

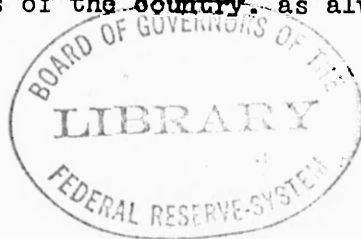
ADDRESS BY GOV. MEYER OF FEDERAL RESERVE BOARD AT PRESIDENT HOOVER'S ECONOMIC CONFERENCE -- PART PLAYED BY RESERVE SYSTEM IN MEETING FINANCIAL STRAIN THROUGH WHICH COUNTRY HAS PASSED. (August 27, 1932.)

The President has given you a comprehensive and graphic picture of the events of a difficult and almost disastrous character through which we have recently passed and the Secretary of the Treasury has brought you up to date with regard to many of the steps that have been taken to meet them. The Federal Reserve System naturally was called upon to play a considerable part in all these events.

With the breakdown of two of the four great financial powers of the world last summer, the Federal Reserve System was called upon to withstand shocks which experience had not taught us the way to meet, for which there was no precedent, and for which there was no charted path.

The System, however, had been so well grounded and fortified that, through its ability to expand currency and supply the needs of member banks, it was able readily to meet a situation of unparalleled character and proportions, namely, the export of more than \$700,000,000 of gold and the hoarding of over \$400,000,000 at home during the five weeks following the suspension of the gold standard in England, by the expansion of Federal Reserve credit to the extent of more than \$1,000,000,000 through the purchase of bills in the open market and discounts for member banks.

This situation, of course, threw a tremendous strain on our whole banking structure, as has already been indicated, and the creation of the National Credit Corporation to assist the Federal Reserve System and other organizations in meeting that strain was determined upon. The bankers of the country, as always



when called upon in the public interest, responded most promptly and most patriotically and most effectively.

Their action carried the situation until the Congress met and passed the Act creating the Reconstruction Finance Corporation, which was called into existence to meet continuing and increasing difficulties. Its immediate operation was made possible by the very hearty cooperation of the Federal Reserve banks, which lent their personnel and facilities to aid in the establishment and operation of the field organization of the Corporation.

While it was not the function of the Federal Reserve banks to administer the Reconstruction Finance Corporation Act, they willingly stepped in and furnished temporary assistance and management in the field in order to enable the agencies to go into action with the speed that was vitally necessary.

The problem, however, called for more adjustments as time went on, and I think the ability of the American people to make needed adjustments as circumstances develop is the test of the ability of our political system in the broadest sense of the word to function effectively in times like these.

A number of measures in addition to the creation of the Reconstruction Finance Corporation were necessary, and the Congress cooperated with the Administration by passing them promptly. The Federal Reserve powers were increased so that when member banks lacked eligible paper, loans were available to them, either individually or in groups, on the security of otherwise ineligible paper.

In addition, the Federal Reserve System was authorized, for a limited period, to substitute Government bonds for eligible paper or gold as security for Federal Reserve notes. This measure, which was agreed upon and promptly passed, has been a vital factor in our ability promptly to meet a second series

of hoardings at home and withdrawals of gold for export. Through the exercise of these powers and the fundamental strength of the System, all such demands have been met.

I think it is fair to say now that in the light of the two great crises -- those in Germany and in England -- there was a general opinion abroad that this country would not be able to meet the test; that we would have to surrender to the strain as they did. And I am sorry to say that a good many Americans, who, I hope, know better now, followed that line of defeatism and surrender in their thoughts.

I think, however, that the great bulk of the American people believed in themselves, as we did here, and never gave way to the idea that we would be unable or unwilling to stand the strain. Certainly no one in the Federal Reserve System ever surrendered in thought or deed.

The main guiding principle in the operation of the Federal Reserve System all through this period has been to maintain intact the ability of the Federal Reserve banks to serve, through their member banks and through open-market operations, the needs of American commerce, industry and agriculture.

It has been able to do so under exceedingly difficult conditions, and with the additional powers that have been granted by Congress, it is our firm belief that we will in the future, as we have in the past, with absolute confidence in our resources and our people, stand by our institutions and through them maintain and support, to the utmost of our ability, our commerce, industry and agriculture.

