

Fisheries, to make a survey of natural oyster beds, bars and rocks, and barren bottoms contiguous thereto in waters along the coast of and within the State of Texas," be, and is hereby rescinded, and that in the reenrollment of the bill the words "and directed," in line 4 of the bill be stricken out and the words "in his discretion" substituted therefor.

LAWS OF PORTO RICO (H. DOC. NO. 1662).

The VICE PRESIDENT laid before the Senate the following message from the President of the United States, which was read, and, with the accompanying papers, referred to the Committee on Pacific Islands and Porto Rico and ordered to be printed:

To the Senate and House of Representatives:

As required by section 32 of the act of Congress, approved April 12, 1900, entitled "An act temporarily to provide revenues and a civil government for Porto Rico, and for other purposes," I transmit herewith certified copies of franchises granted by the Executive Council of Porto Rico, which are described in the accompanying letter from the Secretary of War transmitting them to me.

WOODROW WILSON.

THE WHITE HOUSE, March 3, 1915.

PRESIDENTIAL APPROVALS.

A message from the President of the United States by Mr. Latta, one of his secretaries, announced that the President had approved and signed the following acts:

On March 1, 1915:

S. 7402. An act granting pensions and increase of pensions to certain soldiers and sailors of the Civil War and certain widows and dependent relatives of such soldiers and sailors.

On March 2, 1915:

S. 6980. An act granting pensions and increase of pensions to certain soldiers and sailors of the Civil War and certain widows and dependent relatives of such soldiers and sailors; and

S. 7213. An act granting pensions and increase of pensions to certain soldiers and sailors of the Civil War and certain widows and dependent relatives of such soldiers and sailors.

On March 3, 1915:

S. 5295. An act to amend existing legislation providing for the acquisition of a site and the construction of a building thereon for the accommodation of the post office, United States courts, customhouse, and other governmental offices at Honolulu, Territory of Hawaii, and for other purposes; and

S. 6631. An act to regulate the practice of pharmacy and the sale of poison in the consular districts of the United States in China.

MESSAGE FROM THE HOUSE.

A message from the House of Representatives, by J. C. South, its Chief Clerk, announced that the House agrees to the report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 19906) making appropriations for the service of the Post Office Department for the fiscal year ending June 30, 1916, and for other purposes, further insists upon its disagreement to the amendments of the Senate, asks a further conference with the Senate on the disagreeing votes of the two Houses thereon, and had appointed Mr. MOON, Mr. FINLEY, and Mr. MADDEN managers at the further conference on the part of the House.

ENROLLED BILLS SIGNED.

The message also announced that the Speaker of the House had signed the following enrolled bills and joint resolutions, and they were thereupon signed by the Vice President:

S. 2278. An act granting the El Paso & Rock Island Railway Co. a right of way for its pipe lines and reservoir upon the Lincoln National Forest for the carrying and storage of water for railroad purposes;

S. 3878. An act to validate certain homestead entries;

S. 6981. An act granting pensions and increase of pensions to certain soldiers and sailors of the Regular Army and Navy, and of wars other than the Civil War, and to certain widows and dependent relatives of such soldiers and sailors;

S. 7509. An act granting pensions and increase of pensions to certain soldiers and sailors of the Regular Army and Navy, and of wars other than the Civil War, and to certain widows and dependent relatives of such soldiers and sailors;

S. 7555. An act to authorize the construction of a bridge across the Suwanee River in the State of Florida;

S. 7566. An act granting pensions and increase of pensions to certain soldiers and sailors of the Civil War and certain widows and dependent relatives of such soldiers and sailors;

S. 7597. An act granting pensions and increase of pensions to certain soldiers and sailors of the Regular Army and Navy, and of wars other than the Civil War, and to certain widows and dependent relatives of such soldiers and sailors;

S. 7598. An act granting pensions and increase of pensions to certain soldiers and sailors of the Civil War and certain widows and dependent relatives of such soldiers and sailors;

S. 7743. An act to incorporate the Ellen Wilson Memorial Homes;

H. R. 1090. An act for the relief of Alonzo D. Cadwallader;

H. R. 1698. An act to amend an act entitled "An act to provide for an enlarged homestead," and acts amendatory thereof and supplemental thereto;

H. R. 2862. An act for the relief of Andrew J. Lawrence;

H. R. 3430. An act for the relief of Lottie Rapp;

H. R. 4545. An act to amend an act entitled "An act to codify, revise, and amend the laws relating to the judiciary," approved March 3, 1911;

H. R. 7205. An act for the relief of H. S. Hathaway;

H. R. 9701. An act for the relief of F. W. Theodore Schroeter;

H. R. 9734. An act for the relief of Victoria Coffman;

H. R. 12229. An act for the relief of William A. Wallace;

H. R. 12909. An act for the relief of James W. McGreevey;

H. R. 15938. An act proposing an amendment to the Federal reserve act relative to acceptances, and for other purposes;

H. R. 20894. An act to provide for the appointment of a district judge, district attorney, and marshal for the western district of South Carolina, and for other purposes;

S. J. Res. 238. Joint resolution giving authority to the Commissioners of the District of Columbia to make special regulations for the occasion of the forty-ninth national encampment of the Grand Army of the Republic, to be held in the District of Columbia in the months of September and October, 1915, and for other purposes incident to said encampment; and

H. J. Res. 366. Joint resolution authorizing the Secretary of War to use any allotment made under the provisions of an act approved October 2, 1914, entitled "An act making appropriations for the construction, repair, and preservation of certain public works on rivers and harbors, and for other purposes," for the improvement of East River and Hell Gate, N. Y.

OPERATION OF FEDERAL RESERVE ACT.

Mr. STONE. Mr. President—

The VICE PRESIDENT. The Senator from Missouri.

Mr. STONE. I rise merely to make a request. I have here on my desk some interesting and, I think, valuable documents furnished me at my request by the president of the Federal Reserve Board relating to the operation and utility of the banking and currency system, and also replying to some of the more current and usual criticisms of that system. I ask leave to have the data inserted in the RECORD without reading.

The VICE PRESIDENT. Is there objection? The Chair hears none, and it is so ordered.

The matter referred to is as follows:

ADVANTAGES OF NEW BANKING AND CURRENCY LAW.

1. The Federal reserve system has already resulted in a very great relief to the public, due to confidence that aid can be obtained when needed and to the recognition of the fact that banking has now been organized on a cooperative basis.

2. The rate of discount charged by city banks to their country correspondents has been materially lowered in the borrowing regions, inasmuch as the northern banks offering money in the market have found it necessary to meet the rates established by the Federal reserve banks and approved by the Federal Reserve Board, in order to avoid a transfer of business to the Federal reserve banks in the regions applying for loans.

3. The Federal reserve banks themselves have already extended accommodation to banks which were in need of such aid up to about \$18,000,000, while they have stood ready to increase this amount of accommodation many times over if desired.

4. The Federal Reserve Board has taken important steps toward standardizing commercial paper, with the result that good paper throughout the country is in process of being rendered uniform and hence generally marketable, thereby insuring lower rates to actual borrowers.

5. The Federal Reserve Board has devised and will shortly establish a system of bank clearings which is expected to do much to remove the inequalities and excesses inherent in the present system of exchange.

6. The Federal reserve act has legalized loans by national banks on farm lands as security up to 25 per cent of capital, and has thereby assured to the farmers a resource of which they have already been making use, but which was not recognized by law.

7. By providing for the use of the acceptance principle the Federal reserve act has begun the work of establishing a discount market wherein bank credit will be estimated at its actual value over the risk, thereby aiding in the creation of a stable and uniform rate lower than could otherwise prevail and bringing our market into direct relationship with European markets.

8. The Federal reserve act has provided a currency absolutely elastic and available at the demand of the business community. The elasticity of the currency is already established by experience, and over \$20,000,000 of it are in circulation.

9. The Federal reserve act has provided a means of supporting the credits of both the municipal and State governments and the National Government—the two former through the open-market provisions of the act, which have already enabled the reserve banks to take up the short-term securities of a number of municipalities and States; the latter through the provision which permits the Government of the United States to deposit with the new banks and permits the banks to deal in the securities of the National Government.

10. Above all the Federal reserve act has provided for genuine democratic control of the banking system, thereby enabling the small banks to exercise a decisive voice in the control of the underlying reserve resources of the Nation.

It has been suggested that the banks are subjected to hardship because of the necessity of depositing their reserves with the Federal reserve banks. This can be decided by considering the case of a country bank with \$100,000 of deposits. Under the old system this bank would have had to keep 15 per cent reserve, or \$15,000, of which 9 per cent, or \$9,000, would probably have been deposited with a correspondent bank at 2 per cent interest, yielding a net return of \$180. Under the new system this bank must keep 12 per cent reserve, which is ultimately to be held either in its own vault or in a Federal reserve bank. This leaves a margin of \$3,000, which loaned out directly at 6 per cent would yield \$180, or, if used as a reserve of 12 per cent, would sustain more than eight times its own amount in bank credits, or, in other words, would enable the bank to grant loans represented by deposit accounts to the amount of about \$25,000, which at 6 per cent would yield \$1,500 to the bank, assuming that the institution was able to find a demand for its credit in the form of loans to that extent.

The assertion frequently made that the reduction in reserve requirements does not help the banks, because they are obliged to keep funds with their city correspondents for exchange purposes, so that just as much is required as heretofore, is not true, since the banks can under the new clearing system keep their balances with the Federal reserve banks, as it was intended they should, thereby easily taking care of their collections, which will be made for them at cost.

CRITICISMS OF THE RESERVE SYSTEM.

There have been criticisms of the Federal reserve system, many of them emanating from banking sources, others instituted by persons with objects of their own to serve. I shall state them as frankly and as moderately as possible, and shall reply to each in due order.

There is complaint, first of all, because the Federal reserve banks are not paying their expenses and dividends.

No commercial bank during the first three months of its existence succeeds in covering its organization costs and its expenses. Several of the Federal reserve banks, however, are not only paying expenses but providing for their regular dividend charges. Others are simply covering their expenses but have not yet provided for dividends, simply because the period of seasonable activity has not arrived. There is no reason to doubt but that every bank in the system will, within a relatively short time, be not only paying expenses but covering its proportional share of dividends.

It is asserted that the banks of the system, and particularly the country banks, are subjected to hardships because of the necessity they are under of keeping a part of their reserves in the Federal reserve banks without interest.

The practice of paying interest on bank reserves, thereby diverting them from the natural channels and placing them at the services of speculation, has been one of the most injurious features of the banking system in the United States hitherto, and if it were true that the Federal reserve banks had eliminated this practice, even at the cost of some sacrifice to the member banks, the action would have been an amply worthy one. As a matter of fact, there has been absolutely no hardship to member banks as a result of the creation of the new institutions. So great a reduction was effected in reserves as much more than to offset the loss of interest occasioned by the requirement of a deposit with the Federal reserve banks. We may take the concrete case of the country bank with \$100,000 of deposits. Under the old system this bank would have had to keep 15 per cent reserve, or \$15,000, of which 9 per cent, or \$9,000, would probably have been deposited with a correspondent bank at 2 per cent interest, yielding a net return of \$180. Under the new system this bank must keep 12 per cent reserve, which is ultimately to be held either in its own vault or in a Federal reserve bank. This leaves a margin of \$3,000, which, loaned out directly at 6 per cent, would yield \$180; or, if used as a reserve of 12 per cent, would sustain more than eight times its own amount in bank credits; or, in other words, would enable the bank to grant loans represented by deposit accounts to the amount of about \$25,000, which, at 6 per cent, would yield \$1,500 to the bank, assuming that the institution was able to extend its credit in the form of loans to that extent.

It is asserted that the Federal reserve system has helped to reduce the rates charged by member banks to customers since the Federal reserve banks have tended to make money easier and thereby to prevent member banks from getting as large a return as formerly. To this indictment the system must plead guilty. It was believed that one of its principal effects would be the reduction of rates of interest in those parts of the country where abnormal rates formerly prevailed, and that it would tend to place borrowers in a better position as customers at banks, thereby relieving them of the excessive rates of interest previously paid.

This change is beneficial rather than injurious to the banks of the community as a whole and affects only those institutions which have been in the habit of charging excessively high rates to the communities they furnished. The reduction in rates resulting from the establishment of the Federal reserve system has been highly beneficial thus far, and has been precisely what was aimed at by those who established it.

This leads me to a general observation concerning the working of the system. It is essentially a moderate and reasonable regulation of the banking institutions of the country. In the past they have been subject to practically no restriction whatever. It is now proposed to apply to them a little of the oversight that the community has deemed it wise to demand in the case of practically all other similarly situated businesses. The business of banking is of a quasi public nature, since the banks hold the resources of the community, and are thus properly subject to examination, inspection, and regulation. The Federal reserve act provides for these requisites in a moderate and conservative way. It contains nothing in the nature of or governmental supervision that can possibly be objected to by any reasonable student of conditions in the United States, and it will be the part of wisdom for banking institutions to accept the law and adapt themselves to its extremely reasonable requirements unless they are prepared to look forward to more severe action.

ADDRESS OF H. P. WILLIS, SECRETARY FEDERAL RESERVE BOARD, BEFORE CREDIT MEN'S ASSOCIATION, CINCINNATI, JANUARY 16, 1915.

No subject has been assigned me for this evening, but I shall discuss the "Federal reserve system; what it has done and what it must do."

The field to be covered is a large one, but I shall not trespass upon your time longer than is absolutely necessary to survey some of its principal features. Only about five months have elapsed since the Federal reserve system was fairly inaugurated by the induction of the

Federal Reserve Board into office, and only about two months have elapsed since the reserve banks were opened. It is a traditional fact that "Rome was not built in a day," but a people constitutionally restless and desirous of quick results in education, business, and science alike expect and desire that a great transformation in banking and business practice shall be effected in little longer than that time. This may not be. The Federal reserve act has already passed through several distinct periods—one of bitter and unwarranted criticism, one of extravagant laudation, one of disappointment that it could not be called into existence instantly, and one of equal disappointment and criticism because its results were not yielded immediately upon the opening of the institutions. Yet it has already had important results. What these are I shall try to set forth.

The condition of affairs immediately after the opening of the European war is familiar to all. The stock and cotton exchanges of the country had closed, trade and commerce with Great Britain had been practically suspended, and large volumes of emergency currency and clearing-house certificates had been issued. It was under these conditions that the new board took office.

One of the earliest and most trying phenomena connected with the European war was the development of a highly abnormal foreign-exchange situation. This situation was essentially due to the suspension of gold payments by American banks and by the fact that a large current balance was due to Europeans, who, under ordinary circumstances, would have been willing to await the shipment of agricultural products from the United States in the autumn, but who were now in doubt as to the future course of international trade with the United States. Added to this was the embarrassment arising out of the sale of foreign holdings of American securities in order to get immediate funds. The reserve banks, had they been in active operation, would have been able to meet this situation with comparatively little difficulty. Investigation made by the Federal Reserve Board immediately upon its organization seemed to show that the current indebtedness of the United States to foreign countries was not in excess of \$500,000,000, a sum whose maturity, of course, was spread over a period of several months. In the absence of the new banks, and in view of the fact that some weeks would necessarily be required for their establishment, it was deemed desirable to furnish a makeshift substitute for the cooperative effort which would have been available for the relief of the situation had the banks been in existence. It was therefore determined to suggest to a number of representative bankers the establishment of a joint gold fund to be used in providing exchange on Great Britain, and to have this joint fund developed at the earliest possible moment.

A letter was consequently sent out to the presidents of clearing-house associations throughout the country, under date of September 21, in which request was made for subscriptions to a fund intended to aggregate about \$100,000,000. This letter had previously been considered and approved at meetings of representative bankers summoned to meet in Washington on September 4 and 19, respectively, and was, therefore, issued with their moral support. The answer to this invitation was prompt and effective, a total of over \$108,000,000 being subscribed and rendered available.

It was almost immediately evident that the operation of this fund was proving decidedly beneficial, notwithstanding that only a comparatively small percentage of the amount subscribed was asked for, and that a still smaller percentage was actually used to furnish a basis for gold shipments. It seemed, however, during the 10 days immediately following the completion of the subscriptions as if there might be need for still further relief to the situation. Some of those who were closely connected with the administration of the gold-exchange fund brought the subject to the attention of the Secretary of the Treasury, who extended an invitation to the British Government to send representatives to this country mainly for the purpose of considering the possibility of further adjustment, in the event that the United States did not succeed in liquidating its indebtedness to Great Britain by the natural movement of commodities within a reasonably early period.

The British Government designated Sir George Paish and Mr. B. P. Blackett, who proceeded to Washington and held conferences with the board. Subsequently another conference, attended by a number of representative New York bankers, was also held, and the situation was discussed in very great detail. Meantime, the establishment of a better understanding with reference to commodities to be considered as contraband and the more effective policing of the North Atlantic rendered possible the restoration of trade with European nations, and the development of the export trade proceeded with a speed which showed that current obligations of the United States to Great Britain and other countries would be liquidated at an early date without any necessity for further interference. By the time that the reserve banks were ready to open exchange sales on London had fallen to normal and there was, therefore, no danger that, when opened, the reserve banks might, as was for a time feared by some, find their gold rapidly drawn away from them in order to meet the requirements of the gold-export movement.

In another way it was deemed desirable that the board should help to facilitate the restoration of customary conditions in the financial market. Almost immediately after the outbreak of the war it was seen that, unless hostilities should terminate within a very much shorter period than anyone deemed likely, serious injury would be inflicted upon cotton-producing States. As is well known, the cotton crop is largely grown for export, about two-thirds of the total production of the United States being annually sold abroad. It happened that an unusually large crop had been planted and was approaching maturity at the moment of the outbreak of the war. This would, in any event, have depressed prices of cotton even under ordinary conditions.

The almost immediate closing of the cotton exchanges of the country was, however, precipitated by reason of the interruption to the movement of cotton, and the general understanding that, in view of the great area involved in the hostilities, it would not be reasonable to expect a normal demand for the staple to manifest itself. With the exchanges closed and with shipments of cotton interrupted, the price was unstable and abnormally low, many sales undoubtedly having occurred at 5 cents per pound. Inasmuch as the cotton crop is raised very largely upon credit, it was necessary to provide some means whereby the southern planter could be assisted to such extension of accommodation as he might require in meeting the obligations he would ordinarily have provided for by the sale of his crop in the open market. Various suggestions were brought to the attention of the board, one of them being that of Mr. Festus J. Wade, of St. Louis, who suggested both to the board and to the Secretary of the Treasury the establishment of a cotton loan fund somewhat similar in purpose and management to the gold-exchange fund. After very anxious consideration, the conclusion was reached that some measure of the sort would probably furnish relief to cotton growers, and would, at the same time, reduce

the strength of the demand which would otherwise be brought to bear upon the reserve banks at their opening from those who desired comparatively long-term loans to enable them to carry their cotton. Various conferences were held with banking interests for the purpose of securing their cooperation and advice in regard to the matter. Ultimately the bankers of New York pledged \$50,000,000 in subscriptions to the fund, provided that \$50,000,000 more should be raised from other banks in noncotton-producing States. It was understood that to the \$100,000,000 thus raised should be added \$35,000,000 contributed by the bankers of the cotton-producing States under a special plan devised for that purpose.

Recognizing that in view of the urgent character of the situation regarding the establishment of the banks it was not possible to formulate in advance of their opening a complete set of regulations with reference to their conduct in all matters, it was determined to pass at the outset only upon those matters which were deemed absolutely essential to placing the banks in operation upon a basis of moderate and reasonable efficiency. It was felt that the regulations relating to discount operations and commercial paper in general were fundamental and that they should be granted first place in any scheme of organization which might be undertaken. The result was the preparation of a document addressed to all Federal reserve agents, sent to them as circular No. 13, in which the board set forth its views with reference to the character of operations that should be undertaken by the banks, particularly at the outset. In this it was recommended that the reserve banks confine themselves strictly to short-term, self-liquidating paper growing out of commercial, industrial, and agricultural operations, in the narrow sense of the terms, and that particular care should be taken not to discount or purchase paper which had been issued for the primary purpose of increasing the capital investment of any business. This circular was well received, and has governed the discount operations of the reserve banks up to the present time, though it is thought well to relax in some measure the restrictions imposed at the outset under this document.

It was deemed essential that so far as possible the cash to be paid into the banks at the outset should be drawn from the vaults of the contributing member banks. Inasmuch as the act provided that capital should be paid in gold or gold certificates, it was to be assumed that the bulk of such payments would, in any event, be made from the vaults of the member banks. Reserves, however, might, of course, be made in any form of lawful money, and the act itself had expressly provided that one-half of the reserve installments might be paid in the form of rediscounted paper. It was therefore necessary to appeal to the good judgment and spirit of cooperation of the member banks in order to induce them to abstain from establishing reserves through some means other than that of a direct deposit of cash from their own vaults and to pay in, so far as possible, the sums that were due from them to the member banks on reserve account in the form of gold or gold certificates. With this in mind, the board transmitted to member banks on October 28 its circular No. 10, in which banks were urged to make their payments in the manner already indicated. As a special inducement, reserve banks were authorized to pay the express charges upon sums thus sent to them by member banks. There was at no time any provision of law directing the member banks to abstain from drawing upon their correspondent banks for the means wherewith to make these payments, but it was believed that they would be willing to do so, and the events fully justified this confidence.

On Monday, the 16th of November, the date already fixed by the Secretary of the Treasury, the new banks opened their doors for business, and the consolidated statement issued on the following Saturday showing the condition as of the previous evening indicates how fully the banks had complied with the suggestions thus made to them. The statement referred to shows that at the end of the first week's operations there had been paid into the reserve banks a total of \$221,487,000, of which a very large percentage was either in gold or gold certificates. It should be added that, due to the cheerful cooperation of the member banks, this great transfer of funds was accomplished without the slightest danger to business and without any inconvenience whatever to the banking community.

With the system thus fortunately established, the question of a discount policy immediately became urgent. The board had been appealed to by the authorized representatives of the several banks for some 10 days prior to the official date set for the opening of the institutions to make suggestions to them with regard to their discount policy, for it was generally conceded that the adoption of a uniform, consistent policy to be pursued by all was practically necessary to the smooth working of the system. Under the provisions of paragraph (b), section 14, of the Federal reserve act, the Federal Reserve Board is authorized to review and determine the rates of discount to be charged by each Federal reserve bank, and this authority was interpreted to mean that suggestions might be made to each institution in advance with reference to the rate that would be acceptable to the board. The interpretation was seemingly assented to by all of the reserve banks, and in response to a telegraphic inquiry from the board each bank submitted its views with respect to the rate of discount properly to be applied in its region. Upon tabulation and comparison of these results, it was found that they varied comparatively little, the rates ranging from 5 per cent to 7 per cent. A study of the existing state of affairs convinced the board that at the start conservatism should be the guiding policy in establishing the first discount rates, and it was consequently voted to set the rates of discount at from 5½ per cent to 6½ per cent, with subsequent changes.

The important effect of the establishment of these rates of discount was to prevent accommodation from being asked for by member banks except in those cases where there was a real need for it, since the rates were too high to encourage the borrowing of funds from the reserve institutions simply for the sake of undertaking new operations or of extending those already in existence. As was expected, therefore, the amount of accommodation applied for at most of the banks was small and increased but little subsequently, the maximum being under \$9,000,000 for all of the banks of the system, while business later still declined from this figure, until on the 26th of December it stood at \$8,552,000.

In order to understand the significance of these figures it is necessary to refer to another feature of the Federal reserve act and to study this feature in connection with the money market conditions prevailing at the time. Section 19 of the Federal reserve act provided for a readjustment of reserves upon a new and lower basis, cutting the percentage of required reserve in central reserve cities from 25 per cent to 18 per cent of outstanding demand deposits, with 5 per cent of outstanding time deposits; the required percentage in reserve cities from 25 per cent to 15 per cent of demand deposits and 5 per cent of time deposits; the percentage of reserve in country banks from 15 per

cent to 12 per cent of demand deposits and 5 per cent of time deposits. This readjustment, by the terms of the law, took effect immediately upon the establishment of the new banks, i. e., on November 16. From the outbreak of hostilities in Europe there had been a difficult reserve situation in most of the financial centers, New York banks particularly being much of the time largely under their reserve requirements because of the heavy drafts made upon them by interior banks and by the public.

The change in reserve requirements, however, made a very material alteration in this condition of affairs, and released, not only in New York but throughout the country, a very considerable amount of funds which had previously had to be held by the banks in order to bring themselves within the requirements of law. Precisely what amount of reserves was thus released throughout the country has not been accurately estimated and probably can not be, owing to the fact that reserve accounts in the existing system of correspondent banks are so closely and complexly intertwined. It is, however, an undoubted fact that the release of actual cash was very large and that the release of lending power, as computed on the basis of reserves on the part of member banks, was correspondingly larger. Member banks were thereby enabled to extend loans to their customers very much more freely than they had previously been able to do, while at the same time they were able to grant lower rates of interest in due proportion. The prevailing rate of discount for prime commercial paper in New York at the opening in November was about 6 per cent, while other paper was considerably higher than that figure, and even more difficult conditions prevailed elsewhere. The opening of the reserve system enabled New York banks, in view of the very great relief given to them through the release of reserves, to reduce this rate largely, and within two weeks after the new banks had come into existence prevailing interest rates for the best paper went as low as 3½ and 4 per cent, while acceptances, which had been provided for by the Federal reserve act, were marketed at a still lower rate. In some parts of the South northern bankers were able to grant accommodation as low as 4 per cent and in considerable amounts. In view of the greater ease and material relief which was thus accorded, the Federal reserve banks were naturally not called upon to assist member banks with accommodation, such banks naturally refraining from asking aid when they were themselves fully able to meet the demands made upon them.

The opening of the reserve banks on November 16 not only released, as already seen, a large amount of bank funds and thereby rendered it possible to extend many loans, which otherwise could not have been carried by the banks, but it was also seen soon after November 16 that the existence of the cotton fund, as was the case with the gold fund, had done its work by stimulating confidence and leading to a more liberal extension of credit. With the cotton fund available for long-time loans, and with short-term credit much more freely extended by member banks in view of the reduction of national bank reserve requirements, it was possible for the reserve banks to open with full confidence that the work thus done in safeguarding the situation would relieve them from undue strain, while fully protecting the cotton producers who are willing to pay a moderate rate of interest in order to carry their cotton until such time as would enable them to realize full market value for it. In this case, as in that of the gold exchange fund, the help granted was largely that which comes from cooperative effort, and from the knowledge on the part of the community that there is a source of assistance that may confidently be looked to. In such situations the beneficial consequence of action taken can not be measured by the actual amounts that are loaned or the tangible results that are obtained, but are infinitely greater in their significance. The opening of the cotton exchanges, by reestablishing a definite market price for cotton, coupled with the upward tendency of that price in view of the increasingly strong foreign demands materially aided in facilitating the process of liquidation in the Southern States. Largely in consequence of these efforts, therefore, there has been little call for accommodation at the reserve banks intended to finance cotton directly.

One phase of the banking and currency situation deserves to be especially stressed for the light it throws upon the condition of the reserve banks, and the extent of the demands, present and prospective, to which they may be subject. As has been shown by the Secretary of the Treasury in his annual report, an early phenomenon of the war was the issue by clearing houses in many cities of clearing-house certificates. Simultaneously therewith large quantities of emergency currency were issued under the provisions of the act of 1908, which had been amended and extended by the Federal reserve act, and which were still further amended by Congress on August 4 so as to overcome the freer issue of notes in the manner indicated.

It is not possible to state how large an issue of clearing-house certificates was put into circulation. The total amount of the emergency currency taken had aggregated about \$380,000,000, but it is probable that the clearing-house certificates were issued to a considerably greater sum. The channels of circulation were thus clogged long before the end of the summer, notwithstanding the fact that large quantities of gold and gold certificates were withdrawn and hoarded either by banks or individuals. This condition of affairs made it certain that the reserve banks upon their organization would not be instantly pressed for the issue of reserve notes. Two factors combined to produce this result—the circumstance that many banks had placed their best paper with the national currency associations in order to protect emergency currency, and the further circumstance that the tax on this currency at the lower rate established by Congress would not for some considerable time be likely to approximate the rate of discount which every bank would have to pay to Federal reserve banks in order to get the rediscounts that would enable them to obtain the notes they needed.

Combined with these factors was, of course, the natural inertia which in all such cases tends to prevent the withdrawal of one kind of currency and the issue of another. Upon the organization of the Federal reserve banks, moreover, the urgent pressure for note accommodation passed away as quickly as it had come. Gold reappeared in circulation at an early date, and the retirement both of the clearing-house certificates and of the emergency currency was undertaken. In those cities where rates of interest on clearing-house certificates were very high, the reserve banks aided in the retirement of the certificates remaining in circulation. This was notably the case in New York.

The emergency currency itself immediately began to be retired by natural process, thus leaving in circulation not to exceed 38,000,000 to-day, February 18, 1915. It may be expected that with the lower rates of discount prevailing at the reserve banks, and with the continually heightening rate of taxation which the emergency currency has to pay, there will be a gradual conversion of such currency into Federal reserve notes, at least for that portion of the supply which may be regarded as needed for some time to come. Thus far there has been little of this conversion for the reasons already stated. Had

the reserve banks been in operation at the beginning of August they would naturally have supplied the great volume of currency which was called for; but not having done so, a field of business which would naturally be theirs has been temporarily taken from them by reason of the fact that it was occupied by the clearing-house certificates and emergency notes in the way already indicated.

The Federal reserve act wisely provided in section 14 for the prosecution of business by Federal reserve banks in the open market, if the Federal reserve banks found it desirable to do so in order to keep their spare funds occupied. As has already been seen, the board did not believe that it was necessary at the outset to make immediate provision for the exercise of these functions, reserving them to a later date. As soon, however, as the first pressure connected with the establishment of the system had passed, the duty of investigating and preparing for such open-market operations was taken up, and the banks were, on December 18, given authority to purchase Government bonds within the limits of prudence as they might see fit. On December 23 copies of a tentative set of regulations relating to the purchase of warrants, revenue bonds, and the like by States, municipalities, and other political subdivisions were likewise transmitted. Drafts of regulations governing the purchase of acceptances in the open market have been prepared and will shortly be issued. Other open-market functions will be provided for as rapidly as possible. When this has been done, there will be ample occupation for all funds which the reserve banks can properly spare at times when their spare funds are not required in affording accommodation based strictly upon commercial or industrial demand.

But while the work which has thus far been done has been beneficial, I should not be meeting the requirements of this occasion were I to stop with a mere recital of facts which are now widely known, and, I believe, fully appreciated, at least by the thoughtful men of the country, and particularly by the banking public. As the President has said, our thoughts are now more of the future than of the past. We have left behind the controversial aspects of the Federal reserve system, we have passed through the critical period of organization, and we are face to face with the question, What shall we do with this system?

It is evident that there may be two ideas with regard to it. Indeed, both of these ideas are already expressed and have found urgent and able advocates. One of them is that the system is merely a form of insurance against panic, an emergency plan which may be called into existence whenever it is needed, and allowed to go out of use whenever the immediate call for it is over. It should be said that this is the conception of banking which has long governed, and that most of the reform plans of past years have been modeled upon the idea that what was wanted was simply a means of relief for hard-pressed banks which found themselves face to face with the necessity of getting aid or falling into disaster. I think it is no reflection upon the measure known as the Aldrich bill to say that it was upon this view that that plan was based; but as opposed to such an idea there are now many who believe that the banking system which has been established with so much difficulty and sacrifice is to be used constantly, and that its resources are to be employed for the purpose of making money cheap, affording a constant and unfailing supply of loans, and otherwise assisting to furnish ordinary resources for use in business. The advocates of this view are prone to speak of the plan as having been devised for the purpose of lowering rate of interest and of attacking what is known as the Money Trust. I confess that there has been a great deal of misunderstanding upon all these points, and that many expressions have been used by persons who should have been more careful in the use of language, which appear to afford some warrant for ideas of this kind. Every system and every cause suffers from the mistaken zeal of new converts, and the Federal reserve system is no exception to the rule.

The crimes which are traditionally committed in the name of liberty are often paralleled in business under the mistaken belief that they are to serve as benefits to the average man. If we examine the real nature of the Federal reserve system, I think we shall come to the conclusion that it is neither an emergency relief plan to be availed of only under extraordinary conditions, on the one hand, and that, on the other, it is not a system to be used for the purpose of affording loans on doubtful security or unsound paper. It is a segregation of the reserve funds of the country. Its resources are the great trust fund to be used for the purposes inherent in the trusteeship. Success in the administration of this trust will depend upon the degree in which its terms are understood and the conditions under which sincere and earnest effort is made in accordance with the terms of the law to administer it. I believe that the reserve system has been aptly compared by some one who was recently discussing the question to an extra dynamo which is kept in reserve in a power house for the purpose of carrying the peak of the load during the rush hours of the day. It is not duplicate of existing machinery to be used when a breakdown has occurred, still less is it a machine to be called into use for constant service in conjunction with the other equipment of the plant. It is a mechanism which is regularly needed, but is needed under special and given conditions, which is treated differently from other mechanisms. The simile I have thus used implies, however, what I may call a Federal reserve dynamo, is subjected to actual working conditions and is in regular and constant working order. We can not throw it out of gear or allow it to lack lubrication, or keep it carefully housed but never in use if we expect the machinery to be of service when the time comes. Now, what does this imply?

In the first place, the Federal reserve system must get business. It must have a steady supply of business, and this for the very good reason that if its officers are not in the habit of doing business, they can not do business satisfactorily or readily when they are subjected to strain. Furthermore, if the Federal reserve bank is never actively in the market, it can not influence the market materially. It must be able to affect business by withdrawing from quite as readily as by enlarging its operations. The framers of the Federal reserve act fortunately foresaw this necessity and provided for it. While the act was so framed as to limit the direct discounting of notes to those presented by member banks, the act in its open-market section afforded an ample opening for all the business that the Federal reserve institutions might care to do. It allowed them to purchase in the open market bills of exchange and other items of commercial paper under the same circumstances and conditions as it would had they come to it from a member bank, except that these operations were operations of purchase and not those of discount with the proceeds left on deposit with the reserve institutions. The Federal Reserve Board has already recognized that the reserve institutions may employ a part of their funds to good advantage in such a way as to provide a revenue for themselves through this open-market power. It has issued regu-

lations governing the purchase of warrants; it has indicated its disposition to open transactions in Government bonds, and it will shortly issue regulations relating to acceptances and to other forms of open-market transactions. Let me say here, with the utmost emphasis, that there will be ample employment for all the funds that Federal reserve banks can or ought to support, and that they will be able to employ these funds in such a manner as amply to provide for their legitimate expenses and for a reasonable rate of return upon the sums invested in them by the member banks.

To those who are disposed to suggest that the Federal reserve banks can not pay their expenses and dividends, I would simply say that the payment of these expenses and dividends is not a matter of power or ability, but is simply one of willingness or disposition. If we say, in round numbers, that the Federal reserve system has \$300,000,000 in cash, and if we assume that the capital stock when paid in will be in the neighborhood of \$60,000,000, it is evident that to pay 6 per cent on this capital stock would require the investment of but a small fraction of the bank's reserves in the warrants, bonds, acceptances, bills of exchange, and other forms of investment open to the banks through the open-market power. To invest it safely and wisely and to keep it so invested would, for the staff of men now engaged in operating the Federal reserve banks, be the work of but a small part of their time.

But I suppose there is no one here who would want to see the reserve institutions employ one-third or even less of their funds in such a way if that action meant they were to put out of their hands and into those of others the actual cash corresponding to the transactions. Were they to do so, they would become money lenders, loaning out the ultimate reserves of the country and getting them back as best they could. This would not be banking. It would be note broking or investment. I do not believe that this is the legitimate function of the Federal reserve banks. The open-market power is a valuable and useful one, and enables them to keep their funds employed, and, as I have already noted, to exert a useful influence at times when that influence is sorely needed and could not be exerted through the ordinary medium of rediscount operations. It must be evident, however, that the reserve banks can not be of first-class service to the community on this basis. They must receive funds as well as pay them out; they must be of actual beneficial use to their members, otherwise the members will not be satisfied with the mere 6 per cent they are to receive on their stock subscriptions.

How can this be accomplished? Very simply, I think, by merely following the well-marked lines of scientific banking. If you were to make me a present of \$1,000, I should be pleased; but if you were to say to me in substance, "You may place this money in a bank, but you must never draw it out, and I will not permit you even to check against it or even to deposit an equal amount of checks corresponding to those you draw," I should form an entirely different idea of the value of the gift. In order to make the deposit of any material use, I must be permitted to employ it in my business or personal affairs. This is why the Federal reserve act provided for the clearing of checks for member banks. It was recognized that if the reserve institutions were ultimately to take over the reserves of member banks, except those carried in the vaults, they must also be prepared to handle the exchange transactions of the banks themselves. They were, therefore, empowered to receive checks and drafts upon their member banks and to charge them off against all such members. They were, it is true, directed to receive these checks and make the transfer at par, and ultimately to charge their members such sums only as would cover the actual expenses involved in the operations. Thus far the Federal reserve banks have not done this. At the outset, owing to the necessity of opening the institutions as early as possible, it was agreed that they should receive only a limited number of items. Subsequently Federal reserve banks began to receive checks upon all other Federal reserve banks, and still later three of the reserve institutions inaugurated, by consent of the Federal Reserve Board, a system of general clearance in all other districts, still retaining, however, substantial limitations upon this type of business. It is to be expected that before long the system thus begun will be extended, and that it will ultimately make its way to that complete application which the act contemplated.

In so doing it will render a great service to the business men, and, incidentally, to the great majority of bankers. That so large a transformation of existing banking practice will, to no small extent, involve inconvenience in many quarters, I am fully prepared to believe. No great business improvement ever occurred without some suffering. Every mechanical advance inflicts some hardship upon those who are using older mechanical appliances, or whose skill is rendered out of date as the result of the new methods that are thus applied.

That this is true in the case of the clearing operations seems to me very likely; but that this transformation will be of immense benefit to the banking and business community as a whole, far surpassing in its usefulness such incidental inconvenience as may be caused, I am equally positive. I do not need to insist before an audience of professional men upon the great advantage of clearance over collections. The labor-saving quality of the system is obvious, and there can be no doubt of the immense increase in the efficiency of money and bank credit under such a system. Who is there among you that would willingly go back to the older system of collection, abandoning the present clearing-house plan as applied to the various cities of the country? Why should it be considered unreasonable that the same advantages that have been realized there would likewise be realized by Federal reserve districts as a whole? The only logical answer that can be given to such a question is in the affirmative; and the only objection that can be made to proceeding with the work is that there are some difficulties in the way. A difficulty is something to be overcome, not something to be stopped; and in this case we are fortunate in having the assurance of the best transit men in the country that the clearing system of the Federal reserve act is amply feasible and easily to be introduced.

Do not think that I am placing too much stress upon this phase of the situation. If the clearing system were merely a means of introducing some labor-saving device I could hardly feel warranted in assigning to it the importance that I do. It is much more than that. Under the Aldrich bill as proposed, as under most of its predecessors, the proposal for relief was found in the issue of notes. These notes, by the terms of the Aldrich bill, would have been legal tender and would have been made available in member bank reserves. The Federal reserve-bank notes are neither legal tender nor are they available in member bank reserves; but, on the contrary, every provision that could be thought of was made for their early and prompt redemption. They will be speedily redeemed and their volume will never be larger than that which is demanded by the needs of the community. The member

banks which desire to build up their reserves must do so by securing book credits with the Federal reserve banks, and these book credits can be of service only as they are made available to the banks, i. e., only in proportion as they are rendered active, serviceable, and flexible by giving to the member banks the utmost liberty of action in drawing upon these deposits and in using them as a basis of their exchange operations. When that has been done it may truly be said that the check is an actual form of currency, paralleling the note, not only in its utility and serviceability but in its power to convey value at par throughout the length and breadth of the Nation. To give the Federal reserve act its true value, this system must be made effective and workable, for without it the act is nothing more than a torso deprived of its hands and feet. It will be a mere inert though living mass, incapable of active motion in the world of institutions to which it belongs.

I do not believe that the process of developing the Federal reserve system to its full stature and of making it a living force will be an immediate one. The problems it involves are too difficult; the tasks which must be performed are too involved and require too much change from existing methods to permit of their being hastily embarked upon or immediately carried through to success. Time will be required both for the complete working out of the clearing system and for the realization of the ideals in relation to commercial paper which the Federal Reserve Board has set before itself and to which ultimately it is to be hoped, the system will approximate. In reaching this full measure of its stature, those who are engaged in developing the act must, of necessity, rely upon the banking community for aid and support. Unwise friends of the system have suggested that it could be carried through to success without such aid on the part of the bankers. That is not possible. No piece of machinery can be successfully operated without intelligence and sympathy on the part of the operator. A good machine in the hands of a poor operator is a failure, and a poor one in the hands of a good operator is often a success. This is quite as true in banking as it is in mechanics. To the bankers of the country, then, the Nation as a whole will look for the success of the Federal reserve system. The bankers can not stand aside even if they would and say that they are not responsible, or that the system has been forced upon them and that they are not in sympathy with it. They have, in fact, accepted it; have provided the resources for the establishment of the Federal reserve banks. They are deeply interested in the success of the system from a financial standpoint. Not to have it successful would be an incalculable disaster to the banking community.

It would put back the cause of banking reform many years. Neither can it be assumed that a partial failure of the system to produce its results would lead to the modification of the law along helpful or desirable lines; on the contrary, it would be likely to open the way to extreme, drastic, and unfair legislation, so much of which has from time to time been suggested. This in itself would be a disaster of tremendous proportions. The way to avoid it is to see that the new reserve institutions are amply and abundantly successful, and to permit them to remedy, so far as their power extends, the evils and shortcomings of American banking—evils and shortcomings which, I am sure, no conscientious banker would deny, but which the bankers have themselves been foremost in pointing out in years past.

Sympathetic and helpful promotion of the ends of the system is thus the dictate not only of patriotism but of self-interest. I believe it will be so considered by those who are recognized in their several communities as leaders. Recognizing you as among this number, and knowing how largely and how generously in the past both the bankers in this portion of the country and the representatives of the Credit Men's Association have cooperated in the effort to secure helpful improvements in banking legislation, I appeal confidently to you for consideration of the ideas I have suggested, and for the extension of that large measure of influence and support which you are so amply able to supply.

ABSTRACT OF SPEECH DELIVERED BY CHARLES S. HAMLIN, GOVERNOR OF THE FEDERAL RESERVE BOARD, BEFORE THE CHICAGO REAL ESTATE BOARD, CHICAGO, FEBRUARY 13, 1915.

The 12 Federal reserve banks, under the new banking system, were opened on November 16, 1914. Although barely 10 weeks have elapsed since their opening, much has been accomplished in the way of placing the operation of our banking system on a secure, firm foundation.

We can better understand what the new system is if we consider the conditions which existed under the old system, under which there were approximately 7,500 independent banks and 7,500 independent reserves. Although called reserves they could not in fact be used except in violation of law, and if at any time they happened to fall below the legal limit, the bank was legally required to suspend business until they were restored, and nothing but the forbearance of the Comptroller of the Currency could save the bank from being placed in the hands of a receiver in case the depleted reserves were not restored.

I have said that these reserves were all independent; there was, however, a certain interdependence caused by the deposit of a certain portion of the reserves with reserve agents in reserve cities, but this interdependence was one rather of danger than of security.

Furthermore, when the banks had performed their function of discounting notes, the notes discounted remained in the bank vaults, buried beyond hope of resurrection until maturity, and if a bank were to take these notes out of its vaults and rediscount them, such an act tended to make people distrust its condition.

In addition, the national-bank currency issued by the banks was chained to Government bonds. When contraction was necessary it was difficult to secure it; when expansion was needed it was slow and cumbersome, often taking effect only after the necessity had passed away. In fact these national-bank notes often increased when they should have decreased, and, conversely, decreased when they should have increased.

It was certainly a strange anomaly to link together the national currency, supposedly responsive to the needs of expanding business, with Government bonds representing war and other necessities of the past. Yet this is what the former system did; the extension of the trade and commerce of the twentieth century was indissolubly linked with the evidences of the destruction of trade and commerce of the nineteenth century. While there may have been some justification for this strange alliance in the nineteenth century, there is surely none in this twentieth century, and it is earnestly to be hoped that the method provided in the Federal reserve act for retiring the national-bank currency and substituting the new Federal reserve notes may prove efficacious.

The old banking system rested in effect upon the call loan. The bank had to have liquid assets, and the call loan was the only liquid asset. How liquid such assets were was seen by the panic of 1907,

and again in 1914, when the closing of the stock exchanges took from such loans the only semblance of liquidity they had.

The dependence of our banking system upon assets which were liquid only when liquidity was not needed and which were unsalable at times when liquid assets were needed has resulted in a banking system which financial experts pronounce as one of the worst in the world and utterly unsuited to the financial needs of the United States.

The United States is entitled to the best banking system in the world, and I believe the Federal reserve system, just established, will fully meet its needs.

The extraordinary events just prior to the opening of the Federal reserve banks are familiar to all. The steady exportation of our gold, the unprecedentedly high rates for foreign exchange, the derangement of our export trade caused by the war, the constantly increasing balances against us on current international commercial transactions, the piling up of reserves by many banks throughout the country at a time when they should have drawn upon them, and finally the hoarding of gold by both banks and individuals, culminated in a condition probably the most ominous in the history of our country.

How our new banking system was able to meet this dangerous situation and how successfully we emerged from it constitutes an epoch in the financial history of the world. A slight study of the situation will reveal some of the difficulties and what was done to overcome them.

During the calendar year 1914 there was exported from the United States gold to the amount of over two hundred and twenty-two millions; during the same period there was imported over fifty-seven millions, the net exports amounting to about one hundred and sixty-five millions. For the same period the production of gold in the United States amounted approximately to ninety-two millions. The total stock of gold held by the Treasury, the banks, and in circulation on January 1, 1914, was estimated to be approximately one thousand nine hundred and four millions, while on January 1, 1915, it was estimated to be about one thousand eight hundred and fifteen millions, a decrease of eighty-nine millions.

When it is considered that the United States was able to export one hundred and sixty-five millions of gold in the calendar year and yet reduce its total gold by only eighty-nine millions, a decrease of only 4.6 per cent, some idea of the strength of the United States in gold holdings and gold production will be conveyed.

Certain unusual relief measures were also undertaken and successfully accomplished, which, in connection with the operations of the Federal reserve system, turned the tide and brought about confidence in place of fear and financial stability in place of unsound monetary conditions.

Among these measures was the deposit by the Secretary of the Treasury of crop-moving funds of about \$37,000,000 in banks in different parts of the country, all of which was promptly returned, together with over \$267,000 in interest. In addition, the Secretary of the Treasury issued and shipped to various banks about \$380,000,000 of Aldrich-Vreeland emergency currency, of which all but about \$50,000,000 has already been redeemed. This latter measure of relief was made possible by the Federal reserve act which amended the so-called Aldrich-Vreeland Act by lowering the tax imposed upon the notes and increasing the limit of issue. The redemption of these notes was also facilitated by the Federal reserve notes.

These measures gave much relief to the situation, but much was left to be done to place our finances on an absolutely sound basis.

A careful investigation into the international indebtedness of our people abroad showed that our current indebtedness was about \$500,000,000, all payable in gold. To take care of this situation pending the revival of our export trade, a gold fund of over \$100,000,000 was subscribed by the banks, national and State, in the reserve cities. This fund quickly demonstrated the desire and ability of our people to pay all their foreign obligations, properly payable in gold, in that metal, and this, too, in face of the fact that a large indebtedness owed us from abroad could not be liquidated because of the moratorium in England and other foreign countries.

As the result of the opening of the Federal reserve system and of these relief measures, confidence quickly took the place of uncertainty and little gold had to be shipped out of the country. In a comparatively short space of time our increasing exports took the place of gold, which otherwise must have been shipped. Foreign exchange fell to the importing point and our country became a creditor instead of a debtor.

In order to relieve the situation in the South, a cotton fund of \$135,000,000 was subscribed, so that the agriculturists who were producing cotton were enabled to make long-time loans based on cotton security. As was the case with the gold fund, but little of this fund was used, but the fact that it existed was a powerful incentive to a restoration of confidence and it accomplished its work successfully.

The establishment of the Federal reserve system has been, as I have said, a potent cause in our financial recovery, and it is well to point out upon what theory the system is based and what it has already accomplished.

In the first place it established lower reserve requirements, thus releasing an enormous amount of cash as a basis for future credit operations. It mobilized a material proportion of the reserves of the banks in the Federal reserve banks, thus furnishing a fund from which banks could be assisted in rediscounting commercial paper. Thus commercial paper, which previously had to be held in the vaults of the banks until maturity, can now be used as a basis for rediscounts at Federal reserve banks, and this paper has now become a liquid asset, far more liquid than the call loan on the stock exchange.

An elastic note issue was also provided for secured by a 40 per cent gold reserve and by commercial paper up to the face value of the notes issued. Thus we have at hand a really elastic currency rising and falling in response to the needs of agriculture, commerce, and industry. Acceptances in the import and export trade are also permitted to be discounted by Federal reserve banks, and the member banks for the first time were authorized to accept bills drawn upon such transactions.

It can be stated with confidence that under the Federal reserve system we shall see no more financial panics. The member banks no longer need to keep a dollar in excess of their lawful reserves. They can even check against and withdraw their reserves deposited in the Federal reserve banks, under regulations of the Federal Reserve Board, which latter board can suspend any and all reserve requirements of the act when deemed necessary.

Under the Federal reserve system the member banks have to furnish the capital for the Federal reserve banks and deposit a material part of their reserves in said banks. Every dollar of this amount is held in trust for agriculture, commerce, and industry of the United States, and is forever removed from the call-loan market. In addition, every dollar

deposited by the Government with the Federal reserve banks, over and above what is checked against for paying Government debts, is impressed with a similar trust for the same purposes.

The transfer of capital and reserve deposits was made by the member banks without the slightest trouble and without the slightest confusion in business. Many feared that these transfers could not be accomplished without calling in loans and otherwise injuring legitimate business, but this fear was quickly dispelled when it was found how easily and simply the transfer was made. The Federal Reserve Board requested the banks to make these payments, as far as possible, out of their own vaults and also, as far as possible, in gold, and the banks cheerfully complied with this request, so that at the present time a very large proportion of the assets of the Federal reserve banks consist of gold or gold certificates.

Up to the present time very little recourse has been had to the Federal reserve banks by the member banks, the amount of discounts and the issue of Federal reserve notes being very small. There is no necessity, however, at the present time for such assistance on the part of the Federal reserve banks except in certain portions of the country, but within a few months, undoubtedly, these banks will be drawn upon to a very large extent by the member banks.

The fear has been expressed that the Federal reserve banks will have difficulty in earning enough money to pay their expenses and the dividends on their capital stock. I believe this fear to be groundless; but if it were not groundless it would not mean that the Federal reserve system is a failure. The founders of the system established these banks, not to make money but to serve as helpers of the member banks; and through them to insure to the people of the United States security, stability, and reasonable rates for advancements and accommodations, through discount and open-market operations.

How far the system has already gone in helping the people of the United States will be seen from the fact that just prior to the opening of the reserve banks the rates on commercial paper in the large financial centers were 6 per cent or over and very difficult to obtain, while in other parts of the country they were much higher. At the present time, however, these rates have declined at least 25 per cent, and everything points to more nearly uniform rates of discount over the whole country.

Much has been said about the true function of the Federal reserve banks. Some claim that they are purely emergency banks, while others seem to feel that they are ordinary commercial banks which should at all times compete with the member banks. Neither of these extremes, however, represent the real function of the Federal reserve banks. Their duty is not alone to meet emergencies, but, so far as possible, to prevent emergencies from arising, and while ordinarily they do not and are not intended to compete with commercial banks, yet occasions may arise where such competition, through the exercise of their open-market powers, will be necessary for the protection of the people of the United States. It is often said that the Federal reserve banks are bankers' banks, but this is true only to the extent that they deal primarily with the member banks. Their true function, however, as above stated, is to protect the interests of the people, acting through the banks primarily, but whenever necessary acting outside of the banks.

The power of fixing the discount rates which has been vested in the Federal reserve banks, subject to review and determination of the Federal Reserve Board, is a power which must be exercised for the benefit of the whole people, and the final responsibility for its exercise rests with the Federal Reserve Board.

From time to time complaints are heard as to the operation of the Federal reserve banks. Some bankers claim that they lose interest on reserve deposits in Federal reserve banks, which prior to the establishment of the system were deposited with reserve agents; also that they lose interest on the capital of the reserve banks furnished by them. A slight reflection, however, will show that these complaints are more imaginary than real, for the lower reserves established under the act has released a very large amount of cash, and this cash would sustain banking operations which will produce a profit far above any possible loss of interest on their capital or reserve deposits.

It should not be forgotten, moreover, that the stockholding banks are entitled to 6 per cent interest on their investments for the capital of these banks, and, as I have before stated, I do not doubt but that this interest will be earned.

Complaint is also made as to some of the regulations which have been issued by the Federal Reserve Board, especially those relating to discounts of commercial paper. It has been the constant effort of the Federal Reserve Board to simplify its regulations, and new regulations have been issued covering commercial paper which I believe will do away with many, if not all, of the objections heretofore raised. The board appreciates that the custom of merchants must be cautiously changed, and should not be subjected to a sudden disarrangement.

Another important question which is before the board is the admission of State banks into the Federal reserve system. Complaint has been made that the State banks once having joined the system can not withdraw. On the other hand, it is pointed out that the system established is a national system, and that such a system could not exist if its integral parts at any time could withdraw at will.

The question of regulations to be enacted on the matter of admission of State banks has already given rise to many differences of opinion. Some of the national banks contend that the State banks should divest themselves of all powers not given to national banks as a condition of entering into the system. On the other hand, many of the State banks claim that they have the right to enter the system with all their powers, except those which are expressly cut down by the Federal Reserve act itself.

The Federal Reserve Board is fully conscious of the importance of the task assigned to it, and it is giving careful attention to all the problems which have arisen, with a view to carrying out the system loyally, not only in form but in spirit.

I believe that the system will be of the greatest advantage to the people of the United States, and will establish the United States on a solid foundation, which will in the near future make it the center of the world's financial exchanges.

PURCHASE OF STEAMER "DACIA" (S. DOC. NO. 979).

Mr. SMITH of Michigan. Mr. President, the request of the Senator from Missouri [Mr. STONE], to which there was no objection, prompts me to make a request. The case of the steamer *Dacia* which has recently been taken into port by the French Government and about which there seems to be a great deal of misunderstanding is bound to become a question of some importance in this country. I said during the course of the

ago all that I had to say about the purchaser of the *Dacia*, whom I have known for some time, but I have a complete statement from Mr. Breitung giving his entire connection with the *Dacia* purchase, and I am going to ask leave to have it printed as a public document. I believe that it will be very useful and that it is an eminently proper thing to do. I prefer that request, Mr. President.

Mr. WALSH. Mr. President, I join in the request of the distinguished Senator from the State of Michigan [Mr. SMITH]. I have examined the papers, and I am sure they will be of great interest to the general reading public. It is not to be overlooked that in a controversy of this character, particularly when it becomes the subject of diplomatic negotiations, public opinion is a factor that may well be reckoned with. I am unable to say, for want of information, anything about the transaction other than as appears from these papers, but they are certainly very persuasive that the transaction was an ordinary transaction, a purchase and a complete and bona fide sale. I am sure the information given will be interesting to the public.

The VICE PRESIDENT. Is there objection to the request of the Senator from Michigan? The Chair hears none, and the order is made.

NAVAL APPROPRIATIONS—CONFERENCE REPORT (S. DOC. NO. 966).

The Senate resumed the consideration of the report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 20975) making appropriations for the naval service for the fiscal year ending June 30, 1916, and for other purposes.

Mr. SMITH of Michigan. Mr. President, I desire to say just a word about the report. I think the committee of conference are to be commended for the work they have done. They had a very difficult task to adjust the differences between the two Houses on the naval bill, and I feel very sure that they have followed the lines that were practicable, and that if we disagree to the report now we imperil all the legislation involved in the bill. I certainly hope that the work of the conferees will be approved.

Mr. TILLMAN. Mr. President, on January 26, addressing the Senate on the naval appropriation bill, I used the following language:

It would be little short of a crime for the Naval Committee, and for the Congress, too, if we rushed the construction of battleships until we know what lessons the war will teach and show to be wise.

Continuing, I said:

It does seem to be time for Congress to go slow in expending these tens of millions of dollars because of some supposed necessity.

In pursuance of the policy that we ought to wait until the rivals, the British and German fleets, meet in battle, I introduced an amendment, which went into the bill in practically the same shape in which it was written. I would never have consented for the item providing for two battleships this year to have gone into the bill at all had not the Secretary of the Navy given me assurances that he would not let any contracts and would endeavor to have the plans so drawn as to make a battleship unsinkable, if possible.

With this assurance I was content, and the amendment proposed by me and adopted by both Houses orders a report to Congress at the next session on the best type of warship without limitations as to kind or cost. It would be far wiser to build 6 or even 10 of the right kind of war vessel than increase those that may be demonstrated to be useless if the development of the submarine continues. If it is ever proven that a submarine capable of 30 knots speed on the surface can be built, the days of the battleship are numbered.

I am unwilling to have the program on the increase of the Navy go to the country without this explanation and final word.

The strongest possible reasons exist for this opinion, as shown by Senator Chandler's letter: We already have under construction or authorized seven great sea monsters ranging from 28,000 to 33,000 tons displacement.

These superdreadnaughts will cost, all told, \$100,000,000, and the contract for one has not even been let yet. Two more in the present bill make nine, and therefore the Secretary of the Navy is very wise not to hurry. It seems to me from conditions as they are now and the developments brought about by the European war that it may be considered wiser next winter when Congress reassembles, if we build any great war vessels at all, to build those with great speed and high-power guns—not less than 30 knots, perhaps 35, with 15-inch guns, perhaps 16-inch. Such ships could either run or fight, as circumstances might show to be wiser. One hundred millions' worth of ships that may be considered junk in 12 months from now is enough for even a rich country like this to own. I ask that the Secretary may read the following letter: