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Synopsis of Address by
HON. PAUL M. WARBURG
before the
COMMERCIAL CLUB OF CHICAGO,
April 7, 1917.

In speaking last evening before the Commercial Club of Chicago about the topic "Government and Business", Paul M. Warburg, Vice-Governor of the Federal Reserve Board, emphasized the necessity of a clearer recognition of the necessity of cooperation between Government boards and business if the large economic problems of modern industrial states are effectively to be coped with.

Before dealing with the subject of his address, he spoke about the financial problems confronting the United States, saying:

"When the United States goes to war, it can never be a race war; it must be a war for a principle, for liberty or for human rights. It can never be a war by a race against a race, but a war by people holding to one principle against people holding to another. Our greatest contribution to the world's development is that we are giving the living proof that common aims and ideals can be stronger than racial differences. When the die is cast there can be only one duty for any citizen and that is to stand loyally by the flag of his country. But that duty is doubly strong with us, where any hesitation in that respect would shake the fundamental thought of the Union - which is: that its citizens must shake off the smaller racial or sectional thought and subordinate it to the larger duty of loyalty and allegiance to the principles of liberty, justice and equality upon which the United States is founded. That does not mean that we should cease to love the people who were near and dear to us in the old

countries 'where our ancestors', or even our own cradle stood, or that we should forget that every one of these old races has given us some great contribution toward the higher development of our own country. During our Civil War many a brave man continued to love his brother even though he found himself forced to fight him on the field of battle. But this tragic conflict of affections could not shake his loyalty to the cause he had espoused. And so it must and will be with us. When our country goes to war it has a right to expect and demand of all its citizens a willingness to serve and to suffer and to die. No matter what this may entail for any of us, about our whole-hearted and unquestioning allegiance to our flag, about our unhesitating readiness to stand by our President and to do our duty, there can be no possible doubt.

"This duty may be performed in many ways. It may be personal service with the colors. It may be organizing and placing at the disposal of the Government the various industries of the country, or the investors' prompt response to offerings of loans issued in the interest of the cause.

"Under the particular circumstances in which we enter the war, the financial aid that our country will be able to render will be one of our most important contributions, and I have no doubt that in whatever way our Government will finally decide to appeal to the American investor he will respond with an alacrity and in a spirit that will astound the world.

"It is a profound satisfaction to all of us to know that never before was this country financially as strong and as well prepared

as it is today. During the last three years our gold holdings have increased by 57% from \$1,900,000,000 to about \$3,000,000,000. In addition, as you are well aware, we have improved our position as against other nations by repurchasing our own securities and making foreign loans to an amount approaching \$5,000,000,000.

"Moreover, by the establishment of our Federal Reserve System we have organized this enormous strength. We have brought into effective coordination a large portion of the country's banking reserves. We have regulated and brought about a general understanding of modern methods of rediscounting. We have created a new wide market for bankers' acceptances, so that our member banks now have an easy means of recourse to the Federal Reserve Banks in case they wish to replenish their reserves.

"We have established fiscal agency relations with the Government and perfected an instrument which may prove of great value in placing future issues of our Government securities. Not so much by investing their own funds, except when dealing with short maturities, but by acting as a medium of distribution, the Federal Reserve Banks may play a most important part in facilitating the participation of all sections of the country, in receiving the payments for subscriptions and adjusting any drastic dislocation of funds that might arise through heavy payments by the banks to the Treasury. We have available a vast supply of notes of undoubted solidity ready to be issued whenever there may be a demand; and, through the inter-district gold clearing fund, we have established machinery for the freest exchange of balances between the various parts of the country. Not by any stretch of imagination could

we any longer perceive the possibility of a gold premium between the various American centers or a currency famine as in years gone by. About our power to take care of ourselves there can be no doubt. But in view of the unparalleled demands that may be made upon us, both during the war and after the conclusion of peace - demands which it may be our highest national interest and duty to satisfy - we should not neglect to perfect our financial machinery to such a degree as to give it the greatest possible strength. For this reason, the Federal Reserve Board has again recommended to Congress amendments having for their object a still further concentration in the Federal Reserve Banks of gold held in scattered bank reserves, and a more liberal substitution of Federal Reserve notes for our present rigid 100% gold certificate circulation. One billion dollars - one third of the gold holding of the United States - is at present "unaccounted for"; you and I carry it in our pockets, it is in the tills of the baker, the grocer and the dry-goods store. We all would just as leave take Federal Reserve notes - our Government's absolute obligation secured at present by practically 100% of gold and all the assets of the Federal Reserve Banks. It is as apparent that it would increase our strength enormously if we could add to our organized reserves a substantial portion of this wasted gold as it is obvious that it would be nothing short of a crime wilfully to withhold from our country at this time so vital an addition to its power of offense and defense.

"Unfortunately, in the general tie-up of all legislative work at the end of the preceding session, Congress was unable to pass the desired legislation. It is most essential for the best interest of the country that prompt action be taken by the present Congress and it is most desirable that public opinion assist the committees on banking and currency in

securing early and favorable consideration of these amendments, which will enable us promptly to complete our financial mobilization."

He recapitulated the thoughts about his general topic as follows:

"The modern state is as much an economic as it is a political unit. There are millions of individual enterprises apparently self-centered and independent, but as a matter of fact, all dependent upon each other. There is not one in the conduct of which, directly or indirectly, the state is not interested. There is not one which, by exaggerating the single and selfish point of view, might not do harm to others and affect the well being of the whole. Whenever the fair middle course essential for the greatest prosperity and comfort of all cannot be established and adhered to by common understanding between contending parties, Government has to step in as a regulating factor. If this regulation is to bring about the best results, it must not be exclusively preventive of abuses or destructive of old business practices, but it must be, at the same time, constructive. Government must not regulate only. It must also promote.

"In the state of the future, particularly in Europe after the war, the most efficient Government promotion of industries in many lines will be held to exist in actual government ownership and operation. More than ever before will states become solid industrial and financial unions effectively organized for world competition driven by the necessity of perfecting a system of the greatest efficiency, economy and thrift in order to be able to meet the incredible burdens created by the war.

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"Such is the future of the world in which we shall have to maintain our own position, and it requires, on our part, thorough organization and steady leadership. Under our democratic system this cannot be furnished by changing party governments, but can only be provided by fairly permanent, non-partisan and expert bodies. These bodies must combine the judicial point of view with that of active and constructive business minds. They must be able to act as expert advisers alike to Congress and the industries concerned. They must break down suspicion and prejudice of Government against business and business against Government. They must stand for the interest of all against the exaction or aggression of any single individual or group, be it called capital or labor, carrier or shipper, lender or borrower, Republican or Democrat.

"Our ability to handle effectually the great economic problems of the future will depend largely upon developing boards and commissions of sufficient expert knowledge and independence of character. This will be possible only if both Government and the people fully appreciate the importance of such bodies, so that the country may find its ablest sons willing to render public service worthy of the personal sacrifices it entails.

"I believe that the dark clouds of sorrow and suffering which for three long years have shrouded the world will before long show us their 'silver lining'. We shall see it in the greater political liberty and safety coming to millions in Europe. We shall perceive it in the chastening that will come to some and the awakening in

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others to the deeper realization of the things most essential in life. To us it will bring, I believe, a keener appreciation of the individual's duty toward his country, not alone to his country in stress, but also to his country in its peaceful endeavors. It will ~~bring~~ develop a better understanding of our common problems, and with a proper estimation of their importance there will come a greater willingness on the part of all to serve the country either by taking a more active share in its government or by readier and more intelligent subordination of our own work or comfort to the larger public interest.

"This broader conception of genuine citizenship will perceive in government regulation not unwelcome and arbitrary restraint to be resented by liberty loving men, but self-imposed rules established for mutual advantage and protection.

"Aristotle, in defining the essential characteristics of liberty, said: 'It is to govern and in turn to be governed', and this thought has lost nothing of its force even though 2,000 years have passed since it was expressed.

"Liberty without Government is anarchy.

"Government without cooperation of the governed is autocracy.

"To govern and in turn to be governed is the only form of true liberty.

"In this conception there is nobody governing and nobody governed. We all govern and serve alike and together. We all serve one master; the only master that no liberty loving man need be ashamed to serve - we serve our country."

Mr. Warburg spoke at length about the importance for the whole country of effecting a uniform banking system and developing the fullest strength of the Federal Reserve System by securing the entrance into the system of the State banks and trust companies. In this connection, he said:

"The present condition of having 7,500 banks carry the burden for 27,000 is unfair both to the member banks and the best interests of the country. The strong non-member banks who, knowing the facts, do not remove this inequality will, in time, force the Government to do its duty in adjusting the matter. But if Congress finally should be forced to swing the 'big stick' they will be the ones to complain most loudly about the 'nuisance and unfairness' of governmental compulsory regulation."

He said that the Federal Reserve Board had gone to the limit in prescribing impartial conditions for member State banks and trust companies and that, instead of trying to restrict the legitimate banking operations of such members, the Board ~~xxx~~ had striven rather to secure from Congress enlarged powers for national banks.

Mr. Warburg said further:

"I know that a great many of the leading State bankers of the country are very sensitive as to this situation. They do not feel happy about it and have made up their minds that it is the proper thing for them to come in. They furthermore know that every depositor in a member bank contributes his share to the stronger protection and to the greater credit power of the country, and that their depositors will awaken to a realization of the importance of this

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condition. They ~~do not know~~ know that in case of a real strain, savings banks, trust companies and State banks, indirectly, will have to depend upon the strength of the Federal Reserve System others maintain for them. But they know that entering the system means certain sacrifices in earnings, and, may be, the loss of some interlocking directors. Yet, if that is their contribution to the rise of America's banking system and to the safety and better growth of our economic edifice, they ought to be willing to pay that price."

"Under a highly developed system of branch banking, there are in England 259 joint stock banks; in Canada, 21, and in Germany about 350. We have about 30,000. It is obvious, therefore, that leadership and direction by government agencies is even more necessary with us than in Europe. We have adopted from Europe the principle of cooperative protection in banking and we ought to accept from them also the loyal spirit in which they cooperate with their leaders. The people, the banks and the press are mindful of the fact that farmer and manufacturer, borrower and lender, of necessity cannot take an unselfish point of view; that no matter how profoundly they believe they have given due regard to the country's general interests, most of them are so busy with their own affairs that they have not even had the time to consider the problem from any but their own angle. The central bank's actions must, of course, bear careful analysis and

healthy public discussion. But the first impulse abroad is to follow the men they have placed in charge, to stand by them and to take it for granted that the obvious is not likely to have escaped their attention, and that the only object in view is to be fair to all and to do the best for their country.

"More than in Europe it is necessary with us that our banks shall not consider the Federal Reserve System as an unwelcome and bothersome leash from which some day they still hope to escape. The Federal Reserve Act provides for a joint administration by Government on the one hand and banking and business on the other. The more the banking and business communities realize that Government regulation in banking is indispensable and has come to stay, the more they substitute for a critical attitude a spirit of active cooperation, the more they begin to recognize their duties and privileges as half-partners in the administration, and the more they make it their business to perfect the machinery which has been established for their own protection, helping instead of hindering those who try to make it a success, the happier and safer will they be and the better it will be for all. Let them be clear about it that our people will never permit this Federal Reserve System, or any other similar system, to be run by the banks alone without the check and regulation of the Government, just as little as the country would permit the Government to run such a system without the counter-check of the cooperation of the banking and business communities. You may say that this marriage between Government and business is not wedlock based upon love at first sight. But no matter whether it was love, reason, or necessity, that brought it about, there can be no divorce. And inasmuch as they must live together the only wise course is to pull together and let the common interest act as the strong bond uniting them."

End.