uniform molds, each exactly like all the others. Emotions are diluted until hardly a trace of them remains, and faculties are congealed and atrophied.

Banks Can Not Be Efficiently Supervised by a "Debating Society."

Early in my tenure of office I learned that the National Banking System can not be properly watched, regulated and governed from Washington merely by traditions, fixed rules, form letters, and "respectfully referreds." Eight thousand banks represent eight thousand, more or less, different personalities and conditions to be dealt with. With some of them the blunders of honest men must be corrected and ill consequences averted with generous and gentle consideration. With others arrogant defiance and disregard of the law, crookedness or culpable carelessness must be met by stern rebuke, and when necessary, prosecution. In my judgment attempt to operate this vast complex system either automatically or by a debating society of seven benevolent gentlemen, through usual bureaucratic methods, and without the direction of a vigorous, thinking, understanding personality familiar with facts and problems outside official information, would be injurious certainly, disastrous almost inevitably.

That this evil of "bureaumania," that would threaten our National Banking System, has already impaired the value of the Federal Reserve System I believe strongly—my belief based on practical experience and the results of actual experiment. Using my privilege as an ex-officio member, one of a total of seven members, of the Federal Reserve Board, I have filed protests as strong as I could make them against failure to use the board's power to correct or modify the wrongs and evils which I thought I could see very distinctly. I regret to say that my remonstrances and appeals seemed to create in the majority of my fellow-members the mood of an old gentleman aroused rudely from a nap. They were more querulous than interested, seemed to be more intent on constructing a snarling retort than on considering whether there was need of reform or correction. They had started the machine to work, strictly in accord with the law, and apparently considered their duty to be to let it work along, regardless of what havoc or injustice it might cause or what unforeseen conditions might demand some tightening up here or loosening there, slowing down or oiling.

Earnest Protests Against Board's Failure to Use Its Powers to Correct Pressing Evils Pass Unheeded.

The ensuing correspondence was voluminous—more than 100 pages of typewritten matter. They seemed to me to dodge and evade the main issue by making complaint that the Comptroller of the Currency's examinations of banks were too frequent, or too infrequent, too rigid or too lax. As to that they were promptly referred to the official records for complete vindication of the methods and policies of the Comptroller's Bureau under my administration. The official figures showed them that in the matter of immunity from failure, in growth, in earnings, and in service rendered, the record under the last administration was by far the best in the history of the National Banking System. For example, the percentage of losses to depositors to total deposits, last year was the smallest in about forty years, except only the fiscal year 1919, when there was NOT ONE DOLLAR'S LOSS TO ANY DEPOSITOR IN ANY NATIONAL BANK IN THE UNITED STATES, ALTHOUGH THE NUMBER OF DEPOSITORS WAS APPROXIMATELY TWENTY MILLION AND THE SUM TOTAL OF THEIR DEPOSITS ABOUT SIXTEEN BILLION DOLLARS.

It is obvious that the question of the examination of national banks was quite irrelevant to the grave matters of which I complained in my correspondence with the board, such as (a) the perilous swiftness of the process of deflation; (b) the artifical diversion to New York of hundreds of millions of dollars, sorely needed elsewhere; (c) the huge sums advanced to certain banks for use in promotions and speculations, and (d) the excessive and burdensome interest rates imposed upon so many banks in the west and south. The rate charged at one time BY A FEDERAL RESERVE BANK, under regulations APPROVED BY THE BOARD, in one exceptional case to a small bank in a farming section amounted to more than 80 per cent per annum.

These things seemed wrong to me from my standpoint, as an ordinary working American business man, temporarily entrusted with certain official powers and duties. The majority of the board apparently was very much more concerned over my duties than their own, and judging from a recent letter from the board it saturated itself with some kind of a vague suspicion that I was trying to "establish a record" at its expense—as if I was a candidate for something. It did not seem to awake to the possibility that I might be very seriously intent upon doing something to revive and help the business of the country and make our recovery as quick and painless and comfortable as possible. In this same letter I am informed, to my great astonishment, that the board does not perceive or comprehend the constructive suggestions I had so consistently urged, but it complains that I have attacked or criticised the board of which they appear to be acutely sensitive. If that were true, it seems to me that the criticism should have caused thought rather than resentment, amendment if that were found to be justified, or definite contradictions if the facts and figures would sustain it. The truth is, I have offered a series of suggestions and recommendations, results of study and of conditions, some for the board itself, others to be put before congress and for which the board's approval was urged.

New York Reserve Bank Lends at 6 Per Cent to Member Bank, Charging Customer at Same Time Equivalent of 200 Per Cent per Annum on Large Loan for Six Months.

I am giving this outline of inside events to support my contention that congress should take action to provide against negligence, lack of ability or stubborn disregard of the needs and rights of the public by the board or any future board. As an illustration, I knew that certain New York banks were borrowing from the Federal Reserve Bank, which means from the people of the United States, millions of dollars at 5 per cent to 6 per cent, and lending it at from 10 per cent to 50 per cent, and sometimes higher still. In fact, among others, I gave them one instance, an extreme case, where a certain large bank last summer borrowed money from its reserve bank at about 6 per cent per annum, and about the same time loaned a customer, the head of a large manufacturing enterprise, $1,000,000, well secured by collateral, of which loan about $500,000 was passed on to correspondent banks (without liability to the selling bank) at about 12 per cent per annum, and $500,000 of the loan retained on a basis of interest and commission which YIELDED THE LENDING BANK ABOUT 200 PER CENT PER ANNUM, on its net outlay, the whole loan being paid in full in six months. When that 200 per cent transaction was referred to in a meeting of the reserve board, one member, to my amazement, was disposed to condone or defend in on the ground, as he expressed it, that "the banks all charge such rates, more or less." I resented his imputation upon the banks of the country, and I am happy to say that his opinion can not be sustained, for the vast majority of our banks, of which I am informed, conduct their business on a very different plane, and would not be guilty of exacting such extortionate rates of interest as I have here referred to, which might well bring the blush of shame to Shylock's cheeks.

Board Cannot Escape Natural Consequences of Poor Administration of a Great System.

In a letter to the board, February 19, 1921, in commenting upon the exaction of the 200 per cent per annum interest from a customer by a member bank to which the reserve bank was at the same time lending at about 6 per cent, I said:

> "Is not this incident another strong argument in favor of the recommendation which I have recently made to congress that banks obtaining accommodations from Reserve Banks should be prevented from charging their customers more than a reasonable and moderate advance above the rates they pay to the Reserve Banks?
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> * * * *
>
> Every business man knows that the inevitable, logical results of such unscrupulous extortion as these here brought to your notice, is ruin for the victim of them. The crash which the banks exacting such tribute—with the unconscious assistance of the Federal Reserve Bank—created to conserve and protect our commerce and finances—did so much to precipitate, might have been far-reaching. It might have thrown thousands of employees out of work, forcing distress on their families and destroying their power to buy from our merchants and manufacturers and pay their rent to real estate owners. It would have added very seriously to the dangers to our welfare already existing.
>
> THE RESERVE BOARD CANNOT WITH IMPUNITY CONDONE OR SIT SILENTLY BY WHILE ITS FUNDS ARE BEING USED FOR WRECKING PURPOSES—IT MAY MAKE ITSELF, IT SEEMS TO ME, PARTICEPS CRIMINIS, ACCESSORY BEFORE AND AFTER THE FACT."

Furthermore, the 200 per cent transaction referred to above was a TIME LOAN, and in direct violation of the usury laws, even in the state of New York. But the penalties provided by statute were not enforcible by the Comptroller of the Currency. Action in such cases has to be brought by the borrower, but as the victims in usurious transactions are generally reluctant to bring proceedings against banks for fear of being shut off from further credit, offenders ordinarily go unpunished. In my last annual report I again urged an amendment to the Bank Act, which I had recommended in several previous reports, TO AUTHORIZE AND DIRECT THE DEPARTMENT OF JUSTICE to bring suit against offending banks guilty of usury—and I think the amendment should also include all banks which are members of the Reserve System—upon information furnished either through the Comptroller of the Currency or other sources. Such a law vigorously enforced would be of inestimable value to the country.

Certain Member Banks Borrow Heavily From Reserve Bank While Lending Large Amounts to Their Own Officers for Speculations in Stocks and Bonds.

In formal communications I made it quite clear to the Federal Reserve Board that certain favored institutions, to which a certain prominent Federal Reserve Bank had handed out enormous sums of money, were employing their funds largely in the promotion of speculations of divers kinds, and I called attention to various instances where the executive officers of certain large debtor member banks were borrowing heavily from their own banks for their speculative ventures and hazardous promotions, and were also obtaining money from other banks to which the Federal Reserve Bank was advancing large sums. The Reserve Bank making these huge, and often, improvident, loans was itself borrowing, at times, heavily from other Federal Reserve Banks, far and near.

In my last annual report to the congress, in urging an amendment to the National Bank Act, to prevent bank officers from borrowing from their own banks, I said:

"Cases from time to time come to light where important banks to which are entrusted millions of dollars of the funds of depositors are found lending the funds of the bank in large sums to practically all their senior and junior officers—president, vice presidents, cashier, and assistant cashiers—and while they are extending these large and excessive accommodations to their own officers, directly and indirectly, largely for speculative ventures, the banks are themselves borrowing heavily from the Federal Reserve Bank of their district."

Huge Loans Granted on Easy Terms to Big Member Banks Conspicuous for Speculative Operations, While Some Other Member Banks Suffer and Pay Extortionate Rates.

Another phase of these loans made by member banks to insiders, on stocks and bonds, is what has been called the "family" rate, charged by certain banks to their own officers, and officers of other banks who may be expected to reciprocate, and which rate is materially less—sometimes less than half—the rate charged other less favored customers. It is quite impossible to justify practices prevailing in some of the banks which have received, at easy rates, the largest indulgences from the Reserve System, while smaller banks have been skimped, and taxed unconscionably on the far less advances grudgingly doled out to them.

More than a year ago, on Januray 28, 1920, I warned the board, by letter, against concentration of the funds of the Federal Reserve System for use in speculative operations and promotions, and expressed my strong disapproval of certain conditions to which I specifically directed their attention.

In another letter to the Reserve Board under date of February 19, 1921, I said:

"The manner in which certain New York banking institutions have borrowed enormous sums from the Federal Reserve Bank of New York at rates of from 5 per cent to 7 per cent and have taken advantage of the necessities of needy borrowers, in trying times, by 'accommodating' them with time money at rates, in some in-