

Internal MemorandumFederal Reserve Bank of Atlanta - No. 3

This is a series of notes taken at a luncheon which included Mr. Bryan, Mr. Clark, Mr. Rauber, Mr. Patterson and Mr. Atkinson. The talk ranged more on System things perhaps than on bank things, but several points made were valuable.

Regional Aspect

There have apparently been a series of arguments about the regional aspect of the System which should be set down. Mr. Bryan's statement beginning the argument was that, "The regionalization of the System relates to the process by which there can be brought into the banks officers above the clerical range who will be community leaders. There is a difference of approach in this to the member banks. There is also a difference in their currency habits." He said that Beardsley Ruml in 1941 made a speech or a study saying that each bank should be a local center in its region. This had to do with the research function of the banks. Nevertheless it is a statement of one point of view which needs noting.

Another point of view is that expressed in a phrase used by Mr. Eccles, to "post-office the System," that is, make it merely a service entity, no more important in policy-making than the postmaster and the way in which the various post offices work.

A third point of view, but one close perhaps to the Ruml point of view, was that central banking was meant in the beginning to be regional central banking, but that as the country has grown, it has become a national function. Mr. Bryan doubted that the Atlanta directors would now want to conduct the Atlanta Bank as a central bank except under special circumstances. If, for instance, the present boom gets out of hand in the South, they might, but probably this would be a local manifestation like that of Florida.

In 1953, when banks were borrowing from the Federal Reserve banks, the various regional banks had very different attitudes toward borrowing. It was not in the least a coordinated point of view. The central banking function at the present

time is intangible and peripheral. It is an organizational function which allows one to bring in local people onto the decision level. It slows the process of central banking, but in the long-run, it is very much better than if directors and officers are appointed straight from Washington.

A place where <sup>even the idea of</sup> central banking on the regional scale broke down was the 1929 - 1932 period. At that time, the country was saturated with the Glass speech on 90-day paper. Eugene Meyer and Goldenweiser were sure that the economy needed to be "washed out". Bank presidents in local areas knew very much better, but they could not make themselves felt nor their voices heard.

The result was the series of bank failures which afflicted various parts of the country in quite different ways. Mr. Bryan got to Athens, Georgia on the eve of the bank failure. The failure in Macon took 20 years of economic life out of the town; ~~and~~ the local bank which failed has paid out 100% on the dollar, and the district is just getting back.

The Canal Bank in Louisiana paid 100% of all its deposits plus interest. In Florida, banking was a series of failures. The Land Boom took out most of the banks, and the depression took the rest of them.

One item not hitherto brought out was the fact that in 1927 the local examinations by the Federal Reserve bank examiners were abolished. The authorities had to rely on state and national bank examiners, who were not in as good a position to judge local bank people as the Federal Reserve examiners had become. This meant that when it came to judging the ability of banks to re-open after the holiday, the Federal Reserve banks did not have their own examinations on which they could rely. (This does not seem to square with what I learned of the New York situation. It may be that there is variety here in the various districts.)

The old banks were frequently devices for the convenience of the presidents and the directors in the South. They loaned to the enterprises which were favored

by their directors. This aspect of banking has been cleaned up, and by the same token, the F.D.I.C. has made a great change in the psychology of people toward banking.

Another aspect of regionalism which is valuable in the System is that, unlike other government entities which have difficulty in pulling up ideas from grass roots, the System can get them from the twelve bank presidents. The presidential status has improved in the last 12 years. More and more research men are coming up into the office of president. Dr. Irons in Dallas, <sup>(vice president)</sup> Mr. Deming in St. Louis, Mr. Thompson in Cleveland) and Oliver Powell in Minneapolis are all research men. (It might be doubted as to whether a research man would be as good a president as men more distinguished in action <sup>than</sup> ~~and~~ in thinking).

Mr. Patterson observes that when the Federal Reserve banks were organized, the <sup>local</sup> ~~liberal~~ groups put their own men in office. In Atlanta, Messrs. Ottley and Glenn dictated the policy. Now Washington influences it, and the calibre is better, but it may be that the element of local ties is absent.

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P. S. One further observation is worth recording. Mr. Bryan said, and others supported him, that in the 1930's the Federal Reserve bank could get a reply back from Washington in a day - now it takes weeks. The general attitude was that Mr. Chester Morrill wrote the answers to questions himself. He had a fine sense of organization and knew how decisions were made.

Mr. Eccles would be the one who would know about the inside maneuvering that got the Banking Act of 1935 passed.

Mr. Patterson suggested, amid considerable laughter, that someone do a monograph on "The Influence of Women in the System." The reference was probably to Mr. Eccles and Mr. Szymczak, though there may also have been other instances in which women played important parts at moments of crisis.

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