NDMENT TO ABOLISH OFFICE OF PTROLLER OF THE CURRENCY, Etc.

HEARING

BEFORE THE

MMITTEE ON BANKING AND CURRENCY OF THE HOUSE OF REPRESENTATIVES

WEDNESDAY, JUNE 1, 1921

STATEMENT OF

HON. W. P. G. HARDING

Governor Federal Reserve Board

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COMMITTEE ON BANKING AND CURRENCY.

HOUSE OF REPRESENTATIVES.

SIXTY-SEVENTH CONGRESS.

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AMENDMENT TO ABOLISH OFFICE OF COMPTROLLER OF THE CURRENCY, ETC.

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Wednesday, June 1, 1921.

The committee met at 10.30 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN: Gentlemen of the committee, when we recessed two weeks ago we were in the midst of a discussion of the resolution offered by Mr. Strong of Kansas, and it was suggested by members of the committee at that time they would like to hear Gov. Harding in connection with certain phases of this bill. I therefore asked Gov. Harding to come up, and he is here this morning, and would be glad to answer any questions members of the committee have to ask. He is not appearing for or against the measure, but will be glad to answer any questions which members wish to propound to him.

Mr. WINGO. What is the Strong resolution?

The CHAIRMAN. I should have said the amendment offered by Mr. Strong that—

The Federal Reserve Board shall have no power or authority to restrict the amount or class of eligible paper a Federal reserve bank may rediscount so long as it complies with the law that applies to member banks, except by an order adopted by two-thirds of the members of the Federal Reserve Board, a copy of which shall be mailed to all banks affected thereby. Said resolution shall not take effect until 30 days after its receipt by the Federal reserve banks.

Inasmuch, however, as there has been more or less discussion about the powers of the Federal Reserve Board, this discussion, with Gov. Harding here, is not to be confined to this particular amendment, but will take in several others, I understand. I would suggest, Gov. Harding, that you proceed in your own way, and the members of the committee will interrupt you as we go along.

Gov. HARDING. Mr. Chairman, may I ask just what is the object of this proposed amendment?

The CHAIRMAN. We are considering H. R. 4906, and Mr. Strong has offered the amendment which I have just read.

Gov. HARDING. Your idea is, then, that the Federal Reserve Board shall not restrict the amount or class of rediscounts of a Federal reserve bank except by an order adopted in conformity to your amendment?

Mr. STRONG. Yes, sir.

STATEMENT OF HON. WILLIAM P. G. HARDING, GOVERNOR UNITED STATES FEDERAL RESERVE BOARD.

Gov. HARDING. The discount features of the Federal reserve act are found, in part, in section 13, where eligible paper is defined and where power is given the Federal Reserve Board to make regulations as to eligible paper, subject to the terms and provisions of the act. Other reference to discount powers is found in section 4, relating to the authority of the Federal reserve banks themselves.

There is no limitation imposed upon the amount that a member bank may borrow from the Federal reserve bank. The directors are given certain discretionary powers, just as directors of all national banks have, and they are charged with the duty and responsibility of administering the affairs of the Federal reserve bank fairly and impartially and in extending discounts, loans, accommodations, and advancements to pay due regard to the requirements of other member banks. I do not see, offhand, just what effect an amendment of this sort would have unless it should repeal section 4, because as section 4 now stands the matter of loans, if eligible, is entirely in the hands of the directors of the Federal reserve banks. The Federal Reserve Board has no power, or certainly never has attempted to exercise the power, to say to the Federal reserve bank "you must not rediscount eligible paper," or that "you shall discount paper which is technically eligible and which, in the opinion of your officers and directors, is not solvent or desirable paper."

The Federal reserve act seems to contemplate not a central banking system but a regional banking system under centralized supervision. In other words, there is a localization of credits. The Federal Reserve Board here in Washington has no power, or never has conceived that it had any power, to bring any pressure to bear on the banks as to what particular applications for rediscounts they should approve or decline. They have a board of directors, six elected by the member banks and three appointed by the Federal Reserve Board, and the whole responsibility for discounting paper offered by member banks is vested in the board of directors of the Federal reserve bank. The Federal Reserve Board merely defines eligibility according to the terms of the act.

Mr. GOLDSBOROUGH. You attempt to regulate that by a progressive interest rediscount rate?

Gov. HARDING. I will say that the progressive interest rate was an emergency proposition. We were confronted with a real financial emergency a little over a year ago, but that emergency has passed; we have no such emergency now. I have a chart with me this morning, Mr. Chairman, which I would like to show to this committee, briefly, to illustrate this matter graphically.

The CHAIRMAN. I was going to suggest, as a preliminary to your talk, if you will go into that matter it will be helpful.

Gov. HARDING. I will say, in regard to the progressive interest rate, there were only four districts that every adopted it, and in two of those districts they have abolished it.

Mr. GOLDSBOROUGH. My question was not in criticism of it at all.

Gov. HARDING. In the Atlanta district the progressive rate was tried for a while but was abrogated on November 1, 1920. In a certain Alabama town there was a case, which has been given much publicity, where a bank paid a very high rate for a small amount for a short time. The Federal reserve bank of Atlanta has recently received authority from the Federal Reserve Board to refund to all member banks any interest they paid during the operation of the progressive interest rate in excess of a maximum of 12 per cent.

Mr. STEAGALL. In excess of how much?

Gov. HARDING. In excess of a maximum of 12 per cent. This brings the average rate charged down to about 6½ per cent.

Mr. GOLDSBOROUGH. That does not help the public.

Gov. HARDING. That action has been taken at Atlanta. The progressive rate of the St. Louis district has been modified, so that hereafter banks will pay 7 per cent in excess of the normal line and 6 per cent on the normal line. It will probably be abrogated altogether in the near future. In the Kansas City district—I spent three days out there on my recent trip—you have a very vigorous community; you have some virile, upstanding men, who know what they want, and there is more or less scrapping out there when interests conflict.

The Federal Reserve Board has insisted that the Kansas City bank must not put any general restrictions on credit; that it must not say that any paper, whether it is automobile paper or oil paper, if it is technically eligible, shall be discriminated against as a class. All such paper can be offered by a member bank for rediscount. If the Federal reserve bank directors do not regard an offering as good or desirable they can turn it down, under section 4, but they must not discriminate wholesale against any class of eligible paper. At a dinner which I attended while I was out there, at which the governor of the Federal reserve bank was present, he stated that in future the bank would adopt this policy. Furthermore, there is a limit put on the progressive rate in the Kansas City district. The normal rate is 6 per cent and 8 per cent the maximum. The main trouble out there is the State contract rates. In Kansas, Nebraska, and Oklahoma they have a contract rate of 10 per cent; in Wyoming they have a contract rate of 12 per cent; and I think Colorado has either a 10 or 12 per cent contract rate. Sometime ago their rate of progression was limited to 12 per cent and more recently to 8 per cent. We discussed the matter while I was out there; and, in view of the improved credit conditions, they decided that at the next meeting of the directors to put a limit on their rate of progression to 8 per cent.

There is a peculiar situation in that district. One-third of the member banks, almost exactly in number and almost exactly one-third in banking resources, have discounted for their customers very liberally and have borrowed, in consequence, from the Federal reserve bank amounts considerably in excess of their basic line. Another third have borrowed very moderately from the Federal reserve bank, and their total borrowings are about $30,000,000 less than their basic line. And still another third have not borrowed at all; they are carrying strong reserves and they do not seem to have responded, as fully as they might have done, to the requirements of the district and have not borrowed at all. One of the things that has bothered the directors of the Kansas City Bank has been the clause in section 4, requiring them, in extending accommodations, to pay due regard to the wants and requirements of other member banks, and this has bothered them, because they have one-third of the banks which have borrowed anywhere from two to three or four times their basic line; another third, which have not borrowed up to their basic line, and still another third which have not borrowed at all, but which may call for accommodations at any time.

Mr. WINGO. I gather from your suggestion that the way they interpret the law, they are holding back awaiting a possible claim and demand from banks which have not yet borrowed; in other words, they have interpreted the statute to say that they shall not discriminate and shall be prepared to meet the wants of member banks, when, as a matter of fact, they may not make any demand?

Gov. HARDING. That was the situation last year. As a matter of fact, the situation has changed. The policies of the Federal reserve system have not changed, but conditions have changed and the methods of applying policies must necessarily change.

Mr. WINGO. You do not catch my point. You suggest that they were embarrassed by the fact that other banks were not borrowing, and they felt they could not grant all the demands of one set of banks because there was another set that were not coming in and making any claim at all?

Gov. HARDING. That was last year when the Federal reserve bank of Kansas City had borrowed from other reserve banks about $50,000,000, and at the same time had one-third of its member banks which had not called upon it for anything.

Mr. WINGO. If that is true, on what theory do they deny rediscounts to banks that want them?

Gov. HARDING. They did not deny them rediscounts. It was the progressive rate which held them in check; that was the reason for the progressive rate.

Mr. WINGO. If these banks were not coming up to the Federal reserve bank of Kansas City—if that is true—then the bank was not required to consider their possible wants in the future.

Gov. HARDING. What I have said is true; but suppose you gentlemen down at this end of the table had gone to the Federal reserve bank and borrowed to your limit, and then some two or three times over, and the gentlemen up at the other end of the table had not borrowed anything and then made loans upon the assumption that they could be rediscounted. Would it be much satisfaction to them, when they came to the Federal reserve bank, to be turned down and for the bank to say, "Why, we have already loaned you gentlemen down at this end of the table all our available funds and therefore can not accommodate you"?

Mr. STEAGALL. Have let other folks have it.

Gov. HARDING. Have let other folks have it. In other words, they felt they had at all times to keep in mind the possible claims and demands which might be made upon them.

Mr. WINGO. But they were not required to hold back a certain maximum amount for banks that were making no claims?

Gov. HARDING. All that water has now gone over the dam, anyway.

Mr. WINGO. But it is going to rise again next fall.

Gov. HARDING. No—I beg your pardon—and I will show you why it is not going to rise again next fall.

Mr. WINGO. I will be mighty glad to have that assurance; at least, I shall not personally, but the banks out in my section will be glad to have that assurance.

Gov. HARDING. Here is some Federal reserve history from the 1st of January, 1919, to last Wednesday night [indicating chart]. These squares represent three months; here is 1919, here is 1920, and here is where we have gone to in 1921. The Federal reserve note circulation is in green; the discounts, earnings, and assets of the Federal reserve banks, everything we have that is earning any money, is shown in black. The cash reserve is shown in red. The wholesale price index, exports and imports, and excess is shown in solid black.

Shortly after the armistice the Federal reserve banks had about $2,250,000,000 of loans and investments; that is, rediscounts for member banks, Government securities held, bills of exchange, and bank acceptances purchased in the open market. We had $2,600,000,000 Federal reserve note circulation outstanding and $2,100,000,000 cash reserve.

In the early part of January, 1919, the loans and note issues went down. This was during a normal period of liquidation. The crops had moved, the retailers had done a big Christmas business, and, as they collected a lot of cash, they took it to the banks and paid off their notes, and so on to the Federal reserve banks; so that the note circulation was reduced in January and rediscounts were reduced. But this did not last long. In 1919 rediscounts and note issues were soon up again. And the same thing occurred in 1920.

You will recollect that on the 26th of June, 1919, the embargo on gold shipments was taken off and we established a free gold market in this country, and thereby lost perhaps $300,000,000 of gold, and then we gained about $170,000,000 gold from Germany for foodstuffs, and then we lost some more, until we got down to a total cash reserve of $2,000,000,000 in February, 1920.

On the 15th of September, 1919, in relation to reserves and invested assets and loans, we stood just about as we were on the 1st of January. The Federal reserve note circulation was also about the same as it was on the 1st of January.

During the year 1919 the impression prevailed that there was a world-wide shortage of goods. The people of the Old World and in America had deprived themselves during the war of most luxuries and of many of the necessities of life. They had subscribed heavily for bonds and were saving and paying for them. Our Government issued obligations amounting to over $25,000,000,000 within a period of 18 months. The normal investment power of this country was estimated to be about $6,000,000,000 a year, and it had become necessary, therefore, to expand credit. People were encouraged to buy bonds, to make notes at the banks in order to carry them, the member banks discounting the notes with the Federal reserve bank, and this, together with the burden which abnormal values placed upon our credit structure, caused great expansion of credit.

Wages advanced. Prices advanced, and with raw materials advancing and wages advancing the cost of production was greatly increased. But there was such an urgent world-wide demand for goods that even in Europe, war torn and debt ridden, a very active demand for American supplies of all kind sprang up. Our large exportations to Europe during the first half of the year 1919 were financed very largely out of the unused balance of the $10,000,000,000 fund which Congress authorized our Government to lend to those nations which were associated with us in the war. There remained over $2,500,000,000 still unexpended and available when the armistice was signed, and our large exportations to Europe during most of the year 1919 were paid for largely out of funds advanced by our own Treasury.

About the middle of September, 1919, various influences were at work which, all combined, gave a tremendous impetus to production and to commerce and business generally. This impetus at first was justified, but the situation was soon affected by speculation, and dangerous tendencies developed.

In the fall of 1919 there was manifest a great wave of speculation. It was not confined to any particular section, but it swept over the country everywhere and over all countries. People who had commodities of all kinds to sell were in no hurry to place them on the market. They saw week by week prices rise and rise again, and they saw that as they took this as a guaranty of the stability of prices, prices rose and costs of production advanced also. Merchants thought it advisable to lay in large stocks of goods in anticipation of future requirements, and many of them were in no hurry to dispose of their goods at a reasonable profit, because it seemed that the longer they held their stocks the more valuable they would become. But there were dangers in the situation, and not a few were alive to those dangers. Many, however, failed to sense them.

There were signs all over the world that a reaction was coming. After frequent warning, to which little heed was given, the Federal reserve system took action. The discount rates of the Federal reserve banks which had been advanced first to 4½ per cent and 4¾ per cent were, during the latter part of January, advanced to 6 per cent. The final advance to 7 per cent did not come until about the 1st of June, 1920. These rates were less, however, than current market rates, and the banks having the 7 per cent rate have recently reduced it, some to 6 per cent and others to 6½ per cent.

On the 19th of September, 1919, the earning assets of the Federal reserve banks amounted to about $2,350,000,000. By January 23, 1920, during a period of four months, they had increased by nearly $1,000,000,000. What would have been the result if those who had charge of the administration of the Federal reserve banks had sat supinely by and permitted this rate of expansion to continue? If no restraining measures had been taken, if no warning signals had been given, it is probable that this rapid and reckless pace might have continued for perhaps two or three months longer, when a collapse would have been inevitable. It was highly desirable that nothing should be done of a sensational nature but that the unavoidable reaction should be controlled and made as gradual and orderly as possible. The effect of advanced discount rates of the Federal reserve banks was merely to slow down the rate of expansion. There was no curtailment of credit on the part of the Federal reserve banks, nor was there any contraction of the currency. As a matter of fact the loans and invested assets of the Federal reserve banks increased from the middle of January, 1920, until the 5th of November, 1920, a steady and gradual increase all the way along by about $400,000,000.

The volume of Federal reserve notes in circulation increased during the same period, from January 16, 1920, to December 24, 1920, from $2,800,000,000 to $3,400,000,000, so that during the most acute period of readjustment, when the sharpest reactions were taking place, there was going on all the time a steady and gradual expansion both in Federal reserve note issues and loans—$400,000,000 in loans and $600,000,000 in currency. A great many people have been deceived into thinking that the drastic reactions which took place last summer and fall resulted directly from some decree of some arbitrary power.

But the reaction which took place was not decreed by an governmental board or by any group of banks. It was decreed by the people themselves, by the greatest of all forces—popular sentiment. People began to reduce the volume of their purchases, became more economical and discriminating, and there resulted a condition which is sometimes called the "buyers' strike." Wholesale prices began to decline about the middle of May, 1920. The wholesale price index number on January 1, 1919, was 203, as compared with the wholesale price index number of 100 for 1913. By the middle of May, 1920, the wholesale price index number reached 272, and stands now at about 150. It is interesting in this connection to note again that during 1920, when wholesale prices were falling, there was practically a steady increase in the volume of Federal reserve notes in circulation and in the loans and invested assets of the Federal reserve banks.

The first manifestation of the changing conditions was the break in the silk market in March, 1920. This precipitated a financial crisis in Japan, involving the suspension of many banks in that Empire. Next, we had the break in the wool market about the middle of May, 1920, caused primarily by an excessive supply of raw wool. The War Department had large amounts of wool on hand, accumulated for war purposes, for which it had no need. It undertook to sell at public auction in the great wool market of Boston. The sales were not satisfactory. The British Government brought in wool from Australia and other dependencies and attempted to sell it in the same way. Regular importations of wool were coming in from Argentina. About the same time the western wool clip was ready for market.

Meanwhile it was evident that public opinion all over the world had undergone a change. For awhile back, people did not seem to care particularly what prices they paid. The main idea was to get deliveries, and you will remember we had what is known as a sellers' market. It was experienced in all business. Purchasers had an idea that there was a real shortage of almost everything and in some cases there were actual shortages. But after all this question of surplus and shortage is merely a relative one.

We may learn what the supply of a commodity is; that can be ascertained or estimated with approximate accuracy, but no man can state in advance just what the demand for consumption is going to be, because that is a matter which depends largely upon sentiment. It is almost impossible to say what things and how much people are going to require or what they need, for while actual human needs are very simple, there are a great many things people have become accustomed to which they regard as absolutely necessary. Many a man, I presume, has more clothing than he really needs, and the depression in the textile trade was due to the fact that people realized that they could do without new clothes and that in large measure brought about the demoralization of the wool market. The retailers found that they had little or no demand for woolen goods, and the tailors were not doing the usual business. They did not order goods from the mills or they canceled orders already placed. The mills found, in the new circumstances, that they had ample supplies of raw wool and the wool merchants called in their buyers from the West and the price of wool dropped from about 72 cents a pound down to 15 or 20 cents.

Two or three months later the same experience was undergone in the cotton market. Of all American products, cotton is probably the one most dependent upon foreign markets and is most quickly affected by conditions abroad. People who were engaged in the sugar trade imagined that there was a great shortage in sugar. You will remember how sugar skyrocketed up to 25 or 26 cents a pound. There seemed to be a shortage of sugar, but there was much held off of the market in order to be sold out gradually at high prices, and then a situation developed which seems perfectly natural now, when we look backward. In view of the depreciation of foreign exchange, all other nations, which produced sugar, attracted by the high price at which sugar could be sold in our market, shipped sugar here and a great many nations, which were not producers of sugar but merely consumers, shipped sugar to us in order to get dollar exchange; in other words, they were perfectly willing to deprive themselves of sugar in order to get things they needed or desired more. Consequently, along in September, there was a collapse in the sugar market.

During all this time the Federal reserve banks maintained their legal reserves, but they did it by means of interbank rediscounting. There were eight Federal reserve banks at one time which were borrowing $267,000,000 from four Federal reserve banks. We had no financial panic, the reserves of the Federal reserve banks were maintained in accordance with the law, and there never was a time when the Federal reserve note was not redeemable in gold as required by law.

Now, the total loans and invested assets were $3,400,000,000 in November. They have declined, to last Wednesday night, to $2,300,000,000—a decrease of over $1,100,000,000.

This reduction of over $1,000,000,000 during the last four or five months in loans and investments of the Federal reserve banks has resulted from liquidation in the larger cities, in the financial centers and in the manufacturing centers. In no appreciable degree has liquidation taken place in the agricultural districts. The Federal reserve act provides that all paper discounted with the Federal reserve banks must have a maturity of not longer than 90 days, except agricultural paper or paper based on live stock, which may have a maturity as long as six months. The Federal reserve banks were carrying the 30th of April, of this year, $230,000,000 of agricultural and live-stock paper of maturities from three to six months. On the 30th of April, 1920, they were carrying $106,000,000 of such paper, and on the 30th of April, 1919, they were carrying only $66,000,000.

The CHAIRMAN. You are speaking of the 12 Federal reserve banks?

Gov. HARDING. The 12 Federal reserve banks combined, they had on hand on the 30th of April, 1921, $230,000,000 of paper having a maturity of longer than 90 days which must necessarily be agricultural or live-stock paper. On April 30, 1920, they had $106,000,000 of that paper as compared with $230,000,000 this year.

Mr. WINGO. What were those dates?

Gov. HARDING. April 30, 1921, $230,000,000; April 30, 1920, $106,000,000; and April 30, 1919, $66,000,000. Now, the Federal reserve bank of Chicago had on hand, April 30, of agricultural and live-stock paper which could be identified as such, on account of the maturity, $59,000,000—an amount which is equal, by the way, to all the rediscounts and all borrowed money of all national banks on the 22d of August, 1907, just before the panic of that year. This shows how the credit facilities of the country have increased.

The CHAIRMAN. Have you anything to show what the same class of loans is in the member banks, in that same connection?

Gov. HARDING. No; we have not. But this just gives an indication, don't you see? We know this—we know that 40 per cent of the member banks are not rediscounting at the Federal reserve banks at all, and the 60 per cent which are rediscounting at the Federal reserve banks are rediscounting amounts sufficient to bring up the percentage of rediscounts to total loans of all member banks to about 15 per cent.

Mr. WINGO. You say 40 per cent are not rediscounting at all?

Gov. HARDING. Forty per cent are not rediscounting at all.

Mr. WINGO. That is at the present time?

Gov. HARDING. That is at the present time. But the total rediscounts carried by the Federal reserve banks for the 60 per cent which are rediscounting are about 15 per cent of the total loans and discounts of all member banks. And in the panic of 1907 the national banks rediscounted or borrowed only $1\frac{1}{4}$ per cent of their total loans, and in 1914 the national banks rediscounted or borrowed only $2\frac{1}{2}$ per cent.

This shows the situation, gentlemen. I was going to say that the Federal reserve bank of Chicago alone on the 30th of April had under discount $59,000,000 of agricultural and live-stock paper. On the 30th of April, 1920, it had $21,000,000—an increase in a single year of $38,000,000. On April 30, 1919, it had only $2,500,000.

The Federal reserve bank of St. Louis has on hand three and a half times as much agricultural and live-stock paper as it had on hand a year ago, and eighteen times as much to-day as it had on hand two years ago.

In Kansas City, although the total loans of the Kansas City bank now are just one-half of what they were a year ago, the live-stock and agricultural paper stood the other day at $35,800,000, as against $35,400,000 a year ago. Nearly 50 per cent of that bank's loans are agricultural and live-stock paper.

Mr. STRONG. Of course, you can not collect on them now, and if they forced collection the banks would go into bankruptcy.

Gov. HARDING. Here is something which shows you the soundness of the Federal reserve system. While our total loans are still higher than they were at any time during the war, and while the Federal reserve notes outstanding now are still higher than they were at any time before the armistice was signed, here is something that is very significant: The cash reserves of the Federal reserve banks have increased while the loans have been going down. A few months ago there was over $1,000,000,000 difference between the cash reserves and loans and over $1,000,000,000 difference between the cash reserve and Federal reserve notes, and, combined, a matter of about $2,000,000,000 difference. This red line represents the cash reserve; the black line represents loans and investments. When any bank has on hand more money than loans it is regarded as a pretty strong bank. Here is the Federal reserve banking system that has $2,392,000,000 actual gold.

Mr. WINGO. The increase in cash reserves is represented by the increased gold?

Gov. HARDING. The increase in cash reserves is caused partly by the drop in loans and partly by the increase in gold.

Mr. WINGO. The actual cash reserves is in dollars and gold?

Gov. HARDING. The actual cash reserves are the largest in the history of the country.

Mr. DUNBAR. How much of that gold has come from Russia and other European countries?

Gov. HARDING. There may be a great deal coming in from Russia, but it is not coming in direct. The Federal reserve banks buy only gold that has the certification of the United States assay office; they will not receive any gold which the mint will not buy; and the mint will not take gold from soviet Russia or any which has not the mint mark of a country friendly to the United States. A good deal of the gold received bears the French mint mark; some of it bears the Swedish mint mark, and some of it bears the British mint mark.

Mr. DUNBAR. In other words, Russia is sending a great deal of gold to the European countries, which in turn send it over to us?

Gov. HARDING. To pay for this stuff bought in this country or to create dollar exchange.

Mr. DUNBAR. At the same time, that gold came from Russia through Europe?

Gov. HARDING. Some of it is thought to be Kolchak gold, coming through Siberia, but it is none of the Federal reserve banks' business. They do not take any gold that is not certified by the assay office, and the Secretary of the Treasury has issued instructions to the assay office not to take any gold which does not bear the mint mark of a friendly nation.

Mr. NELSON. Isn't it true that the gold reserves of the reserve banks of every nation are not decreasing, but that they are also holding on to their gold reserves?

Gov. HARDING. As a rule it is true. The Bank of England's gold reserve has increased; the French gold reserve has increased, although there has come in from France nearly $66,000,000 in gold this year. We have gained nearly $300,000,000 in gold since the 1st of January. About one-third of it has come from France and more than one-third from England, and the rest of it from every country on earth, and the movement is still continuing. The Federal reserve banks have more cash reserves on hand by nearly $300,000,000 than loans outstanding, and we have only $175,000,000 difference between the cash reserves and the Federal reserve notes outstanding. In other words, we lack only about $175,000,000 of having a 100 per cent gold reserve against Federal reserve notes if we disregard the reserve against deposits. So that there is no occasion for the Federal reserve banks to adopt measures they were obliged to adopt in the year 1920. And as an indication of this discount rates have been reduced, and they will undoubtedly follow any downward tendency in the market. But it would be unwise for Federal reserve banks to attempt to create an artificial ease in the money market by establishing abnormally low rates. There are many factors to be considered. We do not want to go ahead too rapidly; we do not want to start and then have to come back again. There are no restrictions on credit as far as the Federal reserve banks are concerned. Of course, primary borrowers have to go to the member banks, which use their own discretion, but the Federal reserve banks are encouraging member banks to ease the situation along and are encouraging them to take care of the agricultural situation particularly. There is no pressure being brought to bear by Federal reserve banks to force the payment of loans to customers of member banks.

Mr. STRONG. When did they get to that policy? They certainly tried to force the collection of agricultural paper a year ago, didn't they?

Gov. HARDING. Certainly they did discourage further expansion a year ago.

Mr. STRONG. When did they change the policy?

Gov. HARDING. And I dare say any holder of agricultural commodities a year ago, who was obliged to sell and pay his note off, is glad of it now. Why, it is absolutely inconceivable how anybody with a knowledge of the world situation, as we thought we saw it a year ago, would think it advantageous to hold for higher prices, when everything was toppling. But after all this was a matter for individual judgment, and the Federal reserve banks, while discouraging expansion, did not curtail loans or contract note issues. Both were increased until late in the year.

Mr. STRONG. Would grain and stock prices have fallen so positively and low if you had not adopted the policy you did a year ago?

Gov. HARDING. You know what the sentiment was before Congress adjourned last June, both in the Senate and House, toward the Federal reserve system. Questions then asked were, "How are the crops to be moved; what are you doing to check the expansion of loans; what are you doing to stop inflation of the currency?" I refer you to Senate resolution No. —— and to a resolution introduced in the House by Mr. King. Then, when Congress came back in December, some sought to hold the Federal reserve system accountable, because of an alleged "deflation" which had not then taken place, for the fall in prices.

Mr. STEAGALL. Yes; I remember the discussion that took place just prior to the adjournment in June, and I stated at the time that I had only one fear—that prices might be reduced, and reduced too severely.

Gov. HARDING. There was a financial and economic crisis in 1920; there never has been a time in the country's history when it was confronted with a graver one. There had never been so rapid and large an increase in the public debt—from, if I remember correctly, less than a billion dollars, in 1917, to over $25,000,000,000 three years later. It had to be raised. Large bank loans were necessary because money was needed in sums beyond the power of the investment market.

If you will recall the course of the markets after the Civil War in this country and after the Napoleonic wars in Europe, you see pretty much the same conditions that are now prevailing here and everywhere. When the much greater magnitude of the World War is considered I think we have good cause to congratulate ourselves that things are no worse than they are.

Mr. KING. Would you yield for a question?

Gov. HARDING. Certainly.

Mr. KING. Is it not a fact that the deflation of the tremendous farm credits began to happen before the prices of produce went down? Were not the farmers forced, as a matter of fact, by their inability to borrow money at the banks, to put their produce on the market?

Gov. HARDING. Possibly they were, because some of the member or nonmember banks were alarmed. But I hold this, that any farmer, prior to last June, who was forced to sell his produce is very lucky in getting rid of his produce at that time.

Mr. BLACK. We had the same break in my country, when the farmers were forced a year ago to sell their produce.

Gov. HARDING. Yes; the same break happened in your State.

Mr. STRONG. But the fact that they were forced to sell is what broke the market; if it had not been they were forced to sell through the restriction of credits, prices would not have broken so rapidly.

Gov. HARDING. I am not so sure of that; suppose the line had gone up here [indicating] and we had had another expansion; have you reflected what would have happened then, if everybody had gone on pyramiding a little higher and a little higher?

Mr. STRONG. The agricultural interests are complaining because they were deflated first, while the fellow speculating in sugar continued to borrow after the agricultural loans were called.

Gov. HARDING. Some agriculturists said they did not want to dispose of their stuff first, because they were going to get a better price in the fall. But you take the farmer who sold wheat in October. Did he get as good a price as the one who sold in July?

Mr. STRONG. If he had not been forced to sell the market would not have broken so rapidly, and more of them would have gotten out from under ruinous low prices.

Gov. HARDING. The Federal reserve bank has not forced anybody to sell. It is the member bank you have to consider.

Mr. STRONG. That was the charge made; that it was the Federal reserve bank that restricted credits and called the loans.

Mr. WINGO. The man on the outside thinks about one thing and the man on the inside thinks about the other. So that I can get your viewpoint, let me ask some questions to clear up some things as to a disputed fact all over the country. It is a fact that the country banks all through the agricultural belt sort of laid the blame on the Federal Reserve Board; that they were required to advise the farmers that they were not going to be given the customary privileges in the fall and they would have to pay their paper and have to sell their stuff. Now you state, to the contrary, that you had given no such instructions?

Gov. HARDING. On the contrary, in the statement of last May, where the board said credits were being extended too rapidly, the member banks were advised to use discretion and they were urged to give a preference to essential loans for production and distribution.

Mr. Wingo. And your position is if they did not do that and if they stated to the farmers what I tell you they did state, then they were going just contrary to your instructions? Is that the idea?

Gov. Harding. No; I do not think so at all. We told them this: We told them the Federal Reserve Board could not undertake to define essentials and nonessentials; that it was too big a problem for us, because it was local and it was a question which every man had to define for himself. We said further to the Federal reserve banks that it was not for them to undertake to say what were essentials and nonessentials; that it ought to be left to the member banks whether they thought too much money was being loaned for speculative purposes, whether they thought too much money was being wasted for luxuries and pleasures, but that we needed to conserve the resources of the system for the movement of the crops in the fall and orderly marketing and to care for agriculture and productive enterprise generally. I have just returned recently from two bankers' conventions, and I told them this in the course of my remarks. In dealing with customers bankers like to follow the lines of least resistance.

Mr. Strong. To pass the buck.

Gov. Harding. To pass the buck. A banker does not want to make anybody angry. A man may come in to him and say, "I want to borrow a thousand dollars." The banker may know that the applicant is down and out for the time being and he would not lend him $50, because he does not think he is good for it. At the same time he may have had some money in the past, or he might have a cousin or an uncle who has some money who would be influenced by him, or it may be that he has prospects of inheriting some money. The banker does not want to tell you if you come in to borrow $500, "No; you could not get $50 from me." It is not good business policy to tell a man that. And the banker does not like to tell a customer that he is full up at the Federal reserve bank. No banker likes to admit he is hard up. It is the poorest business in the world for a banker to say to a customer that he would like to let him have the money "but I have not got the money." And what many bankers all over the country did last fall was to use the Federal reserve bank as a buffer, and some bankers would say when a fellow came in to borrow money: "Bill, you are all right, and I would like to help you; I would like to let you have the money, but the Federal reserve bank won't let us." It is so easy, you see, to dispose of the matter in this way.

Mr. Strong. And that idea has gone out all through the West and through Kansas, that it was the action of the Federal Reserve Board.

Gov. Harding. And I have been out through the West and have been explaining these and other matters to the people. There is a bank in Arkansas, I think the president is Mr. Nakdiman. He came out flat-footed some time ago and said he was not that kind of a banker, but that he would make or decline loans on his own responsibility. He said he had a man who wanted to borrow $5,000.

Mr. Wingo. Yes; he is a very able banker; he has proved it by his success. Now, in the only instructions you gave out, why did you issue a general ruling that there was joy riding going on and an inflation of credits, and it was necessary for the banks themselves to determine what were essentials and what were nonessentials?

Gov. HARDING. You may remember a resolution adopted in the Senate in May, 1920, introduced by Senator McCormick, in which he wanted to know just what we were going to do to take care of the situation. We simply stated what everybody knew, that there had been credits extended that ought not to have been granted and, while we cautioned against drastic contraction or curtailment, if there were any loans on hand we suggested the orderly liquedation or reduction of "proven loans" that were going to be sleepers; it was a good time to collect them. And to get ourselves in good shape to move the crops in the fall, we approved a 7 per cent rate at four of the banks and the application of a progressive rate at four others. Perhaps this was hoisting a danger signal. But if we had come out and said everything we felt, we would probably have created a scare. Suppose we had come out in April or May and predicted everything that did happen later on; we would have brought on a lot of trouble. When financial trouble is brewing the storm signals must be set calmly and in orderly fashion. The United States has a Weather Bureau. If there is a freeze coming or if a storm is on the way a warning is given and the proper signals set. Nobody blames the Weather Bureau for loss occasioned by a cold wave or a storm which had been duly predicted, but the bureau would be blamed for willful neglect to give proper warning.

Mr. KING. I have read in a great many financial papers and a great many farm papers, where you said it was a very good thing the farmers were deflated. In my country, which is one of the best agricultural countries in my section, many young men who started out leasing farms and buying machinery in the spring at high prices, horses and everything else, were compelled to sell their whole outfit at public sale, because the bank called their loans.

I understood you to say it was a good thing the farmers were deflated?

Gov. HARDING. I was talking about holding back commodities. You know in the fall of 1919 the people had an idea everything was going to be scarce and the farmer, naturally, was going easy in selling his stuff and was holding back what he could. There were a whole lot of middle men, too, who bought stuff and put it in the warehouse, because they did not want to sell it to the public at the time. They had an idea that the consumptive requirements of the world were so great that they were going to be able to sell at greatly increased prices. What followed, however? People all over the world practiced some economies and quit buying and there was not the big demand they thought there would be. All I have to say about the farmer and his troubles is that the farmer who had crops in 1919 and did not sell them in the fall of 1919, was very fortunate if he sold in the spring of 1920; and those farmers who held their stuff made in 1919 until the fall of 1920, are sorry now they did not sell. And you know that. Nature provides for these things. You take these crops that are produced once a year; what is the orderly marketing of them? The board has always stood for orderly marketing. We do not want everything to come to market the same day and to tie the railroads up and to stretch our financial facilities to the limit, which will mean a low price to the producer, and have his produce get into the hands of the speculators which will ultimately mean a high price to the consumer. Orderly marketing means the marketing of that crop produced at one season of the year, which is going to be followed by another crop at the corresponding season next year—is it not good sense to market the bulk of one year's crop before the next crop comes in? You do not want to have to market two crops, or a crop and half; when you ought to have to market only one crop.

Mr. BLACK. In other words, your theory is the Federal reserve system might have, by putting on no restrictions at all, permitted the situation to continue for some time longer, but that later on the fall would come?

Gov. HARDING. If the Federal Reserve Board had not put on the brakes on account of this ratio [indicating] there would inevitably have been a smash.

Mr. WINGO. It is a fact, is it not, that the records of the member banks in the cotton belt and the wheat belt show that there was a decrease in loans to farmers and the farmers were compelled to pay their loans and they were denied the customary privileges they ordinarily were accorded to a certain extent?

Gov. HARDING. Perhaps that may be true in some cases.

Mr. WINGO. If that be true, and I will state from my investigation, taking an isolated bank here and there, I found they not only did do that, but a great many of the country banks had a big cash surplus and were not getting rediscount facilities at all, and their excuse was the Federal Reserve Board had adopted the policy of telling everybody to keep close to the shore.

Gov. HARDING. The Federal Reserve Board issued no statement itself except that one statement in May, and that statement was mailed to every Federal reserve bank.

Mr. WINGO. You have already denied that; but I am talking about what the banker did down there. I am trying to get down to the fact and to place the responsibility and to draw out the facts. Now, it is a fact—and if you do not know it, I think if you will just sit down and take isolated banks, you will find the loans to farmers were actually curtailed. A great many banks did not think of coming to the Federal reserve bank for rediscounts and those that did come came with limited demands; yet, at the same time, the volume of the Federal reserve notes increased. Now who got the credits that were denied to the actual farmers?

Gov. HARDING. The farmers got them.

Mr. WINGO. I have just called attention to the fact that they did not get them.

Gov. HARDING. I think there is 43 per cent of the population of the country that is classed as farm population. Some farmers did not get credits, but other farmers were dealt with more liberally by the banks.

Mr. WINGO. You say this farmer got that which that farmer was denied [indicating]?

Gov. HARDING. It is possible.

Mr. WINGO. I have not been able to find any bank in the United States, in the cotton and wheat belt, where they were granted an extraordinary line of credits over and above what was customary; but, on the contrary, I find they adopted that policy of curtailment of loans all through the cotton and wheat belt.

Gov. HARDING. There are about 30,000 banks in the United States. I know some of them are skin-flints and some are very liberal.

Mr. WINGO. I am talking about the wheat belt and cotton belt. The farmers out there were not given even the normal credits. You say other farmers were given what those farmers were denied?

Gov. HARDING. Yes.

Mr. WINGO. Now, do not the records of the banks show that a good many people—you had the Federal reserve notes going up in volume and had the wholesale prices going down, trade was stopped, and were not a good many merchants given additional credits for carrying over their inventories because there was not any trade and money was not coming in? I know personally of cases where that is true.

Gov. HARDING. Possibly.

Mr. WINGO. Did not the merchants get that volume and was not that responsible for the curtailment of credits to the farmers?

Gov. HARDING. All I can tell you of the increase of Federal reserve notes is that we can tell what the increase was by districts.

Mr. WINGO. What I am getting at is that this volume of Federal reserve notes increased and wholesale prices went down. I am not talking about it as a banking proposition, but looking at it from the standpoint of this committee. It indicated that the farmer was denied these credits. Just leave out who was to blame for it; just admit your contention that the banker did not want to make his customer mad—and there is a lot in that—it is a fact that a good many merchants and manufacturers, in that dull time—and I am not criticizing them—got credits and that swelled the volume of notes when, at the very same time wholesale prices were going down and the farmer was denied credits and his produce was tumbling in price, too. So that the fact your Federal reserve note volume went up, does not indicate that the farmer had an increase in loan privileges?

Gov. HARDING. There are some other figures that enter into it.

Mr. WINGO. What are those figures?

Gov. HARDING. The paper that can be identified as farm paper, held by Federal reserve banks on the 30th of April, this year, $230,000,000, as against $106,000,000 on April 30, 1920.

Mr. KING. Does that include the packers' credits in Chicago?

Gov. HARDING. Oh, no. The packers' credits are entirely separate.

Mr. WINGO. Do you contend it is a fact that the farmers this year had bigger credits than last year?

Gov. HARDING. I do.

Mr. WINGO. Does not that indicate that last year, when we were facing this extraordinary situation, you granted less credits then than you admit now the farmers were entitled to?

Gov. HARDING. No; it does not. The Joint Committee on Agriculture wanted to know about this and we looked it up. The credit is always bigger than we can prove, because all we claim as agricultural and live-stock credits are the credits over 90 days. Now, I have that in my head very clearly. In 1920, up to the 14th of December, the 12 Federal reserve banks had discounted $1,981,000,000 of agricultural and live-stock paper—known to be such because it had a maturity date longer than 90 days—as against $721,000,000 in the year 1919; which does not show any curtailment of farm credits.

Mr. BRAND. How much, at the same time, did you let other folks have?

Gov. HARDING. What was the question?

Mr. BRAND. What were your loans to other people at the same time?

Gov. HARDING. The loans to other people were curtailed in many cases.

Mr. WINGO. Do you mean to say the manufacturers and merchants had a curtailment in their loans last year?

Gov. HARDING. Not until very late in the year.

Mr. WINGO. I say, in April, May, June, and July the manufacturers and merchants had a very large increase in credits, made necessary by the fact business was dead and they were being compelled to carry inventories and pay rolls and had to have money; they were not getting money in from their business, and had to have it from the banks.

Gov. HARDING. They did not have a very large increase of credits to the Federal reserve banks.

Mr. WINGO. They got the volume that was denied to the farmer.

The CHAIRMAN. That was largely the denial of credit by the member banks.

Mr. WINGO. I am not criticizing; I am talking about the facts. The governor says, and I read his statement and thought it wise, they had to undertake to conserve the necessary credits to meet the movement of the crops. Now, the crops came in and here is what happened: On the contrary, they shut down on the farmer out in the wheat and cotton belt, and the manufacturers, wholesalers, and retailers, with bad business, with big inventories—business was dead; there was a cancellation of orders, and no money was coming in from the sales of their products; they had to have and they were entitled to a larger volume of bank credits, but I do contend because their needs were taken care of and the volume of Federal reserve notes increased, it is not an indication that the farmers got it. Whenever you take one dollar away from the farmer and give two to the manufacturer, that does not indicate the farmer got it, because the level of the volume of credits increased.

Mr. DUNBAR. Mr. Wingo, the Secretary of the Treasury, in his annual report, says the loans advanced to agriculturalists increased from February, 1919, up to November, 1920.

Mr. STRONG. You can not make anybody in my country believe it.

Mr. WINGO. With all due respect to him, I think I was in a better position to know, because I spent six weeks, not alone in my State but in other States, in going to the bankers and comparing their statements of credits. And I know they were curtailed. I went with farmers to the banks and I heard them say, to my face, they were carrying out the instructions of the Federal Reserve Board. I am not saying the Federal Reserve Board had given that instruction, but I know what the farmer was told and I know he was denied credit. The thing I protest is that the institutions carrying inventories and the organization expenses they were under, because money was not coming in, because trade was dead, and the manufacturer and wholesaler, with that volume of credits increasing the total volume of Federal reserve notes—that that is a refutation of the statement that the farmer got the credits. Would the Secretary of the Treasury know how many loans were made to farmers by member banks? I know one bank that responded to an inquiry—not a member bank—how much Federal reserve paper it had, that included $350,000 worth of packers paper. And if I have to, I will give the name of the bank.

Mr. BLACK. Here is an experience it might be well to state something about. Last year—I live strictly in a cotton country—when I heard all this criticism of the Federal Reserve Board I went to see the bankers in my home town, whom I know very well, and I asked them that question, if it were a fact that the Federal reserve banks were denying them needed credits, stating that that criticism was being made, and I wanted to know privately from them if it were true, and each one of the three told me that the trouble with their situation had been that credits had been too easy, and they were loaded up too much. I did not intend to make that public.

Mr. WINGO. I struck one or two bankers who, after the man had gone out that had previously made application for a loan, stated that they had endeavored to protect the Government, because they did not want to tell the man that the Government could not do it; but the board did curtail credits, and it looked like they had been on a joy ride, and it was necessary for them to cut down their loans. They did not want to tell the farmer they could not give it to him, but the fact is that the farmer was denied credit. Who is to blame for it is another question.

Gov. HARDING. At one time last fall we had eight Federal reserve banks rediscounting $267,000,000. The Federal reserve bank of Cleveland, a farming and manufacturing district, was putting up $140,000,000. The rest was furnished by Boston and Philadelphia. The money went to Kansas City, Minneapolis, Dallas, Atlanta, St. Louis, Richmond, and Chicago. This kept up right along from last September to December.

The CHAIRMAN. Gov. Harding, Mr. Wingo has made the suggestion that there was discrimination between the farmers and the local merchants of the country. Has the Federal Reserve Board, to your knowledge, ever issued any statement that it would permit discrimination in that particular line?

Gov. HARDING. Never.

Mr. STRONG. As I understand the situation, the Federal Reserve Board states that they did not issue any order to restrict credits, but the governor has been out in the West, and he knows that the people out there feel, and, in fact, they know, that credits were restricted, and they blame the Federal Reserve Board.

Gov. HARDING. Simply because a great many bankers have said that the banks would like to loan the money, but the Federal Reserve Board would not let them. The bankers admit that. Every time I tell that at a bankers' convention they laugh and say: "You ought not to give us away like that."

Mr. STRONG. Then, the bankers out there did restrict credits, and blamed it on the Federal Reserve Board, did they not?

Gov. HARDING. They did not extend all the credit asked.

Mr. STRONG. It ought to be possible to remove their power to misstate the facts to the people by putting in this legislation an amendment stating that the Federal Reserve Board has no power to restrict credits unless it takes regular action, and sends a record of such action to the Federal reserve banks so that there can be no misrepresenting the facts.

Gov. HARDING. As a matter of fact, under section 4 you must admit this amendment gives some right to turn down loans. You certainly would not expect a bank to discount every paper offered to it.

Mr. STRONG. My suggested amendment does not say they shall not turn down a loan, but simply says the Federal Reserve Board shall not restrict credits unless they pass a resolution and make a record; so as to keep the Federal reserve banks and the member banks from putting out the statement that the Federal Reserve Board is ordering the restriction of credits unless such order has been made. The responsibility should be fixed.

Gov. HARDING. I think conditions like we had last year will not happen once in 50 years—I hope not.

Mr. STRONG. What objection would there be to that kind of an amendment?

Gov. HARDING. Well, a strong objection I see to it is that it does not get you anywhere. I do not know of any way to make a bank make a loan it does not want to make. If you go to a member bank and offer it paper it does not want to take I do not know of any way to make it take it.

Mr. STRONG. I do not suggest anything of that kind.

Gov. HARDING. In the same way the directors of a Federal reserve bank have their responsibilities. The law gives them the power to pass on the desirability of paper offered. If the paper is not eligible they can not consider it. That is a matter of law. If the paper is eligible, and they do not think it is good or desirable, then they do not take it.

Mr. STRONG. That does not cover the question I asked you. I am just suggesting that we have stated in the law that the Federal Reserve Board does not have the power to restrict credits, except by the issuance of the board's order sent to the Federal reserve bank. Would not that prevent the Federal reserve banks and the member banks from misrepresenting the facts to the people?

Gov. HARDING. You might just as well put in the act that the banks would not be allowed to misstate facts.

Mr. STRONG. You would not be putting in the act that they should not be allowed to misstate facts, but you would be putting in the act that which would prevent them doing what you say they did do.

Mr. STEAGALL. As I understand, the board has never exercised any such power, and never claimed the right to.

Gov. HARDING. I never knew it had any such power, and never tired to exercise it.

Mr. STEAGALL. Then, Governor, if this resolution were to pass you would not have the power to do it, as prescribed in the resolution?

Mr. STRONG. They ought only to have it in that way.

Gov. HARDING. No; I do not think so.

Mr. GOLDSBOROUGH. As a matter of fact, was not the chief difficulty that the Federal reserve bank assets were largely diverted to the New York Federal reserve bank for speculative purposes?

Gov. HARDING. No; there is nothing in that at all.

Mr. GOLDSBOROUGH. As a matter of fact, did you not get the resignation of the governor of the Federal reserve bank of New York?

Gov. HARDING. We did not.

Mr. GOLDSBOROUGH. It was not gotten by anybody?

Gov. HARDING. It was not.

Mr. GOLDSBOROUGH. It was not gotten by the Secretary of the Treasury?

Gov. HARDING. Never.

Mr. APPLEBY. Let me make a suggestion in that connection: Have you not figures showing that the Federal reserve banks in the various districts, say in the agricultural districts, during last fall and during this period of depression borrowed from the banks in the other sections, the Federal reserve banks?

Gov. HARDING. Yes.

Mr. APPLEBY. If you have them before you, I suggest that you let the committee have those figures.

Gov. HARDING. How much they borrowed?

Mr. APPLEBY. Yes; if your chart shows that.

Gov. HARDING. The chart does not show that. I am just speaking from memory, but the amount was $267,000,000, and the money was furnished, one half by Cleveland and the other half by Boston and Philadelphia, but in 1919 Boston and Philadelphia were heavy borrowers and the agricultural sections were loaning them money.

Mr. APPLEBY. And last year they loaned the agricultural sections money?

Gov. HARDING. Last year it was the other way around.

There has been a great deal of misrepresentation about that New York situation. If the committee wants to know the facts, I shall be glad to furnish them. I have all the facts. It is wholly a question of proportion. There are some very large banks in New York. One bank there has a capital of $50,000,000 and a $50,000,000 surplus, and a reserve balance with the Federal reserve bank of from $75,000,000 to $80,000,000. If that bank borrows $75,000,000 it is only borrowing its own basic reserve.

Mr. WINGO. Do you know anything about what its call loans were?

Gov. HARDING. Yes.

Mr. WINGO. How much were the call loans of that bank last spring a year ago? Do not pick out any particular bank. What were the call loans of those banks in New York City that were getting rediscounts?

Gov. HARDING. It is too long a situation to go into offhand. I have all the figures, and if anybody wants to go into that I would be glad to furnish them.

Mr. WINGO. Just take the concrete fact. It is a fact that as the volume of the rediscounts with the Federal reserve bank increased the volume of their call loans and the rates increased, too, did they not?

Gov. HARDING. No.

Mr. WINGO. They did not?

Gov. HARDING. No, sir.

Mr. WINGO. Did the call loans decrease?

Gov. HARDING. You had better take a day off to discuss that. I have all the data and can furnish them if the committee so desires.

Mr. WINGO. With all due respect, that is the trouble. For over 12 months this question has been discussed, and we can not get a consecutive statement of fact with reference to the matter.

Gov. HARDING. If this committee would pass a resolution indicating a desire to be informed, I will go to work and send up everything we have got on it.

Mr. WINGO. Well, I thought you would know, Governor, whether there was a decrease or increase.

Gov. HARDING. I do know this: I do know that the situation in New York was strained in the fall of 1919, when we were trying to get loans down, but had a 4 per cent rate. I had knowledge of what was going on in New York and went there on the 12th of November, 1919, and I sent for a lot of bankers, and I talked to them, and my being there was known, and the next day there was a slump in the stock exchange, and I was criticized very severely in the papers for my alleged interference.

Mr. WINGO. Is it not true that indirectly they were getting rediscounts for the purpose of making call loans?

Gov. HARDING. In 1919 perhaps, but everything you heard was not true. We have got that all straightened out. All of this trouble goes back to 1919.

Mr. WINGO. You seem to think that I am trying to ask you a catch question. The point I am getting at is this: When you went over to New York is it not a fact, as everybody who was familiar with the situation over there knows, that in spite of the inhibition in the statute, there were some banks in New York that were getting loans——

Gov. HARDING. I will tell you how that happened. It was simply because we tried to regulate the situation on a low discount rate. There never was any question but what the member banks in New York got their loans discounted with the Federal reserve bank. As a matter of fact, the Liberty bond was used as collateral. If the banks wanted to loan money on call, they got their borrowers to put up Liberty bonds with the Federal reserve bank, and the Federal reserve bank can not question a note secured by Liberty bonds. The law says that no paper of an investment character can be taken for discount by a Federal reserve bank, except bonds and notes of the United States, and when a man gives a note secured by a Liberty bond, the Federal reserve bank can not ask any questions.

Mr. WINGO. Is it not true that during that period these banks came up for discounts, and that they would use the proceeds of those discounts for call loans?

Gov. HARDING. When I went there, in November, 1919, I was advised of the position on the street there, which created a bad situation as to street loans; but it is very difficult to control the situation there unless you control it by the rate, and some of us wanted to advance the discount rates.

Mr. WINGO. Governor, if you will pardon me, it is a fact that that is the reason you went over there, is it not? You found that they were coming up with paper like you suggest; in other words, getting Federal reserve notes on Liberty bonds?

Gov. HARDING. On advances which were perfectly good.

Mr. WINGO. Will you permit me to ask a question?

Gov. HARDING. Yes.

Mr. WINGO. It is a fact that that is the reason you went over there——

Gov. HARDING. Yes.

Mr. WINGO. That you found they were coming up and getting Federal reserve notes in a perfectly legitimate manner, but, as a matter of fact, that that was an indirect way of getting money for the purpose of making call loans?

Gov. HARDING. They were not getting Federal reserve notes; they were merely getting a credit.

Mr. WINGO. They were getting a credit?

Gov. HARDING. You do not need any currency to speculate on the stock exchange; it is merely a matter of a book credit.

Mr. WINGO. That is a distinction without a difference, for the purpose of my question. It is a fact that the New York Federal reserve bank was making rediscounts to the New York member banks on perfectly legitimate paper, some of which consisted of Government bonds, and yet those very banks were getting that money for the purpose of loaning it out at higher rates of interest, on call loans, and that is the reason you went over there, is it not?

Gov. HARDING. It is a fact, but that matter was all straightened out about the middle of January, 1919.

Mr. WINGO. In other words, did you have cause to straighten it out?

Gov. HARDING. It did not complicate the situation as far as the farmer is concerned.

Mr. WINGO. I am not asking about that; I am talking about the New York situation. It is a fact that that is the reason you went over there, to straighten it out, and that your action caused a slump on the stock exchange. I commend you for doing it; I am not quarreling with you, but it is a fact?

Gov. HARDING. It was not the fact as to the situation last fall.

I want to explain this situation. A great many people take exception to the large earnings of the Federal reserve banks, 158.4 per cent, claiming that those earnings on $94,000,000 capital was profiteering, etc. Our capital was $94,000,000, and the net earnings $149,000,000, or 158.4 per cent, before paying taxes. The law says that the Federal reserve banks shall pay no taxes except on real estate, neither Federal, State, municipal, nor county taxes. After they accumulate 100 per cent surplus they are required to pay 90 per cent of their earnings to the Government as a franchise tax, so in considering these earnings bear in mind that they represent earnings before paying taxes, and the earnings were $149,000,000, and average capital stock $94,000,000.

Let us see what is the evidence regarding these earnings. The Federal reserve banks do a legitimate business. They did not take $94,000,000 and manipulate it over a period of 12 months, and make $149,000,000 out of that amount. They made these earnings out of their notes in circulation and out of their loans and investments. In order to keep these note issues in circulation, and to make loans and investments, we have had to maintain certain reserves. Here are your $149,000,000 earnings, and here is your capital, $94,000,000, surplus, undivided profits on hand during the year—previous accumulations—of $143,000,000, and the member banks' reserves $1,835,000,000, which the member banks had to keep with the Federal reserve bank, making $2,100,000,000, contributed by the stockholders—the member banks.

Starting with the stockholders' contributions, the net earnings were 7 per cent. But the Government was a partner in this proposition. The Government contributed the use of the Federal reserve notes—its own obligation—and the average amount of Federal reserve notes kept in circulation by the Federal reserve banks, during the year 1920, was $3,146,000,000. The net earnings of $149,000,000 are 4.7 per cent of the Federal reserve notes in circulation during the year 1920.

The Federal Reserve Board is authorized under section 16 to impose an interest charge against the Federal reserve banks on that part of the Federal reserve note issues outstanding not covered by gold. Last year we could have imposed an interest charge on about $1,800,000,000 of Federal reserve notes, which was the amount secured by commercial paper instead of by gold. If we had imposed an interest charge of 5 per cent, we would have reduced the earnings of the Federal reserve banks by $90,000,000. We did not do it because the Government gets the excess profits anyway. The stockholders are only entitled to 6 per cent on the par value of their stock. That is all they can get. We did not want to do anything to impair the free circulation issue of currency in the situation we had last year. We are not required to put an interest charge on; it is optional with us. If you take into consideration everything which entered into the situation enabling the Federal reserve banks to transact the large volume of business they did in 1920, capital, surplus, undivided profits, reserve deposits of member banks, Federal reserve notes, on a total of $5,218,000,000, the net earnings of $149,000,000 were 2.9 per cent before paying taxes.

Mr. Brand. The Federal reserve banks are a Government-owned institution so far as the extending of credits is concerned?

Gov. Harding. No.

Mr. Brand. In other words, the United States extends 80 per cent of the credit available?

Gov. Harding. The Federal reserve bank is an institution owned by the stock-holding member banks. The Government has not a dollar's worth of stock in it.

Mr. Brand. But it extends the credit?

Gov. Harding. The law prevents profiteering by limiting the amount of dividends which a member bank can receive to 6 per cent. The law provides that after they pay dividends the Federal reserve banks may keep their earnings until they have accumulated a surplus equal to 100 per cent of their own subscribed capital, and that thereafter they shall be required to pay the Government 90 per cent as a franchise tax, and in the event of liquidation of a Federal reserve bank the law states that the member banks who own it are entitled to receive only the par value of their stock and any accrued dividends that are due then, and that all other assets, which includes surplus, of course, become the property of the Government of the United States.

Mr. Strong. But there is no limit to the salaries they can pay?

Gov. Harding. No limit prescribed under the law.

Mr. Strong. A man can have his stock in the bank, and get 6 per cent on it, and pay himself a salary besides, of course.

The Chairman. Is there any truth in the statement that they are paying exorbitant salaries to the officers of these banks?

Gov. HARDING. I do not know of any case where any officer of a Federal reserve bank is getting anything like the salaries that the officers of the big banks in the same cities get. This is a matter which has been reported to Congress year by year. We have given the list, and have never held anything back.

The CHAIRMAN. Are they paid unreasonable salaries? They may not be paid as much as somebody else, but are they being paid salaries that are unfair?

Gov. HARDING. It costs a good deal to live in Chicago or New York. Whenever I go to New York for a day or two I am allowed an expense account of $4 a day, and I do not get out whole on that.

Mr. KING. Was the governor present at a recent meeting of some bankers at the Willard Hotel, at which Mr. Arthur Reynolds, of Chicago, made an address, a short time ago, which was printed in the press?

Gov. HARDING. No; I was not present. I was in New York.

Mr. KING. Gov. Harding, I heard that statement he made, which was sent broadcast throughout the country, in which he said: "Of course, we large bankers all understand that we are not to extend credit to the farmers to enable them to get higher prices for their produce."

Gov. HARDING. That may have been his understanding of it. I do not know whether anybody else so understands it or not. I do not undertake to control Mr. Arthur Reynolds's views.

Mr. KING. I am just repeating what he said. Of course, that is not your idea, and it is not our idea here. Governor, you mentioned something in regard to sugar. The high price fell in May, I think, 1920. You have spoken about how the price of sugar dropped, and how it went up, and how it was shipped in from foreign countries here to get this high price. Would you mind explaining to the committee just how that was and what reduced the price of sugar? Did not the Federal Reserve Board do it, and did you not have a meeting upon the subject of sugar, where it was especially discussed? How was that high price of sugar maintained in a financial way?

Gov. HARDING. I presume it was maintained by holding it back from the market as long as possible. The break occurred not in May, but in August and September.

Mr. KING. We have had the idea that they were financed through the Federal reserve banks. Is not that so?

Gov. HARDING. I do not know whether they were or not; it is difficult to tell.

Mr. KING. They could have done that, could they not? They would either have to have the money themselves, to hold it, or have to discount their notes.

Gov. HARDING. I presume those who were holding sugar off the market borrowed from member banks, which rediscounted with the Federal reserve bank. I do not know whether they did or not.

Mr. KING. The propaganda was that there was no sugar in the market, there was no production, etc., but suddenly it began to fall, and I understand you folks had something to do with it. It is very creditable if you did, and I have been keen to ascertain the method in which you did it.

Gov. HARDING. We were forced, Mr. King, this time last year to make an effort to take care of the situation as a whole.

Mr. KING. Is it not a fact that the Federal reserve system can control the price of commodities in this country?

Gov. HARDING. I do not think so. I do not think the Federal reserve system has got any business trying to be the arbiter of prices or industry. We always try to carry out the provisions of the act, and have the Federal reserve banks function exactly as they ought to function, which is a pretty hard job.

Mr. NELSON. There has been considerable discussion in the commercial papers and other quarters in regard to increasing the limit of time on farm paper from six months to nine months. Has that ever been in any way brought up to the Federal Reserve Board for consideration with respect to the advisability of it?

Gov. HARDING. We have discussed that and we feel that would be inadvisable. In the first place, there is nothing in the law to prevent the renewal of six months paper. If six months is not long enough let them renew for three months, but this thing was all thoroughly considered at the time the act was originally drafted. It is a commercial banking proposition, and you must recollect, after all, that all these banks have demand obligations to their depositors. There has not been much said about the bank depositor in the last year or two and yet he has got to be considered; and if you extended the time on notes which are eligible for discount at the Federal reserve bank to nine months, somebody will say, "Why not make it a year?" And the first thing you know they will want two years in order to take care of the breeding of cattle which ought to be taken care of; but I do not think that is the way to do it. If you open the doors you will let in building operations and everything of that kind, and get the Federal reserve system so water-logged that it would not be of any use to anybody.

Mr. WINGO. Governor, the Federal reserve system has two major functions. Both of them are based on the business of commercial banks, not on the business of investment banking?

Gov. HARDING. Absolutely.

Mr. WINGO. The first function is to conserve the reserves of the short-time paper banks, and the other is to afford them a sure rediscount market in time of need?

Gov. HARDING. I will tell you what I would do if I were in the banking business. If I had some six months paper, I would have it rediscounted at the Federal reserve bank, and when it came due, if the maker wanted to renew it for three months longer, if I thought it was a meritorious case and let him renew it, I would see that the Federal reserve bank rediscounted the note if I wanted it done, or I would know the reason why.

Mr. BRAND. You did not do that last year, when cotton went from 40 to 43 cents per pound to 12 to 14 cents?

Gov. HARDING. The policy was pursued, but, Mr. Brand, unfortunately, our people down there—let me tell you——

Mr. BRAND. We were destroyed because you would not allow them to do it.

Gov. HARDING. We did allow them to do it.

Mr. BRAND. Not according to what the member banks say.

Gov. HARDING. It was done. Let me tell you what happened. It goes away back to April, 1920. They had a meeting down in Montgomery, Ala., last April and talked about cotton, and they talked about it being worth 60 cents a pound, and I think they passed a resolution fixing the minimum price at 40 cents a pound, did they not?

Mr. BRAND. Yes.

Gov. HARDING. Everybody was encouraging farmers to produce, and yet the cost of production was the highest in the history of the whole country. I was asked to go down there and make a speech. I wrote to the man who asked me down there and told him I could not make the kind of speech he wanted me to make. He wanted me to say something, so I wrote an essay on orderly marketing and sent it down there. I do not know whether it was read or not.

Then by September several letters were exchanged between this gentleman and myself—you know to whom I refer—and I told him that as a man from a section whose prosperity depended so largely upon cotton, I was naturally sympathetic with his objects, but that I could not see to save my life how he was going to work out his program; that I could not do what they wanted me to do, and that I thought the best thing I could do for them about the cotton situation was to say nothing whatever about it, and I hoped they would not force me to say anything about it.

A delegation came up here in September to see the board, and they wanted a statement from me and they wanted press representatives present. They put up a terribly poor mouth. I told them that I thought that was not a very wise way of talking; that when you had things to sell you did not want to go out and say that you were in a bad fix and would go broke unless you could get a certain price. I have heard people talk that way to the tax assessor, but you do not want to talk that way to the man who is expected to buy your stuff or the man whom you want to get credit from. If you go to a banker and put up a poor mouth like you do to the tax assessor, you do not get any credit. They all took this in a good-humored way and the meeting passed off pleasantly enough.

When I went down to Birmingham in October I was asked to advise everybody to hold cotton and to say that the resources of the Federal reserve system would be back of the cotton producer until cotton got back to 30 or 40 cents a pound. Now, I could not say anything like that, and I did not, and I told them so. I talked to officers of banks, and said, "You have got a bad situation here, but you must handle it as discreetly as possible." When producers could have sold for 16 or 18 cents a pound, I could not advise them to do so and say they would be making a mistake not to do it, nor could I tell them to hold on to their cotton until it went to 30 or 40 cents a pound, because if it went down everybody would have blamed me and would say, "If you had not told me to hold my cotton, I would have sold it and gotten more money for it." It was one of those things that I could not say anything about. That was all there was to it. I certainly could not say that the resources of the Federal reserve system would be back of them until cotton went to 30 or 40 cents a pound.

Mr. BRAND. When the farmer's paper matured, Governor, at one of your member banks, is it not true that they had instructions from the board not to extend any further credit on those loans?

Gov. HARDING. No, sir.

Mr. BRAND. Because they were not distributing the crop in an orderly manner, according to the board's ideas and directions, but were holding it for speculative purposes?

Gov. HARDING. No; we gave no instructions about that. It was a matter that was handled by the directors of the Federal reserve bank of Atlanta.

Mr. DUNBAR. There was a bank clerk of Louisville, Ky., who had purchased $14,000 worth of Liberty loan bonds. He borrowed the money from another bank than the one in which he was employed, and I think owed them $12,000. He was not paying up as rapidly as the bank thought he should. He received a notice from that bank, telling him they would have to call his loan because they had been instructed to do so by the Federal Reserve Board at Washington. I received a protest, and in company with Congressman Ogden visited the Federal Reserve Board, and also the Secretary of the Treasury. They told us no such order had ever been issued, and that the bank was using that means to get the fellow to pay his debt. Now, that corroborates some of the things you have said; bankers move along the line of least resistance. I immediately wrote and told the gentleman the authority I had for the statement that neither the Federal Reserve Board nor the Treasury Department had authorized the bank to make that statement to him.

The CHAIRMAN. The bill we have under consideration here is 4906. I want to ask the governor some questions concerning this before he leaves.

Mr. WINGO. As I understand from our discussion here your trouble seems to have been that you have been cursed for exercising power that first of all you did not have, since you did not tell the member bank how much it should loan to A and B and when it should make them pay it?

Gov. HARDING. Yes.

Mr. WINGO. You do not make any contention that you have got that power, do you?

Gov. HARDING. No.

Mr. WINGO. And it would be contrary to the philosophy of the Federal reserve act system for you to have that power?

Gov. HARDING. Yes, sir.

Mr. WINGO. You are not asking for it, are you?

Gov. HARDING. No.

Mr. WINGO. I did not think you would in view of the trouble you have had.

Mr. ECHOLS. We have had a good many statements, Governor, as to the contraction of credit to the farmers. I understand your statement to be that credit has not been contracted. Is that so?

Gov. HARDING. As far as the Federal reserve banks are concerned. I do not know what individual merchants or what individual banks have done.

Mr. STRONG. But the Federal Reserve Board has not used its influence to encourage the Federal reserve banks to extend credits to the agricultural interests?

Gov. HARDING. On the contrary, we have always pointed out that agriculture was a basic, fundamental industry, and it ought to be encouraged right along, and we have done everything we could properly to take care of the farmer.

Mr. LUCE. For such light as it may throw on our problem, will you tell me if you have any information as to the operation of section 24 of the Federal reserve act, which authorizes loans on farm lands by comparatively small banks? Is there any considerable volume of such loans outstanding?

Gov. HARDING. I do not know. The Comptroller of the Currency gets reports of those loans; we do not get reports from the member banks direct.

Mr. LUCE. This seems to be in conflict with the general system of banking, so far as I am familiar with it. This seems to be a permission for long-time loans.

Mr. BLACK. It is only a very small proportion of the loans, however.

Mr. LUCE. Does anything now stand in the way of the banks meeting the present farming situation by using this section?

Gov. HARDING. Those loans made under the designations of section 13 are eligible for discount at the Federal reserve bank. Those loans made by the national banks under section 24 of the Federal reserve act are not eligible for discount under the classification made in section 13 of the act.

The CHAIRMAN. It is a fact, however, that the banks in the agricultural districts are availing themselves of that section of the law.

Gov. HARDING. They are making extensive loans on real estate, but they are not eligible for rediscount.

The CHAIRMAN. It would not be advisable to permit them to be rediscounted, would it?

Mr. WINGO. That is investment paper; it is not commercial paper.

Gov. HARDING. Very often the small banks find first-class mortgage paper a pretty good asset to have. In times of scare, or anything of that sort, a man will come in looking around for something that he would like to buy, and you can very often sell a good mortgage paper if taken on a good basis.

Mr. STRONG. But very few of the banks keep it. They occasionally buy a good farm mortgage and sell it at a profit, or they take a farm mortgage to secure a debt already contracted, or to secure a credit they have already extended, but they do not, as a general proposition, make farm loans.

Mr. BROOKS. Do you think the banks ought to be compelled to loan a certain amount of their funds on mortgages?

Mr. STRONG. Of course I do not.

The CHAIRMAN. With respect to the discussion of this bill, you have been very generous in answering questions, but the committee desires to ask certain questions, first, about the creation in this bill of an Undersecretary of the Treasury, and making him an ex-officio member of the Federal Reserve Board. Would you care to give the committee your views on that proposition, without prejudice, of course?

Gov. HARDING. I would like to have it understood that I am not here either to advocate or oppose the bill, and I do not want to discuss the organization of the Treasury Department. It is none of my business. But if the position of Undersecretary of the Treasury should be created it seems to me he would be a logical man to have as ex-officio member of the Federal Reserve Board, because the Federal reserve banks have to exercise not only fiscal-agency functions, but since the subtreasury has been abolished they exercise the functions of a subtreasury. The Secretary of the Treasury himself is an exceedingly busy man, and since 1917 we have had four Secretaries of the Treasury, and I do not think that any of the four has attended as many as a dozen meetings of the board since 1917. They are too busy to come in. An Undersecretary of the Treasury who, of course, would be subordinate to the Secretary and in touch with the Treasury policies, and who would have supervision probably of some particular branches of the Treasury, such as fiscal-agency bureaus and finance matters, I should think would have more time to come to the board meetings than the Secretary would, and would keep in touch better with the discussions of board policies and represent the Treasury in anything that came up. It occurs to me that it would be a very logical assignment if such a position were created in the Treasury Department.

Mr. WINGO. If we were to create the office of Undersecretary of the Treasury and provide that he should discharge such duties as might be imposed on him by law, and such other duties as may be assigned to him by the Secretary of the Treasury, then that would permit the Undersecretary to sit on the board in the absence of the Secretary, and if occasion should arise where the Secretary felt like it was necessary for the head of the Treasury to be there in person, that would meet the situation, would it not?

Gov. HARDING. Would a man have a right, then, to give a proxy for his vote?

Mr. WINGO. If he is not present. We can authorize him to act in behalf of the Secretary. We can provide for that by law.

Gov. HARDING. As far as that is concerned, the board could send an invitation to the Assistant Secretary of the Treasury now to sit with it, and it does now sometimes extend an invitation for him to come in when we are discussing some question we would like to have the Secretary familiar with, but he has no vote.

Mr. WINGO. That is the point I was getting at.

Gov. HARDING. I will say this, though, that the plan of having two ex-officio members on the Federal Reserve Board, with five outside appointive members, has not always worked well, because it requires the appointive members of the board, in order to make a quorum, to sit here too steadily. The Secretary of the Treasury and the Comptroller of the Currency are both very busy men. They have not been as regular in their attendance as the other members of the board are. As I said before, it is very seldom that the Secretary comes in. The present Comptroller of the Currency is more regular in his attendance at meetings, but often he can only attend in part, because he has many duties in his own office that take up his time. It is important, I think, that the members of the Federal Reserve Board do not sit in Washington all the time, but they ought to go out over the country, visit the reserve banks and branches, and find out what the people are thinking about.

I have just gotten back from a two weeks trip, and I am glad I took it. I met a good many people, and I received some first-hand impressions, and have seen and heard some things which will be useful. I am going next week to Des Moines, Iowa, and will be gone about four days. But we have got to maintain a quorum here at all times to do business as the Federal Reserve Board. The Attorney General gave an opinion some time ago that it took a quorum of all the members to transact business. We have 24 Federal reserve branch banks, and it is a big job to keep in touch with all of them.

You can not visualize the country over the telegraph wire unless you do get out and see something of it once in a while. You have got to keep in touch with what is going on. I am away a good deal of my time in this way.

Mr. WINGO. I agree with you about that, and I hope every one of the members will go.

Gov. HARDING. For the first time we have now a board member from the wheat section, who used to be a banker in St. Paul, Mr. Mitchell. It is his intention to go out to Minneapolis and Chicago once a month in order to keep in touch with things. Other members try to keep in touch with the other reserve banks. San Francisco is so far away that members can not go out there very often, but we have a very able Federal reserve agent out there, and have private wires, and thus keep in touch with the situation very well. But if we have two ex officio members whose attendance is irregular, and who can not give all their time to the board, it is difficult for the other five to keep up the personal contact I think we should over the country and maintain a quorum here at the same time.

The CHAIRMAN. You do not understand. The bill provides for abolishing the office of comptroller, and taking off one ex officio member, and provides that the Assistant Secretary of the Treasury shall be an ex officio member of the board.

This bill provides that the same plan shall be continued in regard to the designation of the governor as heretofore. There has been some discussion, however, in regard to the proposition of permitting the board to elect its own officers. Would you care to express yourself on that? I am simply propounding these questions because they have been discussed in committee.

Gov. HARDING. There are two angles to that. I think what would probably happen if the board elected its own officers is that the executive officer of the board, whether you called him the governor, chairman, or whatever title you gave him, would probably rotate just like the Interstate Commerce Commission chairman rotates, and the chairman of the Federal Trade Commission. That might be a good plan. Then, again, it might be wrong, because the governor of the Federal Reserve Board ought to be a man—I do not know whether he has been hitherto or not—he ought to be a man of some executive ability. It is a pretty big business, and some men might be able to handle the executive end of it better than others.

Mr. APPLEBY. It would be a good deal like the Supreme Court, Mr. Chairman. The President designates the Chief Justice. It is an almost parallel case. Your board is a good deal like the Supreme Court of the United States.

Gov. HARDING. I do not know how they do it. It is not a position that I expect to hold forever, and I am entirely unbiased in my view.

Mr. WINGO. As a matter of fact, the whole board is busy?

Gov. HARDING. The whole board is busy, and the work of the board can be facilitated or held back very largely according to the push and going power of the governor of the board. He is the executive officer under the law.

Mr. WINGO. The board would be more efficient by allocating the work and then keeping one man in a particular line of work, because you are all busy?

Gov. HARDING. Yes.

Mr. WINGO. A man might be a very valuable member of the board, or possibly the most valuable member of the board, and yet not have the peculiar qualifications or executive ability necessary to be governor?

Gov. HARDING. I have one such case in mind. One of the ablest members of the board has said that he has no fondness for executive work. He does not say he has no executive ability, but that he has no fondness for executive work.

Mr. WINGO. In other words, it is the same with that board as any other group of men.

Gov. HARDING. If you put it up to the board to elect its own governor, I do not see how they would get out of the rotation idea.

Mr. APPLEBY. Mr. Chairman, may I bring up a point, that if the Federal Reserve Board has the power to buy land and build buildings, why could not the $3,000,000 item here be left out of the bill?

The CHAIRMAN. We are just coming to that item now. Gov. Harding, we had some discussion about this clause in the bill which gives authority for the assessment against the earnings of Federal reserve banks for the purpose of constructing a building to house the Federal Reserve Board here in Washington. Now, if you do not mind, the committee would like to know something about the conditions in the Treasury Department now, and your needs, and all the information that you can give us on that subject.

Gov. HARDING. Under the law, the Federal Reserve Board is not a Treasury bureau. We are only in the Treasury by virtue of a clause in the Federal reserve act, which gives the Secretary of the Treasury authority to allocate quarters in the Treasury Building to the board. There are Treasury bureaus outside of the Treasury Building. The Farm Loan Board has quarters in another building. Many bureaus have been required to take quarters in other buildings for lack of room in the Treasury Building. The quarters we have are the best the Treasury can give us, and they are all right as far as they go, but they are totally inadequate. It is a pretty big business that the Federal Reserve Board is supervising now, as will be seen in the annual report for 1920. Our Division of Reports and Examinations is in the National Theater Building—I forget the name of it; it was in the Southern Building and got dispossessed there and moved about six weeks ago down to the National Theater Building. We have the Division of Research in New York. We located it there during the war when we could not get quarters here. We would like to move it here, and concentrate everything, if we could get the space. We have taken up this question in a practical way by going to the Comptroller of the Treasury and pointing out our needs. You see, all our accounts and vouchers are under the Treasury audit, and we asked the comptroller, "Suppose we levied an assessment on the Federal Reserve Banks, and they paid it; we would have to cover that money into the Treasury. Then suppose we should use that money in payment for a lot or a building, would you let it go through?" Well, he studied the question, and advised us that he would not; that we had no authority to do it. He went a little further and said that we had authority, of course, to rent buildings, but we had no authority to take title. We can not take title in the name of the Federal Reserve Board. All title must be taken in the name of the United States, and in order for a purchase of property to be made and title taken in the name of the United States there must be congressional authority for it.

Mr. APPLEBY. So this $3,000,000 building could not be put up unless you have congressional authority?

Gov. HARDING. The Comptroller of the Treasury says we have no right to assess the banks for building purposes. He says we have the right to assess them on a leasing proposition. We have a perfect right to go out and lease quarters, but we have no right to erect a building ourselves, and we have not any right to take property in the name of the United States.

Mr. FENN. When Mr. McAdoo was Secretary of the Treasury there was a report in the newspapers that they had bought half a block of ground in between Pine, Cedar, Nassau, and William Streets. Did they ever buy the ground there?

Gov. HARDING. Yes; the Federal Reserve Bank of New York has that ground.

Mr. FENN. The New York bank took it , did it?

Gov. HARDING. The Federal reserve bank took the title. That is a different proposition.

Mr. FENN. The New York Bank took it, did it?

Gov. HARDING. You gentlemen might be interested in the law on this subject. I think Mr. Wingo will probably agree with this, although I have never consulted with him about it, but we have had that law a nalyzed, not with the idea of trying to do anything, but just in order to know what the law did mean. There is nothing specific in the law to require the Federal Reserve Board to sit in Washington, but it says that the first meeting of the board shall be in Washington, and that the Secretary of the Treasury may allot quarters to the board in the Treasury Building. Under the general audit proposition if the whole board had quarters across the river over in Arlington County we could do a great many things then that we could not do now, but it seems that all boards located in the District of Columbia have certain restrictions thrown around them that governmental agencies outside of the District of Columbia do not have.

There is a difference between the Federal Reserve Board and a Federal reserve bank, a very decided difference. The Federal Reserve Board is an official body whose members are appointed by the President of the United States and confirmed by the Senate. Of the 9 directors of a Federal reserve bank 6 are elected by the member banks; 3 of them are appointed by the Federal Reserve Board and none have to be confirmed by the Senate. The Federal Reserve Board is given the franking privilege by the Postmaster General, whereas the Federal reserve banks are not. They are treated as private institutions. Section 4 of the Federal reserve act confers upon the directors of the banks certain privileges. It confers upon them all the powers ordinarily appertaining to directors of a banking institution, and confers upon the Federal reserve banks all the powers incidental and necessary for the conduct of the banking business.

Now, it is a well-recognized principle that a bank must have quarters to do business in, and the Federal reserve banks have grown so and have so many functions to perform for the Government, the subtreasury and so on, in addition to their own business, that they must have quarters built for them.

Mr. FENN. In other words, if you had a Federal reserve bank in Washington, if it was possible to have one located here instead of Richmond, a regional bank, then you could go out and build your building in this city, because it happened to be one of the cities where a regional bank was located.

Gov. HARDING. If the Federal reserve bank of Richmond should establish a branch of the Federal reserve bank of Richmond in Washington, the Federal Reserve Board would have the power to authorize the Federal reserve bank of Richmond to acquire property for its branch, and the board could lease quarters in the branch bank building.

Mr. FENN. Under the present law, the board has not any power to spend $3,000,000 unless authorized in this act, is that the idea?

Gov. HARDING. No, sir; we have not.

Mr. ECHOLS. The Government has provided room for the regional banks, but not for the Federal Reserve Board?

Gov. HARDING. We could take a 99-year lease, or anything that looked like a lease and did not convey title to the United States.

Mr. WINGO. You could take a long lease, but you could not take that long a lease, because Congress has held that a 99-year lease is the same as title.

On the question of your seat here, I must disagree with the proposition that you might establish your headquarters elsewhere, because under the law your headquarters are in Washington.

Gov. HARDING. Possibly so, but possibly what it means is that the board is not limited in the exercise of its functions to Washington. For instance, if we elected to have a meeting in New York or Chicago, and a quorum of the board was present, that would be a legal meeting of the board.

Mr. WINGO. It might be, but the legal domicile of the Federal Reserve Board, like every other governmental agency, is in Washington, unless the law specifically authorizes to the contrary, because this is the seat of the Government.

Mr. BRAND. Can a member bank erect a new building in which to carry on its business without permission first being given by the Federal Reserve Board?

Gov. HARDING. Could a Federal reserve bank erect a new building?

Mr. BRAND. Yes; without permission of the board?

Gov. HARDING. Possibly it might. We have had that looked up very carefully. As a matter of fact, they do not; they always get authority from the Federal Reserve Board.

Mr. LAWRENCE. May I inquire what rent is paid in the city of Washington, and what is paid in the city of New York, so that we may have some information on that proposition?

Gov. HARDING. We do not pay any rent for our main quarters in the Treasury Department.

Mr. FENN. You have authority from the Treasury to use those offices?

Gov. HARDING. Yes. We pay roughly $2,000 a month rent in New York. We have our force here in two buildings. We have a part of four floors in the National Metropolitan Bank Building, where we have an assembly room on the seventh floor. Whenever we have a meeting, for instance, of the governors of the Federal reserve banks or of the Federal reserve agents we have not any place in the Treasury to accommodate the meeting; we have to go across the street to the seventh floor of the Metropolitan Bank Building. I forgot to say that we pay about $2,250 a month for the space we use in that building.

Mr. DUNBAR. How much earnings does the Federal reserve bank of New York turn in to the United States?

Gov. HARDING. $1,700,000 in 1918. In the early part of 1919 we had about $26,000,000 ready to turn over to the Government, when Congress amended the law so as to allow the Federal reserve banks to keep all their earnings until they had 100 per cent surplus, so that we did not pay anything more until January of this year, when we paid something over $60,000,000. We can not tell what we are going to be able to pay for this year, because we do not know what the volume of business is going to be or what the discount rates are going to be, but up to date, so far, I should say we have something over $40,000,000 ready to pay to the Government, and probably on the 1st of July, if the Government wants it then, it would be in the neighborhood of $45,000,000.

Mr. DUNBAR. Then, you will have paid in more to the United States Treasury than the capital stock of your banks?

Gov. HARDING. Yes; certainly.

Mr. BRAND. If the curtailment of credits is not responsible for it or the forcing of loans to be liquidated, would you mind giving your opinion of the cause of the great slump in the price of agricultural products, including wheat, corn, and cotton?

Gov. HARDING. Well, I think that the condition of foreign affairs was partly responsible for it. The economic waste and destruction of wealth and property by the war is estimated anywhere from $300,000,000,000 to $350,000,000,000; anyhow, it is an amount greater than the national wealth of the United States, and we can not get back to a normal basis until that vacuum has been filled up and a vacuum of that sort can not be filled overnight.

Mr. BRAND. I understand that.

Gov. HARDING. It is going to take time for the readjustment. We got somehow a false start in 1919. We got off on too inflated a basis. Operating costs were too high everywhere, and everything the farmer had to use in his business was high.

Mr. BRAND. What caused cotton to go, say, from 40 or 42 cents a pound down to 12 cents in two or three months if it was not the curtailment of credits? God knows if this is not true. I do not know and have never been able to find out.

Gov. HARDING. You will remember that cotton was the last of the great staples to fall. Silk and wool both fell before cotton did.

Mr. BRAND. But it went like the devil when it did start.

Gov. HARDING. I know it did, but what happened was that the people quit buying cotton goods. It was due again to the falling off of consumption. Our exports of raw cotton fell off. England got into all sorts of difficulties, strikes, and everything of that sort, and England has been taking care of the Egyptian cotton as well as our own. The English situation was bad, and the export trade in cotton fell off sharply. Cotton is particularly affected by export conditions. In some sections I suppose that cotton is 80 per cent exported. In our section I suppose it is more than 45 per cent exported, but of the total yield the amount exported averages over 50 per cent. The export demand was not as good as it ought to have been. We were cut off from Germany as a market for our low-grade cotton, and low-grade cotton has been used mainly in Germany because they have got the machinery there for working it up that other nations have not. And then there was the world-wide reaction against the high cost of living, and people began to economize and did not buy as much as they did before.

Mr. BRAND. But the high cost of living did not affect the retailers in my country during the months when cotton went down so rapidly.

Gov. HARDING. What is that?

Mr. BRAND. I say the efforts to reduce the high cost of living did not affect the retailer during those three months when cotton went down so rapidly.

Gov. HARDING. And that is one of the problems now. The people are complaining that although the producer has been cut to the bone they do not get the benefit of the low price. The readjustment has been unequal. In a condition of that sort there are only two things that can happen. There has got to be a leveling of prices. The things that are abnormally low have got to go up, and the things that are abnormally high have got to come down, until they meet on some common level.

You know normally there is an interchange between one thing and another, and there is an exchange of goods for services. To show you how disproportionate things are, when I was in Kansas City the other day I met a man from Oklahoma who just said he had gotten a shave and hair cut, and he said he had gotten a shave and hair cut in the same barber shop a year ago—he did not say whether he had gotten any in the meantime or not; I suppose he had—anyhow he said that when he was there in 1920 he paid 75 cents for a shave and a hair cut, which at that time could be paid for by selling half a bushel of corn. He said, "This morning I got a shave and a hair cut, and the prices had gone up to 90 cents, and to pay that was like selling three bushels of corn." You see there the disproportion of the value of goods and services in one instance.

Take the case of hides. From the State of Washington I saw a banker the other day who said that after paying the freight on a carload of hides from the State of Washington they got just about enough money for the whole carload of hides to pay for one pair of shoes.

Mr. BRAND. It seems to me the farmer of this country is the only man who got hurt.

Gov. HARDING. Don't worry too much about that. A great many people got hurt.

Mr. BRAND. Who else outside of the live-stock raisers?

Gov. HARDING. A great many international bankers have been hard hit. A great many domestic banks have charged off tremendous amounts, and a great many merchants have been hard hit. Manufacturers have been hard hit and much labor is unemployed.

Mr. BRAND. It was the banks in the agricultural section that went broke—largely in the West, Middle West, and South.

Gov. HARDING. The banks that charged off the largest amounts were banks in the big cities. They have charged off tremendous amounts. I know of one big mail-order house that charged off nearly $10,000,000 on the 1st of January.

Mr. LAWRENCE. On inventories, you mean?

Gov. HARDING. On inventories; yes.

Mr. STRONG. They made it when they went up on their prices.

Gov. HARDING. Many of them set aside reserves for a depreciation account during their good times.

The CHAIRMAN. Gov. Harding, you have been very generous, but it is getting late, and we might go on for a week discussing this question of inflation, etc., which is all very interesting, but the main point in the bill under discussion is the question of the abolishment of the office of the Comptroller of the Currency. Some members of the committee have some views about the harm of that, and other members are in favor of it, and I am sure that some of us want to ask some questions about it, and they would like to get your views on it if you care to express them.

Gov. HARDING. I feel, really, Mr. Chairman, that this is a matter that the Treasury should express its views on, if it has not already, rather than the Federal Reserve Board. I will point out, though, some little inconsistencies in the law, as it now stands. The Comptroller of the Currency is required by law, section 5240 of the Revised Statutes, to examine the national banks, and to make at least two examinations in each calendar year, and oftener when required.

The Federal Reserve Board and the Federal reserve banks, while not required, are authorized to examine all member banks, State as well as national, and the Federal Reserve Board is also required to examine all banks authorized under section 25 and 25a of the Federal reserve act, foreign-trade banks under State and national charters, and the Federal Reserve Board is also authorized and required to examine the Federal reserve banks. The Federal Reserve Board is charged by law with the duty not of appointing the national bank examiners, but of fixing their salaries, upon the recommendation of the comptroller. We have the power now to examine any national bank, but, as a rule, we do not do it, because if we get a report from the Comptroller of the Currency we assume his examination would be as good as ours, and if we examined the national banks, in addition to the two examinations the comptroller is required by law to make, it would keep the banks under examination all the time, which might be very expensive to them, so availing ourselves of our discretion, we do not, as a rule, examine the national banks. We do sometimes, if the examination by the comptroller and the report furnished has not been satisfactory, but, as a rule, we do not examine the national banks, although we have the power to do it. But we have to keep a large examining force to examine the Federal reserve banks, and we have to examine to-day all the State banks which are located in places where they do not have satisfactory State examinations, and, as I said before, we approve the salaries of all the national bank examiners who are directed, however, by the Comptroller of the Currency.

If a national bank reduces its capital stock, that is certified to the Comptroller of the Currency, and it has to be approved by the Federal Reserve Board. The Federal Reserve Board has no voice whatever in the chartering of new national banks. The law requires that any State bank which makes application for admission to membership in the Federal reserve system shall have its application approved by the Federal Reserve Board, but a national bank can be organized under permission of the Comptroller of the Currency and come into the system, and we have had cases happen in more than one district—Boston and Minneapolis I have especially in mind—where the Federal reserve bank has written, pointing out reasons why a charter should not be given to people who proposed to organize a bank, pointing out that the State bank superintendent had declined to issue a State charter, and the Comptroller of the Currency in several cases has issued a national bank charter, and forced those national banks as members upon the Federal reserve bank, which did not want them.

Mr. WINGO. What was the matter, their paper was not good?

Gov. HARDING. I am told that in one district, after the comptroller had permitted certain banks to be organized which had been objected to by the Federal reserve bank, inside of six months he had all of them on the special list for frequent examination. The business ability and character of the men back of them was not satisfactory.

I think cases happened also where State banks have applied for membership in the Federal reserve system, and the Federal reserve bank has turned them down, and the Federal Reserve Board has turned them down on account of the unsatisfactory condition of the State bank. Then they have gone to the Comptroller of the Currency and asked for the privilege of converting them into national banks, and he converted them into national banks and forced them on us as members after we turned them down.

Mr. BROOKS. Has it not been the policy of the Comptroller of the Currency to put all the State banks out of business?

Gov. HARDING. I could not say that.

Mr. BROOKS. That is according to my observation, which has been limited, of course, but I got that impression.

Mr. WINGO. I think if you will examine into the general policy you will find that he has been criticized because of references he has made in national-bank papers about the State banks.

Gov. HARDING. The Comptroller of the Currency on some occasions has been criticized by the State banks for making some reference to them which he did not make.

Mr. GOLDSBOROUGH. It is not your idea that the office should be abolished because one individual incumbent of that office did not use what the Federal Reserve Board considered good judgment on various occasions?

Gov. HARDING. What I think ought to be done is to harmonize any inconsistencies there are in the act.

Mr. GOLDSBOROUGH. Can not that be done without the abolition of the office?

Gov. HARDING. Possibly so.

The CHAIRMAN. In your judgment, Gov. Harding, is the office of Comptroller of the Currency a necessary function now under the Federal reserve plan of operating?

Gov. HARDING. No; I do not think it is.

The CHAIRMAN. I am prompted to ask that question because of the questions Mr. Goldsborough just put.

Mr. WINGO. Did I understand the governor to say that the adoption of the Federal reserve act does away with the necessity for the discharge of the functions that are devolved by law on the comptroller?

The CHAIRMAN. No; my question was whether or not the Federal Reserve Board is in a position to handle the work of the Comptroller of the Currency, and do away with that duplication, and if they are, whether or not the office of the Comptroller of the Currency is necessary for the successful handling of the Federal reserve system and the Federal reserve banks.

Mr. BRAND. What was the governor's answer? I did not catch it.

Gov. HARDING. I am not here as an advocate or opponent of this proposition, but I am here to answer truthfully any questions that are put to me, but not in a partisan way.

Mr. GOLDSBOROUGH. Very seriously it has been suggested to me by very high financial and banking authority that the reason why the abolishment of the office of the Comptroller of the Currency has been advocated is the psychological reason that the former Comptroller of the Currency was not temperamentally adapted to dealing with bankers and with the Federal Reserve Board, and that, as a matter of fact, it is more a criticism of the individual than of the office. Is there anything in that, in your judgment?

The CHAIRMAN. May I interject right here, in reference to your point, that the abolishment of the office has been considered for the last year or two, as the result of the enactment of the Federal reserve act.

Mr. WINGO. There have always been some bankers who thought that the Government ought not to have any jurisdiction over them at all. That was the discussion that started almost immediately after the enactment of the Federal reserve act, and has persisted from time to time. It has probably been exaggerated somewhat because of the opposition to the former comptroller and his attitude toward the banks.

Gov. HARDING. There are so many points in conflict, Mr. Chairman, that if friction is to be avoided there has got to be a good deal of forbearance shown on both sides.

Mr. WINGO. That is always true, is it not, Governor, that in the work between two Government agencies, they have got to use some——

Gov. HARDING. There is a duplication of powers. The Federal reserve banks, for instance, have the right to make examinations and to call for information. In other words, the Federal Reserve Board now has all the power over the member banks that it would have if you passed this law.

Mr. WINGO. I do not agree with you. You have only got the power over the Federal reserve banks and over the reserves. You have no authority whatever to control individual loans and the individual policy of a member bank.

Gov. HARDING. Neither has the Comptroller of the Currency.

Mr. WINGO. And the comptroller has it.

Gov. HARDING. No; he has not got it.

Mr. WINGO. Yes; he has. The comptroller can say to the officers of a bank, "We will not give you any assistance unless you reduce your loans. Let me call your attention to what the results show in numerous cases where the question has been raised as to whether or not the comptroller had that power. The examiner reports certain loans, or bad loans, which have been practically continuous loans, to the Comptroller of the Currency, and the Comptroller of the Currency writes a letter directing them to cut those loans down, and in at least one instance the comptroller has taken a charter away from them because they did not obey the order, and he had authority to do it. Do you want that authority over the member banks?

Gov. HARDING. Are you familiar with the fact that the comptroller has no longer any power to take a charter away from a national bank?

Mr. WINGO. Certainly. He never did have the direct power.

Gov. HARDING. Whatever power he had has been taken away.

Mr. WINGO. You know the power I refer to.

Gov. HARDING. You read section 19 and section 26 of the Federal reserve act. Section 19 prescribes certain penalties for deficiencies in reserves and for other things, but that power in the Revised Statutes which gives the comptroller the drastic power to revoke a charter seems to be, in the opinion of our counsel, at least, taken away by this blanket provision in section 26 which repeals all laws or parts of laws which come in conflict with this act.

Mr. WINGO. Do you mean to say that if the comptroller finds that a bank has made a bad loan he has no power whatever to close that bank out?

Gov. HARDING. I mean to say that if a bank has a bad loan the Federal reserve bank has all the power it needs. In fact, the Comptroller of the Currency took the position here in some correspondence he had with us last December and January that one of the Federal reserve banks did not exercise some power over a member bank that it ought to have exercised. I understand you have seen that correspondence, Mr. Chairman. He very clearly took that position, you know.

The CHAIRMAN. Yes.

Gov. HARDING. I was an officer of a national bank for a long time, and I never consciously violated the law. I have had some letters from the Comptroller of the Currency telling me what to do, but I made certain of my position and replied very courteously telling him what I would or would not do, and I never got in any trouble.

Mr. WINGO. What section did you say you wanted me to read?

Gov. HARDING. Read section 19 and section 26.

Mr. WINGO. What part?

Gov. HARDING. Section 19, penalties for deficiency in reserves.

Mr. BRAND. What Comptroller of the Currency was in office at the time you had that correspondence? It was at a time, as I understood, when you were the head of a national bank?

Gov. HARDING. Well, while I was at the head of a national bank the first one was Mr. Dawes, the next was Mr. Ridgely, the next was Mr. Murray, and the next was Mr. Williams.

Mr. BRAND. Did you have that sort of conflict with all of them?

Gov. HARDING. Not all of them; no.

Mr. BRAND. I knew there was a little trouble with Mr. Williams, but I was not referring to that. I was referring to the time you mentioned. Who was in charge of the comptroller's office then?

Gov. HARDING. I have never had any very serious trouble with any of them, but I recollect on at least two occasions I did not do some things they told me to do, and I told them I was not going to do them. The correspondence related to cotton loans.

Mr. BRAND. And you had your way about it?

Gov. HARDING. I did. The comptroller's authority is sometimes overestimated, and a letter from the comptroller makes some people nervous.

Mr. WINGO. Will you please tell me what is in section 19 that gives the Federal Reserve Board the power to revoke a charter of a national bank?

Gov. HARDING. We have not the power, but I say the Comptroller of the Currency——

Mr. WINGO. Did you not say you had it a while ago?

Gov. HARDING. I did not at all. I said the Comptroller of the Currency no longer has power to revoke a charter of a bank.

Mr. WINGO. You said his power was transferred in sections 19 and 26.

Gov. HARDING. You misunderstood me.

Mr. WINGO. If neither the Federal Reserve Board nor the comptroller has the power to take a charter away from a national bank, then all this closing of them out is bluff on the part of the comptroller?

Gov. HARDING. Has the comptroller closed any one out?

Mr. WINGO. He has closed one out in my district since I have been in Congress.

Gov. HARDING. Because it was insolvent, not for any violation of the law.

Mr. WINGO. Well, insolvency is a condition. I am talking about conditions that exist. Do you want the Federal Reserve Board to be charged with the administration of the member banks as well as the Federal reserve system?

Gov. HARDING. I do not care anything about it one way or the other.

Mr. WINGO. You recognize the distinction, do you not, Governor? You have charge of the Federal reserve system. This talk about your administering the banking system of the country there is no foundation for. You are administering the Federal reserve banks. Do you want the power to administer the member banks?

Gov. HARDING. The Federal reserve banks have a great deal to do with the affairs of their member banks. It has worked out that way.

Mr. WINGO. Wherein, in the Federal reserve act, is any power given you to control or administer the affairs of the member banks?

Gov. HARDING. Suppose you read that examination section.

Mr. WINGO. You have got the right to make an examination for the purpose of getting information that will enable you to properly handle the Federal reserve banks, and the rediscounting by the Federal reserve banks for the member banks?

Gov. HARDING. Then, if we have reason to believe that a national bank is not properly conducted, or that its policies are dangerous, or that it is approaching insolvency, and we send an examiner there, independent of the Comptroller of the Currency, which the Federal reserve banks sometimes do, to make an examination of that bank, we can reach a conclusion and decide what to do. I will give you one case.

Mr. WINGO. Let me interrupt you right there. Let us not get away from the question. What can they do? You send your examiner to ascertain whether it is discharging its powers under the law—that is, rediscounting the paper of the member banks.

Gov. HARDING. I will tell you what they can do, and I will give you specific instances and call names. It is not very far from your chairman's town, and he is probably familiar with it. There was some trouble sometime ago with a little bank up in New York State, and the Federal reserve bank sent its examiner up there and got certain particulars. In the meanwhile the executive officer of the bank—I do not remember whether he was the president, cashier, or vice president; but, anyhow, he was the principal executive officer of the bank—got discouraged and killed himself. Notwithstanding this the Federal reserve bank of New York reached the conclusion that the bank could be saved. It had its examiners there, and sent two of its junior officers up and virtually took charge of the bank, sent plenty of money to it, and the bank's agents stayed there several weeks and got everything straightened out. There was no run, everybody was satisfied, and they finally worked things around and got the bank in good shape. No matter how vigilant the Comptroller of the Currency might be, he could not have done that by himself, because he did not have the power. The Federal Reserve Board could not do it. It was only the Federal reserve bank which had both this power of examination, under the Federal Reserve Board, to see what the trouble was and then the power to apply the remedy.

The great defect in the comptroller's powers is that he can give advice, instructions, caution, and all that sort of thing, but the only remedy he had was the drastic one of revoking the charter, and now it appears that he has not even got that.

Mr. WINGO. You say the Federal reserve act did take that away from him absolutely?

Gov. HARDING. I think it did. Section 26 does take that away, and the only right of revocation he ever had was for persistent refusal to keep reserves.

Mr. WINGO. He never did have the arbitrary power to revoke a charter, and we could not give you the power arbitrarily to take it away from them?

Gov. HARDING. We do not want it.

Mr. WINGO. What did you do? You sent two men down there to take charge of it; you examined it and you furnished rediscount facilities, did you?

Gov. HARDING. The Federal reserve bank furnished it with rediscount facilities.

Mr. WINGO. It was necessary for you to make an examination in order to determine whether you would furnish rediscount facilities. That was the only power of the Federal reserve bank, to determine whether or not that member bank should have certain privileges under the law. You had no authority to take charge of the bank under the Federal reserve act?

The CHAIRMAN. May I interject in connection with that to say this, that the first knowledge of the insolvency of that bank came to the Federal reserve bank.

Gov. HARDING. You are familiar with that case, are you not, Mr. Chairman?

The CHAIRMAN. Yes. And they notified the Comptroller of the Currency that they had taken charge of it and put their men in before the comptroller knew anything about it.

Mr. WINGO. In other words, you want to give them the power to do something they have been doing without authority? You certainly would not assume authority to go and take charge of that bank?

Gov. HARDING. We had authority to do it under the law.

Mr. WINGO. What section gave you the power to put a man in charge of that bank?

Gov. HARDING. He was in practical charge. We have got the right of examination, of continuous examination.

Mr. WINGO. Examination is all right.

Gov. HARDING. You can call it continuous examination.

Mr. WINGO. We frequently say here that we have got a law by which the Treasury Department can make an examination of a manufacturer's books, but that does not carry with it the power of the Commissioner of Internal Revenue to take charge of a steel plant or the plant of an automobile manufacturer. The power of examination does not carry with it the power of control.

Gov. HARDING. It seems to me you are inclined to be pretty technical this morning. When a concern, a bank or manufacturing plant, or anything else, is in a bad way and wants credit, if there is some concern somewhere else that has got the power to give it credit and wants to do it it wants to have the books opened and to send one of its own men there, to stay there and watch it personally while it is giving it credit. That is done repeatedly, and nobody objects.

Mr. WINGO. You, in one case, said that the Comptroller of the Currency had the power of examination, but practically no power of control, and in the next breath you said that the power of examination gave you the power of control. If the same right of examination does not give the comptroller that power, how would it give the Federal reserve bank that power? If the right of examination gives one entity or one officer of the Government the power to take control, why does not the power of examination give the same power to another?

Gov. HARDING. I presume that in the exercise of doubtful power, if both sides are satisfied, there is no trouble.

Mr. WINGO. That is the very trouble. The Treasury has exercised a good deal of power, just like the Federal Reserve Board has exercised a good deal of power that it has absolutely no authority to exercise, and has imposed orders on bankers who are not in a position where they can resist them. They are in the position where they are asking for favors for things that they want. No banker can run his bank any more than an engineer can take his train out and run it without violating some technical regulation, and they are in the position continually where they can not stand upon the strict letter of the law. This bill does not only propose to give the Federal Reserve Board the control of the Federal reserve system, but it is going to work and give them control of the member banks of this country. You will rue the day you ever get it. You talk about the row you had last year. My gracious! You will have tons of criticism unloaded on you. You have all you can do to run the Federal reserve system without running the member bank system, have you not?

Gov. HARDING. It is not running the member bank system.

Mr. WINGO. If we give you the power of the comptroller you will have the power to run it.

Gov. HARDING. It seems to me we have been held responsible for everything that has happened anyhow, and as far as I am concerned I am seasoned; my hide is pretty tough.

Mr. WINGO. Of course, that is an answer, but if your hide has got so tough that you can handle all these things we might as well let you handle the internal revenue system, too.

Gov. HARDING. I do not want it.

Mr. KING. This correspondence between you and John Skelton Williams has received all kinds of interpretations from mouth to mouth around the country. I wonder if you would be willing to submit to the committee, for their personal and private examination, the correspondence between you and Mr. Williams which you spoke of?

Gov. HARDING. All the committee has to do is to ask for it and we will send it up to you. Just say what you want. You can have anything we have.

Mr. KING. Would you bring it up without a formal motion? I do not mean to print in this hearing; I mean for the enlightenment of the committee. I would like to read it. They tell me there is some good stuff in it.

Gov. HARDING. It is very sprightly correspondence. I think you would enjoy it.

Mr. WINGO. Neither Mr. Williams nor the board has ever favored me with any of their correspondence.

Mr. KING. Would you respect a request of one member of the committee for this correspondence?

Gov. HARDING. I have been authorized by the board to do certain things. I have been authorized by the board to furnish the chairmen of the House Committee and the Senate Committee on Banking and Currency with copies of this correspondence, and if the chairman will write me a letter asking for the correspondence for the benefit of the committee he will get it.

Mr. KING. I move that the chairman write such a letter to the governor.

Mr. STRONG. I second the motion.

The CHAIRMAN. A motion has been made that the chairman be instructed to request Gov. Harding to submit to the committee a copy of the correspondence between the governor and John Skelton Williams, the ex-Comptroller of the Currency.

(The question was taken and the motion agreed to.)

Gov. HARDING. Here is the board's view about this proposition. I have talked it over with the board. We are not seeking any additional power; at the same time we do not want to shirk anything. All of the appointive members of the board have had to devote their whole time to the board's business. If Congress and the administration—and I take it the administration must approve, or you would not get the bill through—if Congress and the administration wish to abolish the office of the Comptroller of the Currency and to put the duties of that office on the Federal Reserve Board, I say the Federal Reserve Board will find ways and means to discharge the duties imposed upon it. If you prefer to keep it as it is, the Federal Reserve Board, having lived with previous comptrollers, will live with anyone that is appointed and we will try to be happy. We are not seeking any additional powers, or anything of that kind, but we are perfectly willing to do whatever Congress wishes us to do.

Mr. MACGREGOR. Who approves this proposition?

Gov. HARDING. The Federal Advisory Council has recommended that it be done, and that State bankers associations in various States have approved the proposition.

Mr. GOLDSBOROUGH. Before or after the introduction of the bill?

Gov. HARDING. The Federal Advisory Council recommended this plan five or six years ago; they have recommended it again recently, and the Federal reserve banks have recommended it.

Mr. WINGO. You will find that many banks under examination approve this proposition to remove the restrictions of the comptroller's office over them. I listened to the address of one banker, and the whole gist of it was that the comptroller had no business interfering with their business; it was a private business, and the idea of having the Government inquire into the condition of their affairs was an outrage. In a general way, that was the burden of his song.

Mr. BRAND. What are the functions of the special advisory board to which you refer?

Gov. HARDING. The Federal Advisory Board is a statutory body organized under section 12, of the Federal reserve act, consisting of 12 members who are elected each year by the directors of the Federal reserve banks. Down in your district Capt. Lyerly, of Chattanooga, was on the advisory council for several years, and then Oscar Wells, of Birmingham, and now E. W. Lane, of Jacksonville, Fla.

Mr. BRAND. I was not here when this act was passed.

Mr. WINGO. Who is in my district?

Gov. HARDING. Frank Watts, of St. Louis.

The CHAIRMAN. Gov. Harding came up here because some of the members of the committee had certain questions that were discussed here that they wanted to propound to him.

Gov. HARDING. We have considered the bill informally and I will say generally that we have discussed it among ourselves, as to ways and means of performing the duties imposed upon us if the bill passes.

Mr. WINGO. Speaking about ways and means, you would have a chief examiner, would you not, just like the comptroller has now?

Gov. HARDING. Yes; we have now a chief Federal reserve examiner; and we have several examiners.

Mr. WINGO. Would you have a chief examiner for each Federal reserve district, just like the comptroller has?

Gov. HARDING. Yes; probably.

Mr. WINGO. It would simply be changing the jurisdiction, but you would still have the machinery?

Gov. HARDING. But important matters would be discusseed by seven men, and agreed on by seven men, instead of by one man. There is not any one man power in the Federal Reserve Board; it is strictly a board.

Mr. WINGO. So there would not be any machinery saved? The functions would still be discharged by the board, and they would set up the necessary machinery to discharge their duties, and they would not shirk them in any way whatever?

Mr. APPLEBY. You would save some money by avoiding duplication of bank examiners. You see, the comptroller has a certain number, and they are independent men, are they not?

Gov. HARDING. Yes; we have to have separate forces.

Mr. APPLEBY. Then the Government, in the long run, would save some money by the combination, would it not?

Gov. HARDING. I do not know about that. The chief argument made by the proponents of the bill is that the Federal reserve banks are generally in favor of it. They say they would like to make the examinations, which would keep them in constant touch with the member banks, to whom they lend money, and sometimes the reports to the comptroller do not come in just when they want them, and you see the comptroller's office, operating separately from the reserve banks, directs an examiner to make certain examinations at certain times, and he has got to go around on a certain schedule. The Federal reserve banks, on the other hand, if they made examinations, and they do make special examinations sometimes, but on regular examinations they could vary their schedule according to the condition of the banks. When you are loaning a bank money and require a statement from time to time, or daily statements, you can keep in pretty fair touch with its condition, and can better protect the loans when a situation arises.

Mr. APPLEBY. In other words, it will be all under the control of the Federal Reserve Board?

Gov. HARDING. The Federal Reserve Board, if it undertook this duty—I will be perfectly frank about it—would probably delegate most of the ministerial part of the work to the Federal reserve agents, because they are local man and have an organization in each district. We would exercise general supervision of it. We would not try to go into all the details, not any more than we try to go into the details of each particular loan made by a Federal reserve bank. We would fix the day, determine the dates of calls for condition reports, the forms of statements, direct general policies, and assemble statistics, but we would probably turn over to the Federal reserve agents the more intimate details of supervision.

Mr. WINGO. It would be physically impossible for the board to handle all these details?

Mr. APPLEBY. We raised the point, two or three of us, about the attacks on the Federal Reserve Board by having the Deputy Comptroller of the Currency be the custodian of the Federal reserve bank notes. Was not that the point raised?

The CHAIRMAN. That came up, Gov. Harding, if you have the bill before you, in the consideration of page 6 of the bill, where provision was made for turning over of the functions of issue and the holding of the notes of the Federal reserve banks and the national banks, where it says:

except that the powers and duties heretofore conferred or imposed by law upon the Comptroller of the Currency, or the bureau of which he is designated the chief officer, in respect to the preparation and custody of Federal reserve notes and circulating notes of national banks and Federal reserve banks, are hereby transferred to the Secretary of the Treasury.

That is where the proposition to amend that is made, but I think that gives you the thought Mr. Appleby has in mind, as to whether or not they should not be held by some one who had contact somewhere between the department of issue and the Federal Reserve Board.

Gov. HARDING. The Federal Reserve Board does not now have custody of the notes of national banks. This bill transfers the custody to the Secretary of the Treasury. He would probably designate the chief of a bureau or a division of a bureau to make the issue, upon proper requisition, just as we make requisition now on the Comptroller of the Currency for Federal reserve notes. What we do at the present time is to make requisition on the Comptrolle of the Currency, directing him to ship a certain amount of Federa reserve notes to the Federal reserve agents, or some Government——

The CHAIRMAN. Mr. Appleby's point was that there should be safeguard between the department of issue and the Federal reserv system.

Gov. HARDING. We would continue to have that safeguard, becaus the Treasury would hold the notes. I do not know whether th Secretary of the Treasury would like to have this clause in th bill or not. It is up to him. It does not make any difference t the board. But if you transfer to the Secretary of the Treasury th duties in regard to these notes which are now resting on the Comp troller of the Currency, it seems to me the Secretary of the Treasur would like to be authorized to designate some division of the Treas ury to handle this for him.

The CHAIRMAN. You mean the preparation and custody of th notes?

Gov. HARDING. The preparation and custody of the notes.

The CHAIRMAN. Mr. Appleby's point was that there should b somebody else in there who should act as a safeguard.

Gov. HARDING. You would permit him to be custodian under th Secretary of the Treasury.

Mr. WINGO. I have not been following your discussion. Ther was another proposition I desired to ask you about, but I do no recall what it was now. But I do not think it makes much difference because if you are going to violate the philosophy of the Federa reserve act in the major portions, I do not think it makes much dif ference if you rape it in another.

Mr. APPLEBY. He has answered that, as I understand it, by rec ommending that the custodial power that the comptroller has be pu somewhere in the Treasury by the Secretary of the Treasury.

Gov. HARDING. I suggest that that is a matter for submission t the Secretary of the Treasury.

Mr. APPLEBY. That covers my point.

Mr. BROOKS. May I ask the governor if the board is really anxiou that this bill should carry the provision for the erection of a build ing in Washington for them?

Gov. HARDING. We would like to have a building; yes, sir.

Mr. Brooks. It is really necessary; is it?

Gov. HARDING. It may be that you might want to strike it out o this bill and let it come up separately.

Mr. APPLEBY. I think that is better. It is quite an innovation.

Gov. HARDING. We can not get any more room where we are. W have divisions in other buildings and are occupying rooms tha could be assigned to some Treasury bureau now domiciled outsid the Treasury Building. We ought to keep in touch with what i going on over the country, and we can only do that by getting ou and seeing the conditions ourselves or by getting the governors o the banks, the Federal reserve agents, and the Federal Adviso Council to come here and hold conferences with us; and as it is no we have no place for a onference except to go over to the sevent story of the National Metropolitan Bank Building, where we hav quarters rented.

Mr. APPLEBY. It seems to me you ought to have the building.

(Whereupon the committee adjourned.)