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SPEECH BY HON. C. S. HAMLIN BEFORE THE
REPUBLICAN CLUB OF THE CITY OF NEW YORK,
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For many years the United States has been more or less isolated, both from a commercial and a financial point of view, but within the past generation our activities have greatly broadened. Our people have become today a factor in the world's progress, both commercially and financially. I was reading the other day an article by a well known scholar in which the statement was made that "the detached individual has gone out of existence". I could not but realize the truth of this statement and that it could be, as well, applied to the nation as to the individual. Today we must recognize that the detached nation has gone out of existence; that we are all part of the composite group of the nations of the world, and that almost every event in the world's progress, whether for good or for bad, must sooner or later affect the interests of our people.

There are many problems before us today for settlement which come under the general heading of preparedness. There is preparedness in the military sense, and, as well, preparedness in the financial, banking and commercial sense of the term. I shall say little or nothing of preparedness from the military point of view, and shall simply rest with pointing out that from the financial and banking points of view we certainly are now well prepared, and can look to the future with confidence.

So far as the finances of the nation are concerned, the Gold Standard Act of 1900, passed under a Republican Administration, has settled that question for ever. So, also, the Federal Reserve Act, passed under a Democratic Administration, has at last placed our banking system upon a

sound basis - one of the firmest and best in the world.

When this terrible conflagration in Europe is over there will be many great problems for us to consider, and we must prepare for their solution in advance.

I have stated that we are now prepared in the banking and financial sense of the term. I would say more. I believe that ultimately it will be demonstrated that out of this new Federal Reserve Banking System the people of the United States will save, each year, much more than the cost of any reasonable military preparedness which the people of the United States will ask Congress to secure.

We have to go back only a little over a year, to August, 1914, to see what a startling change has occurred in our country. We then owed, in gold, at least \$500,000,000 abroad. The first business of the newly created Federal Reserve Board was to collect a sufficient amount of gold to satisfy our foreign creditors that we could and would pay every obligation which is payable in gold in that metal. We appealed to the people of the United States through the banks and bankers, and they responded without delay by giving us a fund of over \$100,000,000 of gold. The accumulation of this fund satisfied all nations that every demand obligation payable in gold could be and would be promptly paid in that metal. I believe we could have as easily raised \$200,000,000 as the amount we did in fact raise. You will also remember that it was necessary to issue the so-called Aldrich-Vreeland currency notes, and, in some cases, clearing house certificates, to supply the demand for currency which arose shortly after the beginning of the war. It will be a liberal estimate to say that not over \$500,000,000 altogether was needed in these notes and clearing house certificates to assuage all fear of trouble, and all ^{will}/realize the strength

of the Federal Reserve System when I say that we could easily supply over \$600,000,000 of additional credit at the present time, and our resources are not yet as large as they will be shortly, when all reserve payments have been made by the member banks.

The Federal Reserve Act was founded on certain simple principles of banking which had been recognized on the Continent of Europe for many years. These principles were well brought out by the investigations of the so-called National Monetary Commission, and no student of finance will fail to appreciate the painstaking research of that Commission. The people of the United States are greatly indebted to its members for what they accomplished.

As I have said, the principles underlying the Federal Reserve Act are simple. They represent, among others, the principle of consolidation of reserves and note issue, keeping apart the function of ordinary banking from that of the issue of notes. ^{The Act} It provides for twelve independent Federal Reserve Banks, but connected together through the Federal Reserve Board, so that the strength of every bank is at the service of every other.

Opposed to this principle of twelve banks was a bill presented by the National Monetary Commission having one central bank. This latter bill was well worked out in detail. Its principal fault was that the system was almost completely controlled by the banks, and that the interests of the people were not ^{adequately} represented on the Board of Directors. In any event it was never brought to a vote in either House.

The Federal Reserve System, on the other hand, has direct representation in that each Federal Reserve Bank has three members of the Board of Directors, appointed by the Federal Reserve Board, who are chosen to

represent not only the banks but, as well, the people of the United States, who are the customers of the banks. I believe that the System gives us all the benefits of a central bank without the disadvantages of such a System.

We can realize what has been accomplished under this Act when we consider the position of the National banks under the old law. We had 7500 independent banks, - a disorganized army, - without lieutenants, majors, colonels or generals, each individual bank in fact being a general. In time of trouble each bank had to take care of itself, and likely at the expense of its customers. The notes of customers which were discounted were placed in the bank vaults as if they were funeral vaults, and there they stayed until maturity, their Resurrection day; if taken out before maturity and sold, the bank would have had the finger of suspicion pointed toward it.

The National banks, under the old system, could not accept bills of exchange. All this has been changed however, and now they are authorized to accept bills in the foreign trade. Furthermore, any bank whose reserve falls can at once turn commercial paper which it holds into cash at the Federal Reserve Bank, so that it can always feel certain that its wants can be cared for.

I am sure you want to know, however, just what this system has done for the individual borrowers. The following facts are clear. Banks today can borrow from one another at rates cheaper than for many years; in many parts of the United States individuals can borrow from banks at lower rates than ever before; cities, municipalities, towns and villages can borrow today on their warrants at rates far lower than they have ever before been able to secure. Some of this gain to customers has resulted from the

lower reserve requirements established for member banks by the Federal Reserve Act; some, also, by the inflow of gold into the United States. Much of the gain has come directly from the discount rates fixed by the Federal Reserve Banks.

Some occasionally complain because the Federal Reserve Banks are not earning their dividends. At the present time they are practically all paying their expenses, while only a few have been able to earn dividends. It should be remembered, however, that no new bank can fairly be expected to pay expenses and dividends the first year. The Federal Reserve Banks, undoubtedly, when normal conditions are restored, will easily be able not only to meet their expenses but to pay dividends as well. We should not forget that these banks were not organized primarily as profit making institutions; on the contrary, they were organized to hold the reserves of the country. When it is for their interest they enter the market; when it is not, they stay out, but in my opinion they must always keep part of their resources loaned or invested in order properly to regulate market conditions, and these loans or investments, incidentally, in normal times, will be ample for all expense and dividend requirements.

I had hoped that my colleague, Hon. Paul M. Warburg, would share with me today the privilege of addressing you, but, unfortunately, he was not able to arrange to be present. I regret this particularly because I believe that he is one of your valued members, and I know how you would have enjoyed his able and brilliant handling of these important questions.