it would be a very complex and difficult problem to join these banks in one enormous central bank situated in Washington.

Now, these 12 Federal reserve banks have to have capital. They have to have money to loan, and where do they get it? Well, each national bank contributes 6 per cent of its capital and surplus. Each national bank has to turn over approximately one-third of its reserves to these central Federal reserve banks. And the national banks of the country have already paid about $300,000,000 in reserve money to the Federal reserve banks; and they have paid just half of the capitalization, something more than $50,000,000. Now at the end of the third year, when the Act is in full force and effect, the Federal reserve banks will hold at least $400,000,000 reserve money from the banks, and they may hold as high as $600,000,000; so you will see they will be a very decisive factor in banking conditions in the United States. In addition to these resources, amounting now to $350,000,000 to $360,000,000, and amounting ultimately to $600,000,000 to $700,000,000 at least —the Government of the United States has the right to make its deposits in the Federal reserve banks; and of course you will easily see what an enormous addition that may constitute to the resources of the Federal reserve banks.

Now the only stockholders of these banks are the member banks, that is, the national banks, and the state banks and trust companies that enter the system in each district. They cannot sell that stock; they cannot hypothecate that stock. They are entitled to a cumulative annual dividend of 6 per cent, and all over that, with the exception of a surplus fund requirement, goes to the United States Government as a franchise tax. Another important point to remember is that all the assets of these Federal reserve banks are, in effect, trust funds. They are held in trust by the banks for the benefit of the agriculture, commerce and industry of the United States. There is an absolute divorce from the call loan on the stock market; not a dol lar of this money can be placed in any such investments as the call loan, or on stock exchange securities. Under the old system, the call loan was the barometer of the financial condition of the country; it was the central ring of the circus, so to speak, in fact there were no other rings at all; but under the Federal reserve system the call loan on stock exchange securities is relegated to the side show in the circus, along with the bearded lady and the fat boy. It is no longer the center of interest. We can look on the stock market—on the call loan market, now, with absolute indifference. It may go up to 100 per cent, it is no longer going to frighten the banks and the merchants and the agriculturalists of the United States.

These Federal reserve banks are managed by nine directors; three are elected to represent the banks directly, by the bankers; three, representing the agriculture, commerce and industry of the district,—they are also elected by the bankers; and three are appointed by the National government through the Federal Reserve Board. Thus we have on each board nine directors, three representing the banks directly, three representing agriculture, commerce and industry, and three representing the Federal government through the Federal Reserve Board. So you have there the banks, the public and the government all interested in the management of these banks. And remember that all profits made by these banks other than the 6 per cent dividend and the accumulated surplus fund, are taken by the government as a franchise tax. That in a word is the Federal reserve system.

Now these Federal reserve banks are absolutely independent, one of the other. They may make deposits under certain conditions with one another and they can rediscount discounted paper held by the other Federal reserve banks—they can do that voluntarily with the consent of the Federal Reserve Board, or they can be made to do it by an affirmative vote of five members of the Federal Reserve Board. Up to the present time the banks are showing a perfectly friendly desire to assist one another in every possible way, and I think there will not be the slightest friction growing out of that power of the banks, or of that still greater power of the Federal Reserve Board. It is one co-ordinated system, but there are 12 independent banks. They are co-ordinated and given the benefits of one central system through the controlling power of a public body, the Federal Reserve Board in Washington. Now this Board

HAS VERY GREAT POWERS.

It has absolute general control over the Federal reserve banks and almost, by necessary implication, as large powers of control over the member banks. It has power to remove any officer of a Federal reserve bank for cause; it has power to suspend the operation, or even to liquidate a Federal reserve bank; it has the power of definition of commercial paper which can be discounted by the Federal reserve banks; it has final power over the discount rate established by the Federal reserve banks throughout the country; it has regulatory power over acceptances of member banks and over the discount of acceptances, by the Federal reserve banks, and it has regulatory powers as to open market operations, in the way of investments by the various Federal reserve banks; it has the great power to suspend any or every reserve requirement of the Federal Reserve Act in case of necessity, and I think you will see what a great grant of power that is. I am sure, however, experience will demonstrate that the Federal Reserve Board will exercise its great powers wisely and carefully for the best interest of the banks and of the people of the United States.

There is also another body, the Federal Advisory Council, consisting of one member from each district, elected by the Federal reserve banks of the various districts. They are an advisory body. They come to us—they have the right to come to the Board and consult with us and advise us on all matters connected with the operation of the Federal Reserve Act.

Now, as I have said, the Federal Reserve Act has cured the defects I have enumerated in the old system. In the first place, it has provided for consolidation of the reserves which it has taken from the banks, although the Federal reserve banks are ready to pay them out in discounting paper whenever the banks want to come to them for it. That alone is a tremendous regulatory power, and a power, I believe, fraught with the greatest good to the banks and to the commerce and agriculture of the people of the United States. It also provides for the rediscounting, as I have said, of commercial paper, and it makes that paper held by the banks just as good as gold. It has made commercial paper a truly liquid investment, and I think experience will show again, as it has shown, that there is no more safe, sane or liquid investment in the world than commercial paper under proper restrictions and regulations. It has further lowered the reserve requirements by some 400 or 500 million dollars, and the result is to increase greatly the power of the banks to accommodate the business people of the United States.

Furthermore, when you take into consideration the power over discount rates, you will see what tremendous power the Federal reserve banks and the Federal Reserve Board have in regulating the flow in and out of the United States of the precious metals. It has also provided a system of elastic currency. We have power to issue, to-day, practically 400 or 500 millions of Federal reserve notes, if there were any necessity therefore.

The power, you will remember, was given under the Aldrich-Vreeland Act to issue emergency currency. The Federal Reserve Act made that currency practicable by lowering the rate of taxation. As originally passed, under the Aldrich-Vreeland Act of

1908 the rates of taxation upon the notes were so high that their use was practically impossible. The Federal Reserve Act temporarily extended the Aldrich-Vreeland Act, greatly lowered the rates of taxation upon these notes, and we were able to settle speedily the threatened panic begun last summer, about the first of August. Some people have asked, "Why not extend the Aldrich-Vreeland Act? What need was there of another currency law?" The Aldrich-Vreeland Act was

AN EMERGENCY MEASURE.

The very name "emergency" currency" disturbed the country. It meant trouble. The Federal reserve notes will prevent a panic ever occurring, while the Aldrich-Vreeland notes would simply put an end to a panic when it had reached, perhaps, its height. The whole method of examining the securities behind the Aldrich-Vreeland notes was unsystematic, it was not proper banking. I remember, about the first of August, I had to go to New York hurriedly and examine securities and issue the Aldrich-Vreeland currency. Mr. Harding was with me, and you will imagine the task we had there for two weeks examining this collateral. It was almost more than two people could physically accomplish, and it was most difficult to give that collateral the careful scrutiny that good banking practice demanded. However, the panic was averted, but, as I have said, in the future, with the Federal reserve system, you will not have any financial panics, you will be taken care of, in my judgment, easily and speedily through the Federal Reserve notes.

The other day I was in Kansas City district and I asked the Governor of the reserve bank to compute for me the maximum sum that they were ever able to get by way of relief from the outside of their district in times of strain. He told me the amount. I have forgotten what it was. And I said, "How much relief could you give through the Federal reserve notes if there should be necessity for it?" He figured out that he was prepared to give many times as much relief to his district from the issue of Federal reserve notes, as it had ever been able to get in times of stress from outside that district from the rest of the United States.

These Federal reserve notes are truly elastic currency. They are not tied to Government bonds, they are tied to individual transactions of trade and commerce and agriculture. As trade and commerce and agriculture increase, these notes increase;

when trade is depressed or recedes, the notes come in automatically and are withdrawn. They are covered by gold reserves of 40 per cent, and I cannot see any possibility of inflation unless you call inflation a responding to the legitimate needs of the com merce of the people of the United States. I think they will furnish a truly elastic note currency. They will make financial panics and trouble practically impossible for properly conducted banks in the future.

Now the national banks, as I have said, have been given by the Federal Reserve Act the power to accept

FINANCE ACCEPTANCES

bills of exchange in the foreign trade and that means very much. The Federal reserve banks are furthermore given power to discount these acceptances in the foreign trade and you will realize what that will mean to the people of the United States. The national banks are also given power to establish foreign branches. They have already established branches in Argentina, in Brazil, in Panama, and in various other places. Then, the Federal re serve banks are given very great powers in addition; they can open banking accounts in foreign coun tries; they can establish agencies in foreign countries, they can appoint correspondents in foreign countries,—for the purpose of buying and selling bills of exchange arising out of commercial transactions; they can deal in gold coin and bullion at home and abroad, and you can see, in connection with the power over the discount rate what power that will give to the Federal reserve banks, under the guidance of the Reserve Board, in fixing the flow of gold and precious metals into and out of the United States.

We have just established our regulations for the admission of state banks, and Trust Companies and without going into these regulations I want merely to express the earnest hope that every state bank and Trust Company in the country, doing a commercial business, may ultimately find it for their advantage to enter the Federal reserve system; and I firmly believe that in the near future we shall see that privilege exercised. We have given these banks the right to withdraw from the system at will on giving a year's notice; we have tried in every way to preserve to these state banks and trust companies the rights which their individual states have given them where they are not specifically cut down by the Federal reserve system; and we believe we are going to establish such co-ordination between the national banks and the state banks and Trust Companies that the privilege given to enter that system will be seen to be of the greatest value. And I believe in the near future there will be but one broad distinction throughout the United States, and that distinction will be a member bank and a nonmember bank; and that the prestige of membership in the Federal reserve system will be such that no well-regulated, strong state institution can afford to be without.

We hear criticisms of the Federal reserve system. We hear that there is a loss of interest to banks, that they can get interest on their reserves with their reserve agents, and that at the end of three years we will have done away with that. But any bank president who feels that way I would ask to compute what the lowered reserve under the Federal Reserve Act is, and find out how much of his reserves have been released, so that he can bank on them and loan them, and if he will do that he will find that his bank will make very much more loaning them at simple interest than he could ever possibly have made out of these reserves at 2 per cent interest on deposit with reserve agents. That is not a question of opinion, it is a question of mathematics, and I think that will answer it for any bank president who will figure it out.

Some bank presidents come into Washington and say, "We cannot do anything with the Federal reserve bank, we have no paper which it will rediscount," and we ask him to go over with us his portfolio, and in most cases I find that much of the paper he has is readily, freely, joyously, to be discounted with the Federal reserve bank, and he is a very much astonished man. But if any bank president finds that he has no paper that could be discounted by his Federal reserve bank, I think that he ought quietly to go home and call his directors together and bring his bank back to a commercial institution, from which it has evidently strayed away.

NOT CREATED TO MAKE MONEY.

Some bankers say: "We are not getting any money. The Federal reserve banks are not paying dividends." I think that is the weakest argument against the success of the Federal reserve banks, if it were true.

The Federal reserve banks were not established to make money. As you know, all the earnings over the 6 per cent dividend and surplus fund —every dollar goes to the government. They were established as insurance for their member banks. I was in California two or three months ago. I asked the governor of the reserve bank to compute what loss it would be to the member banks if they had to pay every dollar of the expenses of the Federal reserve bank, and he figured out that if they had to pay the entire expenses and no dividends were paid at all, it would reduce the profits of the banks in the San Francisco district by the amount of one-fiftieth of one per cent. Now, that is a pretty low rate of insurance for your banks, if even the expenses were not earned. But, my friends, the minute business starts up again, you will see the Federal reserve banks easily earning their expenses, and easily paying their dividends. Three, or four, or five, now are earning their expenses and are on a dividend basis, but that is absolutely immaterial. These dividends are sure to be paid. They are cumulative, but even if they were not, I think you will all see what low insurance the banks of this country are getting.

through the possibility of any time turning their commercial paper into gold by simply crossing the street to the Federal reserve bank.

I earnestly hope that the member banks of this district will begin to discount with the Federal reserve bank, no matter whether they need it or not. They want to get over that feeling of shame in connection with rediscounts. Now, rediscounts under the old system, I admit, were sin, but under the Federal Reserve Act rediscounts are righteousness. They are the very foundation of the whole system, and I want the member banks to learn to do it. One writer has said that the Federal Reserve Act was like an instrument which Congress had presented to the American people but without teaching them how to play it. You have got this

NEW SYSTEM,

and I hope the banks will establish cordial relations through rediscounting, just to see how it is done. Do not wait for an emergency. If you were going to buy a fire engine to protect your house, you would not wait until the fire occurred before you learned to operate it. A prudent man would learn how that engine operated before a fire started. If he did not the house might be burned down before he could get it into operation. I wish every bank in this district would take up that matter, just to see how easy it is, just to see how simple it is, just to get a guide to the character of the bank officers, and I am sure they are all able men in this district. You have got a governor, I think, one of the best-equipped men in the United States for that responsible position, and he is on the platform here with me; you have as chairman of the Board a man splendidly equipped for that important office; your directors are able men, men enthusiastically working for the system; but these men are human. They have their characteristics, they have their policies. And if your bank will simply go to them and start up relationship with them, then, when the need comes you will be most surprised to see how quickly the whole thing can be brought about.

Now I wish I had much more time to talk with you about this system. I want to impress on you the feeling that the Federal Reserve Board is comprised of human beings, not abstract entities, and we want to have the most cordial personal relations, not only with the Federal reserve banks, but with the member banks as well, and the people behind them, the customers of the member banks. I hope you will all feel at liberty at any time to write our Board at Washington, and every letter we receive will be

CAREFULLY CONSIDERED

by the Federal Reserve Board. We feel that we are not the repository of all human knowledge. I think there is hardly a day that we do not need help on almost every problem. And if you gentlemen will write us it will be appreciated. Whatever you give us will be carefully considered according to its merits.

Now that I have finished what I have to say about the Federal reserve system, I feel that under it the United States is in a position where it can truly claim to have one of the soundest banking systems in the civilized world; and it has come about at a time when the United States is slowly turning from a debtor nation to a creditor nation. The enormous exports that we see going out of the United States every day, with the diminished imports, means that the debts of foreign nations to us, in the long run, can only be met by sending us gold or goods, or by returning our securities—and for my part I have no fear of those securities coming back. Until we get them back we cannot be a creditor nation, and we have the resources to take them back at good bargains. I see forces in motion that have temporarily put the United States in the position that London used to be in and I firmly believe in the ultimate future that you will see that condition made permanent and then we can say that the United States of America stands foremost in finance among the great nations of the world.