

## REMARKS OF H. P. WILLIS

At New Haven, February 21, 1917.

Members of the Connecticut Bankers' Association:

The question of "preparedness" has been discussed during recent months from many angles, but comparatively little attention has been given it from the point of view of finance. Perhaps this is as good a time as any to clear our minds upon that phase of the subject. It is a moment which appeals strongly to the patriotic instincts of the average American in any year, but in this year and at this moment above all others. If we were to ask the traditional man in the street what he means by preparedness, he would perhaps define it as defense of the country against outside aggression. We all hope that no such danger will ever be imminent, but most of us also recognize that in order to prevent it from becoming so, we must be ready to meet such a contingency. Most men also realize that the true analysis of the idea of "preparedness" implies not merely preparation for some possible event, but also preparation for certainties. In this view of the problem the question is really one of self-analysis or inventory. It is an inquiry as to the degree of our discipline, the extent to which we are ready for what may come, the measure in which we are able to husband and use our resources of every kind.

The experience of the European nations during the past two and a half years shows that even in the limited military sense "preparedness" depends much for its efficacy upon finance, since it is only through proper finance that the nations' resources can be husbanded, marshalled and directed to the spot where they are most needed. This, too, is the teaching of general observation and of the logic of events. How have we prepared ourselves financially? To what degree have we made ready for any sudden strain or catastrophe? More important still - How far are the resources of the country of today, marshalled for the economic contests of the future?

You are all familiar with the Federal Reserve System and its work. I do not need to tell you anything about that system in detail. Many of you are already members of it, You have, therefore, studied the system intimately, and you know how it affects you individually. I believe most of you think it has been beneficial to you even from the narrower business standpoint - that new opportunities have been opened, and that while they have not all perhaps been fully put to use, they are all available, and when so used will result in making the bank as a going institution far more profitable and satisfactory from the investment standpoint than it could have been under the old system. However, this may be and whatever you may think on the subject from the standpoint of

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banking as a business investment, let us consider the matter in its more important public aspects.

The Federal reserve banks stand ready today to provide you with all of the note currency that can in any conceivable state of things be asked for. Altogether I estimate their note-issuing capacity in round numbers at about one billion dollars. They hold reserve money to the extent of \$535,000,000. Their necessary reserve holdings against deposits are, roughly speaking, \$235,000,000. They have thus \$300,000,000 of free gold which can be used as a 40% reserve against notes, thereby permitting an issue of \$750,000,000. In addition to this they hold today almost \$100,000,000 of free commercial paper not pledged to protect outstanding notes. By withdrawing from Federal reserve agents an equal amount of the gold held by the latter and putting this paper in the place of it, they would, after deducting the reserves required by law to be held against notes already outstanding, be able to issue fully \$150,000,000 more. Inasmuch as there would still remain a sum in gold amounting to nearly \$200,000,000, in the hands of Federal reserve agents, a considerable portion of which could also be released and used under favorable conditions as a basis for notes, we may safely add another \$100,000,000 to the sums of \$750,000,000 and \$150,000,000 already enumerated, thus raising the potential issue power of the banks to fully one

thousand million dollars. Numbers so large as these have little meaning in and of themselves. We must remind ourselves by way of comparison that during the year 1914 when the modified Aldrich-Vreeland Law was called into active operation, the issue of notes was less than \$400,000,000 for the country as a whole, while additional issues of clearing house certificates were less than \$150,000,000. In round numbers we may say that notes available today are double the total of emergency issues called for at any time in the past.

Do not suppose that this issue power is only theoretically available for use. The Federal Reserve Board knowing the importance that is attached to the question of note issue, has promptly and efficiently arranged to make full use of the provisions of the law which facilitate the issue of notes. You remember that the original Aldrich-Vreeland Law made provision for the printing and holding in stock of some \$500,000,000 of what was called emergency currency. This was an outgrowth of previous experience which had emphasized the difficulty of getting bank notes under the older system with the speed that was required in times of emergency, some three weeks or more being necessary for the printing and seasoning of the new circulation before it could be issued. Therefore when the Federal Reserve Board was first organized it directed the printing of \$500,000,000 of notes. Later

this amount was increased to some \$700,000,000 because of the large demand for these notes in exchange for gold. Very recently it has been voted to raise the total note issue to \$900,000,000, this sum, of course, being in addition to the notes now outstanding. The Bureau of Engraving and Printing at Washington is working at full speed upon the new currency, and it is hardly conceivable that the demand should overtake it. There are today in the vaults at Washington and in the hands of Federal reserve agents and Federal reserve banks an accumulated supply of not less than \$450,000,000, in notes already prepared.

It has also been found in past times that a serious difficulty lay in the time required to transmit notes from Washington. Delays were inevitable, due to the necessity of sending the notes under guard or with special precaution for their safety, or due to the limitations placed by the forwarding companies upon the transmission of large consignments of notes. For many reasons, therefore, it has been properly felt that every center of note issue should have its reserve stock readily available and in abundant supply. The framers of the Federal Reserve Act foresaw this necessity and provided that the notes to be printed might be stored in the subtreasuries or mints nearest the reserve banks at which they were to be issued, but until recently it has been deemed wise to keep the great bulk of this supply in Washing-

ton. Today the provisions of the law are fully availed of. A large deposit of notes is being made in every subtreasury and in some of the mints in order that every reserve bank may be readily in touch with the source of supply for its currency necessities. If, therefore, there is any safety or security to be found in abundant, well protected, sound and carefully controlled circulating notes the Federal reserve system is fully prepared to provide that safeguard. This seems an ample protection so far as the currency situation is concerned. We may regard it as the supply of financial "munitions" stored and available to meet any possible shock.

Let me say, however, that in my judgment, the note circulation is not likely to play the important part in the future that it has in the past as a means of relief. We have placed far too much emphasis upon the note question in our whole discussion of banking and currency. Notes may be of great importance as an auxiliary resource, but the currency of the advanced commercial countries of today is not the note but the check and deposit. How has the Federal reserve system prepared itself to meet the call for this kind of currency? Precisely in the same way as in that of the notes. It has perfected its machinery for the granting of discounts; it has simplified the kinds and classes of paper that are available as discount offerings; it has developed

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its internal organization, and last but not least, it has laid the foundation of an adequate check collection system. You know that in times past when banks of our centers have suspended specie payment upon occasions of emergency, the result was to make a vast volume of checks constituting the so-called "float" of the country, practically uncollectible. That this was one of the fundamental elements of the situation which could be corrected only in very limited measure by the <sup>free</sup> issue of bank notes, is considered by every man familiar with the real facts in the situation. It was, therefore, one of the principal cares of those who framed the Reserve Act to provide for an adequate system of collecting and cashing checks drawn on both member and non-member banks that might be deposited with reserve institutions. The reserve banks, therefore, stand today as the post expresses it, "forthright, accoutered, accepting," ready to cash the credit claims of the community by the established method of offsetting them against one another under conditions and backed by resources which guarantee the convertibility of the balance into available circulating media upon demand. It is the knowledge and consciousness of this fact widely diffused among the bankers of the country that constitutes the best safeguard against disturbance, and that strongly indicates the impossibility that any sudden demand for notes as in the past has made itself felt, will now

be presented. There has from time to time been a large expansion in the circulating necessities of the country as confidence rises and ebbs, and as current events influence the minds of depositors and through them the necessities of the banks. But it is not the ebbing and flowing of the tide that causes disaster, but the sudden tidal wave. We may expect our currency necessities in the future to resemble the former and not the latter, and we may confidently count upon our control of the movement through proper provision for the storage and disposal of the surplus waters of demand. It is the organization of the banks of the country into self-governing, self-contained, self-dependent districts that constitutes the best safeguard against possible danger in the months to come. We have, in short, carefully organized, drilled and disciplined a competent corps of expert financial soldiers, and with them as with others, their best resource is found in their esprit de corps, and only secondary in weapons of credit with which they are provided.

The ultimate problem in the matter does not however relate to this aspect of preparation, but relates to those who are inclined to enlist. The Federal reserve system at its start was, as you all know, the result of conscription. We have been waiting for additional recruits to come forward upon the principle of voluntary service, but they have been slow. Some 40 State institutions have enrolled themselves, and among these are some of national prominence and outstanding responsibility. All are



good institutions, and all have shown both their patriotism and the enlightened character of their self-interest in associating themselves with the new system; but in this case, as in others, the question must always be raised whether it is right to leave the heat and burden of the day to be borne by those of the greater public spirit and patriotism who are willing to volunteer, or whether their efforts should be sustained by a requirement made in the interest of the public service. It would be far better indeed to maintain the voluntary character of the enrollment, but there is justice in the contention that a large part of those who are now enlisted have become members because of the requirements of law, and that they should not be compelled to carry the load which in all equity and justice should be distributed among those who are best able to bear it, and who expect to profit from the results of the operation of the system. It is with this in mind that the Federal Reserve Board has recently presented to Congress a series of amendments to the Federal Reserve Act which are designed to open the way for an enlarged membership, and which will offer full and equal opportunity for service to those who are willing to promote the safety of the financial structure of the nation. The amendments suggested go even further than this. They undertake to bring about a combination of gold resources which shall be superior in strength to anything else now known in the financial world, and which shall practically unite under associate control the basic reserve funds of the banks of the United States.

The outstanding feature of the amendments is its discussion of the existing banking situation as affected by possible conditions growing out of the present abnormal state of foreign trade, and the situation that may exist after the war is over.

To make the system an effective means of financial preparedness, able to guard against all contingencies reasonably to be expected, the Board proposes the reserve percentage amendments to the Federal Reserve Act already made known some time ago, which it estimates would result in massing in the Federal reserve banks a total sum of \$800,000,000 to \$900,000,000. Other proposed changes in the law would enable the Board to safeguard this stock, not only by varying discount rates, as at present, but also by changing reserve requirements, inclusive of those of member banks.

As a means of assisting in this process of mobilizing the gold of the country, the Board again proposes an amendment to the Act providing for the issuing of Federal reserve notes under liberalized conditions by permitting cash in the hands of Federal reserve agents to count as a part of the Federal reserve banks' own cash reserve.

This plan for an immensely powerful massed reserve is further amplified and worked out in its foreign aspects as shown by the statement that the establishment of connections with the great Governmental banks abroad is under consideration, and that

relationships not only with the Bank of England, as announced some time ago, but with other institutions will be authorized from time to time, such relationships to be employed as a means of regulating gold export movements. The central feature of the report is thus a highly developed and thorough-going plan for uniting and organizing the gold resources of the banks of the country under joint management, designed to render their use as effective and economical as possible, both at home and in international trade.

It is not well, however, in finance any more than in the management of individual affairs, to be constantly preparing against emergencies. The man who lays by for a rainy day is likely to provide for such a day, but for very little else. It is more important to prepare our banking and financial system for the future expansion and development which must come to it, and for the performance of the duties which it can not avoid, than it is to strengthen it simply against some danger which may prove imaginary, and which will be met in any case by the progressive strengthening and increasing of its capacities. How was it that the Bank of England met the unexpected onset of the war? I do not underestimate in the least the capable management of the English currency systems, or the prompt adaptation of long-established customs and laws to immediate necessities; but I submit that England's principal bulwark against danger was found in the foreign connections which fortified

English bankers and English banking systems against a shock that might otherwise have overcome them. England's enormous foreign balances on current accounts gave to the London market an enormous financial power at the opening of the war. British investors' ownership of foreign securities gave to England a staying power in the investment market that, considering the issue at stake, has been almost unparalleled. When our Civil War was two and a half years old, the Government at Washington was selling 7% bonds and accepting pay for them in currency which was worth about thirty-eight cents on the dollar. England to-day sells her securities in this market at a rate between five and six per cent, and obtains her payment for them in the best currency in the world, at a favorable rate of exchange. Have we in the United States forearmed ourselves in any similar fashion, not merely against the possibility of conflict with other nations, but against the chance of competition and commercial warfare? The Federal Reserve Act has held out the opportunity to our bankers to lay the foundation for this kind of preparation. Has it been availed of? Two of our leading institutions have established branches in South America. None has entered the Oriental field. Almost nothing has been done in Europe. Other parts of the world have not been touched. They are a virgin field to-day for beneficial exploitation by American banking capital. I have heard it said by some that American bankers would prefer that the

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Federal reserve system should lead the way into the foreign field, and by breaking a path prepare a road for those who are to come after. Is not this reversing the real intent of the Federal reserve system? In order to do its best work the reserve system must act as it has always acted, as a cooperative enterprise, as a union of banks and bankers. It must have the underlying support which comes from the presence of live commercial transactions conducted by Americans, stated in dollars, and ready for use. And yet the Federal reserve system has endeavored to keep well to the forefront in this regard. It has undertaken negotiations with some of the foremost banking institutions. It has perfected a working arrangement with one such. It has concluded an agreement with an Oriental institution which operates upon a smaller scale. It is prepared to go further and to accommodate itself to any requirement with which it is free to cope. But in this it must have the aid and backing of American bankers.

For many years past there has been an almost unlimited amount of talk about foreign banking, and yet the number of banking enterprises actually established abroad by American bankers prior to the passage of the Federal Reserve Act, could be counted on the fingers of one hand. The Federal Reserve Act, as you know, provides for the establishment of branch banks, by properly qualified institutions, in foreign countries, and it also authorizes the Federal reserve banks to establish agencies in such countries. Only

two national banks, so far as I am aware, have taken advantage of this permission, and of these but one, an eminent and ably-managed institution of great resources and far-reaching vision, has entered the field on a large scale. A few months ago there was an outcry among business men's associations for an amendment to the Federal Reserve Act that would permit bankers to join together for the purpose of ~~organizing~~ such branch institutions. The demand was heeded, and on September 7, 1916, Congress, at the request of the Federal Reserve Board, so amended the Federal Reserve Act as to permit such jointly-owned banks to be organized. Thus far no such banks have been established and I am not aware of any proposals to create them that are likely to come to a head in the near future. Perhaps there are some of which I am not aware, but certainly the movement has not gone far, if indeed it has ever been started. We must conclude, therefore, that the banks of the country have not gone actively into the task of preparing themselves for the struggle to retain our foreign trade after the change of conditions which all admit must come when European conditions materially alter, and when competition is restored to something like its former intensity. The Federal reserve system has made a beginning by undertaking preliminary arrangements looking to the designation of foreign agencies intended to assist in fulfilling the purposes of the system in

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so far as these relate to foreign operations. I need not, however, insist upon the fact that the Federal reserve system has a purpose which is essentially different from that of ordinary commercial banks, and that whatever it may do in promoting our relations with foreign countries and in aiding in the general plan to promote the welfare of the American discount market, it can not perform the task which only strong commercially organized institutions can fulfill - that of exploiting and developing the foreign market in the interest of our own business community.

It is to be feared that some of our bankers look at this question as if it were a question of immediate profit solely. They are inclined to inquire into the possible profits to be gained by the establishment of branches and connections abroad, as if it affected only them and the welfare of their institutions. The question is, however, a good deal broader than this, since, as I have just shown, it involves the whole matter of retaining our trade and developing it in markets other than our own domestic fields. The business man will not be able under existing conditions in trade and industry, to carry on the campaign alone. He must have that powerful assistance which only the banker can afford, and this can not be rendered without special organization and cooperation for foreign trade in the way that I have spoken of. There are two methods by which such

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effective cooperation can be accomplished; one, the actual establishment of branches abroad, the other the establishment of connections with some institution which will faithfully and earnestly represent the interests of our own bankers and business men in those foreign countries.

The only true way in which to foster and retain foreign trade is through the extension of accommodation under wise and conservative conditions, to those business interests in other countries which require that kind of assistance, and which in return for it, or as a condition of getting it, will be willing and ready to turn their purchasing power toward the United States. We have long known that England's powerful hold upon the trade of South America and the Far East was not due to any innate fondness on the part of the people of those regions for Great Britain or her assistance, but was due to the fact that British banking institutions stood ready to facilitate the movement of goods to those countries, while they also stood ready within reasonable limits to assist in the development of the resources of those countries, and in the exportation of their products to Great Britain. The progress which has been made in recent years by German bankers and business men in competing with Great Britain and her representatives, has been due to Germany's recognition of the essential basis for



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British trade, and her adoption of similar modes of getting and controlling business. The real question in the whole matter is: Do we want to continue our present control of foreign trade, or are we content to return to the foreign trade situation which existed before the European war? If we do in fact believe that benefit comes to the country from the maintenance of a strong and well-diversified foreign trade, it will be necessary for us as a nation to adopt those measures and methods which experience has shown to be requisite.

As I have already intimated, I do not believe strongly in the effect of artificial legislation in sustaining and extending our business. In order to deal with foreign countries successfully we must not only sell but buy. We must do more than this. We must hold out the help necessary to enable our own business men to place their goods on foreign markets with success and at reasonable cost, and we must enable shippers in this country to export without unreasonable sacrifice. Indeed, we must, if we wish to create a permanent and growing foreign trade, aid producers and shippers abroad by every legitimate means in our power, to increase their output, and to market it under favorable conditions. The idea that this can not be done, or that some special difficulties stand in the way, or that the problem is being prematurely presented, or that for some reason

we can escape immediate action upon it, has been dispelled by the events of the past two years. It must be evident to all that the present moment is one which calls for the exercise of constructive business ability and the display of enterprise and initiative by our people along every line that experience shows to be required in facilitating the growth of business.

There is another way in which preparation has been made for eventualities, whatever they may be. In the United States for many years past there has been a lack of uniformity and consistency of practice with reference to commercial paper. When the Federal Reserve Act was first put forward the statement was often made that its requirements with reference to commercial paper were so stringent that banks could not live up to them, and that they would almost inevitably be debarred from the enjoyment of rediscount privileges, save perhaps in some unusual and specially favored instances. Events have proved the baselessness of this fear. According to the reports of the Comptroller of the Currency the national banks hold at least \$1,-639,000,000, of paper eligible for discount under the requirements of the Federal Reserve Board. Congress, in order to meet the convenience of member banks, has broadened the classes of paper which are eligible for purchase and discount, and has provided for the making of loans upon the direct note of a member

bank secured by eligible paper as collateral. The Federal reserve banks have set themselves earnestly to work to improve the character of the commercial paper of the country, to standardize it, and to reduce the element of renewal paper which is found in the vaults of almost every institution. There is no phase of the work of the Federal reserve system which is less spectacular and perhaps less appreciated than this; yet it has required only leadership and uniformity of action to bring about a very material progress. There are many progressive business firms which are actively cooperating with the reserve banks in the effort to introduce the trade acceptance. The bankers acceptance has been placed upon the market by American institutions to the amount of perhaps \$300,000,000, and while there are still defects and errors connected with its use, a desirable beginning has been made. How far the member banks themselves have gone in applying the principles of the Federal reserve system in their communications with their borrowers, and yet insisting that their borrowers live up to and observe the manifest necessities of good banking practice, it would be impossible to say. There is, however, abundant evidence that this movement has made large progress, as many banks which alone and unaided would not have felt able to institute reforms

among their borrowers are doing so; that they have been materially assisted by the moral and actual support of the Federal reserve banks; and that to-day the commercial paper of the country is as a consequence in a better, more liquid and more available shape than it has ever been before. If this be true, or even only comparatively true, the greatest possible service has been rendered in preparing the community and the country not merely for any sudden shock to which it may be exposed, but for the more efficient and capable performance of its regular duties in the extension and conversion of credit from this time forward.

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I think we all realize the importance of discipline and organization, both individual, local and national, in a way that we never did before the breaking out of the European war. We appreciate certain qualities of cooperation more than we ever did before. And yet we are somewhat reluctant to do what is necessary to attain them. Like the Roman poet we recognize the better way but we follow the worse. Nevertheless there is reason to think that this tendency to inertia will be overcome and that we shall do what circumstances require us to do as a nation for the purpose of organizing and marshalling our forces. Is not the situation among our banks very similar to that which prevails among our citizens? We have long prided ourselves on our individuality, our freedom from control, the fact that we were not subject to oversight, and did not recognize allegiance to any. We have protested against Government interference with industries, and we have done well to do so. But there is a danger in this as in other cases, that many crimes may be committed in the name of a good cause, and that many will mistake for independence and vigor that which is nothing more than a refusal to cooperate for the common good. The Federal reserve system has sometimes been represented as a system of drastic oversight and control over a business which was already competitive, and which could be engaged in by any citizens who possessed the

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necessary character and capital: It has been described as an exhibition of paternalism. How far is this true? Every Federal reserve bank is under the control of a board of nine directors of whom six are chosen by the bankers of the district. It elects its own officers, chooses its own employees, fixes their salaries, determines the conditions of operation, and in every other reasonable way is fully autonomous. The control exerted by the Federal Reserve Board at Washington is merely that of harmonizing and unifying the policies and practices of the banks, thereby attaining that degree of community of method universally recognized as a necessity to the proper conduct of any banking system worthy of the name. The Federal Reserve Board is authorized to issue certain kinds of orders, and its approval is required in certain other cases; but its actual voice in the Federal reserve banks is limited to the appointment of one third of their directors, and I am happy to say that they have thus far in every case with which I am familiar been interested in the bank as directors and business men, and not as Government employees. There is no evidence that the participation of the Government in the establishment of the boards of directors has thus far resulted in any different kind or method of management or organization than would have been provided by wise and cautious business men in any banking institution. Nor is there

any reason to question that the type of management thus far furnished at Washington and elsewhere will continue to be characteristic of the Federal reserve system. This is a matter entirely in the hands of the bankers of the country, and the power and influence of their opinions are too well known to call for any comment from me. So far from being a plan for the increase of Government oversight over banking, the Federal reserve system is a plan which decreases the necessary scope of Government oversight, and which places in the hands of bankers the duty of mutual control and mutual support. It is a system that endeavors to give effect to what has happily been called "the common sense of most", which represents the best average judgment of the financial community, and which, therefore, should be accepted as the normal or guiding opinion in matters financial. If there are practices or methods in vogue among sections of the banking community which are not in the best interests of all, it is desirable that they should be improved or superseded, and this is recognized by the banking community itself. There will always be in every organization some restiveness and unwillingness to submit to discipline, even where that discipline is self-imposed and is intended in the interest of those to whom it is made applicable. We can not expect that the Federal reserve system will be free from the necessities and conditions that apply to all other or-

ganizations. Our safety will be found in making the policies adopted and the methods pursued so manifestly reasonable in their nature that there can be no question of their propriety, soundness, and benefit. In recognizing this fact the Federal reserve system necessarily concedes that it can never maintain that support in public opinion without which it must inevitably be doomed to failure, unless what it does commends itself to the sentiments of the less prejudiced and more enlightened of those who are affected by it. I am very happy to think that thus far it has had this support, and that it has grown in strength and approval as the months have past. At the opening, therefore, of what may be a severe strain upon its powers and capacity to serve the public, it feels itself strong in the support and approval of the best element of the community, and obliged to face no internal problems more serious than that of inducing some members who do not as yet feel inclined fully to cooperate, or the fact that it is their duty so to do. And in this I think the hopeful aspect is that this process of convincing and persuading a minority of the need of cooperation is an intellectual process. It implies no element of coercion. Discussion has been free and open, and the issues at stake have been tested before the bar of public opinion. I believe that the present national emergency will perform, among other services, the great one of persuading every member of our



banking and financial community of the necessity of cooperation and harmonious action designed to promote the welfare of this organization, and to strengthen its hands in all good undertakings. If such should be the result, we must say in this as in other cases, that there is good in all things, and that even an emergency which we would gladly have avoided has strengthened us to meet future emergencies, and to make our resources continuously effective.