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## P R E S S   S T A T E M E N T .

January 21, 1918

War's effect upon national finance and banking is reflected in the fourth Annual Report of the Federal Reserve Board, transmitted to the Speaker of the House of Representatives on Tuesday January 22. The Board reviews the conditions brought about by the great growth of foreign trade and the various measures intended to remedy resulting difficulties or forestall dangers that have been put into effect in consequence. Chief among the latter are the provision of a large supply of Federal Reserve notes, which were provided and conveniently stored early in the year 1917, the development of numerous expedients for the conservation of the gold supply, and the application of the amendments of June 21, 1917, to the Federal Reserve Act, for the purpose of enlarging reserves and strengthening the lending power of the several banks.

The Board calls attention to the effect of the war upon the banking and credit situation, both public and private, pointing out the rise in prices, but emphasizing the fact that while during the year 1917, there has been a lessening of the fluidity and availability of the country's banking resources the change is not surprising in view of the heavy requirements. It also points out that these changes in prices are not necessarily due to alterations in the banking position, but that abnormal demands and the withdrawal of labor and capital have had an important and far-reaching effect. "Banking expansion", the

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Board says, "is an unavoidable incident of war finance, but every effort should nevertheless be made to counteract it so far as possible by eliminating banking credit not clearly needed for the purpose of purchasing or carrying goods necessary for the life of a nation at war". From the standpoint of the private individual it is noted that the effect of the Government's <sup>raising</sup> ~~raising~~ on a large scale has been to withdraw from the market a large proportion of the funds normally available for other loans. This tendency has resulted in an effort to make paper ordinarily regarded as ineligible available for rediscount at Federal Reserve Banks. The policy of the Board, however, has invariably been to refuse such applications and to maintain the liquid character of bank assets.

"Under no circumstances", says the Report, "can the Board admit the eligibility of paper - - - - - which in its essential character fails to conform to sound banking principles". The Report, however, suggests early consideration by Congress of the problem of corporate financing, in the belief that ~~no~~ <sup>problem</sup> satisfactory solution of the general corporate and credit/will be found that does not involve some degree of government intervention. The Board is of the opinion that some plan for such intervention or aid can be worked out that will meet the situation satisfactorily. One effect of the war has been to enlarge the earning power of the Reserve banks in a very material degree. The gross earnings are given as \$15,800-000, and the net earnings as \$11,200,000. The dividends declared during

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the year are about \$6,800,000. Six (6) of the banks have paid their dividends completely up to the end of the year 1917, while four (4) others have paid up to June 30, 1917, and the remaining two (2) have paid to the end of the year 1916. Although the banks are not operated primarily for profit, the Board calls attention to the fact that during the coming year their earnings will undoubtedly be large, and that a substantial franchise tax will be paid to the Government out of excess earnings. The amount paid this year to the Government is \$1,134,234. In connection with the management of the banks the Board explains that the events of the past year have done much to bring into their proper relationship the several elements of the Federal Reserve System, and that the position of the Board as the governing body of all the banks is now well defined, the line of distinction between the local managements of each institution and the general policies of the System growing more and more marked. Among the activities of the year that are incidentally described are the further extension and development of the clearing and collection system and the continuation of work under the Clayton Act, permits for service as directors being granted in 182 cases. Applications for fiduciary powers have been granted in 112 cases.

The expense of conducting the work of the Board during the year has been a little less than \$250,000, including all salaries, while the cost of the Gold Settlement Fund for the year has been about \$3,500, or \$0.013 per \$1,000,

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While no far-reaching amendments to the Federal Reserve Act are recommended, a number of minor changes are suggested for the consideration of Congress. Among these is a change in the present method of electing directors called for by the fact that under present conditions only a minority of all banks entitled to vote are taking an active part in the selection; a change in the denominations of Federal Reserve notes intended to permit the issue of large bills; a change in the terms of Section 22, which relates to transactions between directors and their respective banks; the amendment of Section 25 designed to provide for the incorporation under Federal Reserve charter of banks for foreign trade and the amendment of Section 25 to permit the establishment of branches of National banks in the cities where such banks are located.

In closing, the Board calls attention to the fact that due to the concentration of reserves the Federal Reserve System is today the ultimate resource of the business and financial community and that its position as such is unquestionable. The responsibility thus laid upon it emphasizes the necessity of making sure that every policy adopted must be developed with the view of maintaining and strengthening the financial position of the country, and of providing for the readjustments to follow the war.