

PRESS STATEMENT - MORNING NEWSPAPERS JANUARY 1, 191<sup>8</sup>7.

THE FEDERAL RESERVE SYSTEM IN 1917.

(Federal Reserve Bulletin January 1918.)

In reviewing the year just closed, the country can not but regard with profound satisfaction the part played by its banking system under the leadership and with the support of the Federal Reserve Banks. The way in which the Federal Reserve System has withstood every test to which it has been subjected shows the wisdom with which it was conceived; the foresight with which it has been developed and the strength with which it has been administered: in it the country possesses a financial foundation of unrivalled solidity.

The Federal Reserve Banks have taken their place in the American financial system; they are the keystone of the banking arch.

Financing of the war has, however, placed unexpected and heavy burdens, not only upon the Federal Reserve Banks, but on the banks of the country generally. The zeal and efficiency with which they have responded to the call made upon them is evidenced by the results which have been achieved in a year which will forever be a memorable one. Under the leadership of the Secretary of the Treasury, the banks have done their duty admirably in placing both the short and long term securities of the Government. As long as the war lasts their services in these directions will doubtless have to be relied upon in the future as much as in the past. But there are other services of equal, if not of greater consequence in the successful financing of the war in which the help of the banks of the country will be needed. In extending a word of greeting to its member banks with the opening of the new year and as we approach the threshold of our second year in the war, the Board feels it proper to point out certain fundamental methods in which it believes the banks can help in placing the financing of the war upon a foundation of unshakable strength.

War financing in the last analysis means putting the Government in possession of goods and services. Financing by loans means the sale to the Government of goods on credit. To win the war, our Government and the Governments with which we are associated must have goods and services. It is of as much importance, therefore, that the Government should be helped to obtain the goods it requires, as it is that it should be helped to procure the credit it requires with which to pay for goods. In neither respect are the American people as yet cooperating to a sufficient degree; primarily because they have not yet been adequately impressed with the paramount importance of their co-operation - they have not yet been made thoroughly to realize the fact.

that the success or failure of the war - in brief, the fate of the country - lies in their hands. In the great work of educating the people of the country to an appreciation of their part in the effective conduct of the war, the banks of the country have an opportunity to make themselves leaders. In the communities they serve, they should endeavor to make it clear that the amount of goods that can be produced, even in a country as large and as rich as ours, is limited: that saving, therefore, is necessary and that by saving goods the people are serving their country in four ways:

(1) They enable our own Government and our allied Governments to obtain the goods required with the requisite speed. As everybody knows, time is a most important factor at this juncture. Coal, copper, steel, and food stuffs are cases in point.

(2) By saving goods not required by the Government they release corresponding quantities for export to other countries in exchange for which needed supplies may be secured. To illustrate: if everybody in the United States would cut down consumption of cotton and woollen goods even to a slight amount, goods to the value of millions of dollars would be available for export and could be made the basis of exchange to pay for much needed supplies of copper and nitrates for ourselves and beef and wheat for the use of our allies, obtained in South America..

(3) By consuming goods in smaller amounts, not only are goods saved but money is saved, and the people thus put in a position to absorb and pay for the war loans of the Government out of savings.

(4) By diminishing the consumption of goods and by paying for Government bonds out of savings instead of from funds borrowed from the banks, both the rapid rise of prices of goods is retarded as well as banking inflation, which accelerates the rise of prices.

It can not have escaped the attention of the banks, that, since the beginning of the war, deposits have increased at a rapid rate and that loans, discounts, and investments have grown at an even more rapid rate. It is true that the Federal Reserve's holdings of gold have also increased to a point where they are larger than those of any other country but the percentage of the gold reserves against deposits and notes has decreased. This is a familiar phenomenon in time of war and to a certain extent perhaps unavoidable, but it must nevertheless be our constant concern to keep every dangerous tendency in the banking situation under control and particularly to retard the too rapid expansion of banking credit as far as this can be done without jeopardizing the main business of the country at this time - the winning of the war.

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Events are however every day making it clearer that the conservation of our financial strength is not of itself sufficient to insure a successful financing of the war. The financing of the war is only in part a money problem; in very large part it is an economic problem - a problem of conserving the economic as well as the financial strength of the nation and developing our resources and productive power to the point where they will be equal to sustain the great military operations which are in prospect and all that is incident to them.

Nobody should, therefore, consume goods except to the extent that their consumption is necessary to maintain health and vigor.

Nobody should draw upon the credit resources of the country except to finance transactions which are essential for a nation at war.

Credit should be saved as much as goods.

Conservation of credit as regards non-essential enterprises is necessary in order to provide, without undue expansion, the credit required by the Government and by business essential to the success of the war and the well-being of the country.

The Board most earnestly invites serious consideration of these and kindred steps in the development of a program of national economy and bespeaks the cooperation of all the banks of the country in behalf of their adoption in their several communities. The banks are urged to teach in their districts the meaning and necessity of saving and its relation to the successful financing of the war; to tell the city merchant and the country storekeeper that this is not the time to buy and stock up, especially with luxuries. Let the people everywhere be encouraged to consume fewer things and let those be the simple and substantial things that are necessary to health and strength. Let the public realize that it is more respectable in such war times as confront us to be seen in old clothes than in new ones. Let the banks tell the people of their communities and their authorities, the mayors and governors, that this is not the time for cities to be spending money on public works, rather should they be considering the suspension of existing work with the view of releasing men and material for the use of the Government and so as not to compete with the Government for the savings of the people, thereby weakening the ability of the Government to place its loans.

There is neither an unlimited supply of men or of goods or of credit. This is, therefore, the time for both large and small enterprises, not engaged in the production or handling of essentials, to reduce inventories and thereby free goods and productive power and banking credit for essential uses.

Gigantic operations of the Government will cause a further growth of bank deposits and loans. Our credit structure should therefore be strengthened as far as possible and to this end the banks should bend their efforts toward three things:

- (1) Absorption of government loans by savings;
- (2) Conservation of credit for public and other essential uses with curtailment to non-essential enterprises;
- (3) Increase of the gold holdings of the Federal Reserve Banks so as to maintain an adequate basis for our growing credit structure.

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The results can be achieved if the banks and the public, like those of England and France - and Germany as well - unite in a determined effort to concentrate gold and gold certificates with the Federal Reserve Banks, using Federal Reserve notes instead for general circulation.

We must look to the future, and prepare unceasingly for further demands which may be made upon us. The President of the United States, in a statement issued on October 13, called attention to the fact that "the extent to which our country can withstand the financial strains for which we must be prepared, will depend largely upon the strength and staying power of the Federal Reserve Banks," and urged the importance of developing to the maximum degree our banking power, and of providing financial machinery adequate for the very great financial requirements imposed upon our country by reason of the war. He pointed out that all banks should cooperate in strengthening the reserves of the Federal Reserve System, thereby enlarging the nation's banking power. The reserve requirements in a few States practically prohibit the cooperation of State banks and trust companies with the Federal Reserve System, and make it impossible for them to exchange their Federal Reserve notes for gold, and the Board would urge State banking institutions in these States to endeavor to obtain such legislative action as will enable them to discharge what the President has termed a "solemn obligation". In those States where the legislatures do not meet for a year or more, the banks might well petition their governors to call a special session of the legislature. No State can afford not to do its full duty at this time in helping the national cause.

The Board therefore ventures to call upon the banks, member and nonmember, each in its community to join in promoting and carrying on a campaign of education along the lines which have been indicated, confident that it may count upon their willing and effective cooperation.

12/29/17