

BANK OF MONTREAL  
COPY

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to believe that the economic forces working toward contraction and deflation had by that time fairly well spent themselves.

And yet, what do we find? Between September and December prices have declined further by about 4 per cent, production 7 per cent, and loans and investments of weekly reporting member banks more than \$ 1,500,000,000, or 7 per cent, while the deposits of these banks declined by no less than \$ 2,250,000,000, or 11 per cent.

RESPONSIBILITY OF THE BANKS IN CONNECTION WITH  
GENERAL CONDITIONS:

In this connection, if I may be allowed to speak with complete frankness, a direct responsibility rests on the great banking institutions of the country. In the past in similar emergencies they have rendered tremendous service to the nation.

The opportunities for leadership and service are today even more imperatively here. Free from the spirit of competitive individualism they must establish a solid front and through a co-operative and unified program attack a problem that they above all others are best fitted to solve. The calamitous process of deposit and credit contraction must be arrested. The flow of funds from all parts of the country to the financial center should be reversed. The full use of available credit should be encouraged. Each bank should become a strong point radiating strength and confidence. Resources are truly important only to the extent that they are used. Let me remind you of a familiar quotation from Badgerot's great book, "Lombard Street".

"In opposition to which might be at first supposed, the best way for the bank or banks who have the custody of the bank reserve to deal with a drain arising from internal discredit, is to lend freely. The first instinct of every one is the contrary. There being a large demand on a fund which you want to preserve, the most obvious way to preserve it is to hoard it - to get in as much as you can, and to let nothing go out which you can help.

"But every banker knows that this is not the way to diminish discredit. This discredit means, "an