

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

33 LIBERTY STREET, NEW YORK 45, NEW YORK

TELEPHONE: RECTOR 2-5700, EXTENSION 286

ALLAN SPROUL, *Chairman*

W. RANDOLPH BURGESS

ROBERT D. CALKINS

F. CYRIL JAMES

WILLIAM MCC. MARTIN, JR.

WALTER W. STEWART

JOSEPH H. WILLITS

DONALD B. WOODWARD, *Secretary*

MILDRED ADAMS, *Executive Director*

With cooperation of

THE BROOKINGS INSTITUTION

722 JACKSON PLACE, N. W.

WASHINGTON 6, D. C.

June 5, 1956

Dear Dr. Buchanan:

This letter is to report on the progress of work under the direction of the Committee on the History of the Federal Reserve System, and to make recommendations for the future of this project which is supported by a grant from the Rockefeller Foundation.

The original request of this Committee for financial support contemplated three main activities: (a) archival and research, intended to discover and make available materials that would be useful in the preparation of the history of the Federal Reserve System; (b) interviews with individuals who have participated in the life of the System, in order to obtain personal recollections of value to future historians; and (c) arrangements for the writing of a "definitive" history of the Federal Reserve System as the central responsibility of the Committee, the encouragement of monographs and essays dealing with special phases of the history of the System, and the editing and publishing of important documents relating to the history of the System. The grant made by the Rockefeller Foundation was for the support of these activities.

Two previous reports which this Committee has made since January, 1954, when the first pilot grant was made, review the details of work which was commissioned and of research and archival studies accomplished up to July 1, 1955. Rather than furnish a supplementary report for the year ending in June, 1956, I should like to put before you a summary of the Committee's entire achievement so that you may see how far we have gone toward our goal in spite of serious difficulties encountered in finding research personnel.

A. Archival Activities

The archival activities of the Committee have progressed well under the able direction of Mildred Adams. We have reason to take pride in the general work of location and preparation of papers and materials. We believe we have greatly increased the availability of research materials which will be of benefit to historical studies of the System whether conducted under this Committee or not. This work is now largely completed, for the time being, and Miss Adams has resigned as Executive Director effective July 31, 1956.

The search for private collections of papers which bear on the creation and development of the System was one of the first undertakings of the Committee. More than a hundred of these collections have been found. Considerable data about them and their owners have been organized, duplicated

and distributed as a research aid to the Library of Congress, the New York Public Library, the libraries of the Federal Reserve Board and the twelve Federal Reserve Banks, and to some twenty universities which are distinguished for the quality of graduate work offered in the fields of economics and monetary affairs.

The Selective Inventory of the Papers of Carter Glass, made by a group of graduate students working under the direction of Dr. Elbert A. Kincaid of the University of Virginia, was completed in the autumn of 1954. Copies of this important research aid, mimeographed and put into binders, were in May, 1956, distributed to the same libraries which received the data on private collections.

In the process of this paper hunt we have steadily disclaimed any wish to amass collections ourselves, and have asked only that they be put where scholars could consult them. In several instances we have been instrumental in saving papers from destruction and suggesting depositories which were glad to get them and render them useful to students. This applies particularly to the papers of Ogden Mills, Emanuel Goldenweiser, Col. Leonard Ayres, now in the Library of Congress; of Fred I. Kent, now at Princeton, of Frank Vanderlip being set in order at Columbia. There are many other instances.

In the course of its search for papers, the Committee found that New York City, now the financial capital of the world, has no library where the private papers of bankers and financiers who have played so important a part in building the American economy to its present strength are collected in a center equipped for the use of scholars. On conferring with the appropriate officials of Columbia University, we discovered a quality of interest in this project which might lead to the establishing of such a center were it properly encouraged and financed. As a first move in this direction, and for the immediate purpose of sorting and cataloging the rich Frank Vanderlip collection (which had been disintegrating in a Dutchess County garage until our executive director found it and steered it to Columbia), we made a sub-grant of \$1,500 to the library of Columbia University. The University plans to seek other funds for the prospective Finance Library Center from other sources.

In 1954 and 1955, this Committee made a survey and summary report on historical materials in the libraries and files of the Federal Reserve Board and the twelve Federal Reserve Banks, and reported that, not only had considerable early materials been destroyed, but that a continuing program of destruction threatened more recent records. At that time we formulated and distributed a list of materials which the twelve Banks might be presumed to wish to keep as historically valuable, and which answered the repeated question, "But what do you mean by historical material?"

This problem was brought to the attention of the Conference of Presidents of the Federal Reserve Banks, which had a working subcommittee on the Destruction of Records. After several conferences and repeated discussion, the subcommittee revised its Destruction Manual to emphasize the importance of preserving records described as of historical value, and changed its name to Sub-Committee on the Retention and Disposal of Records. It is the hope of the Committee on the History of the Federal Reserve System that this achievement, reaching direct to the operating level of the Banks, may preserve for the use of future historians important materials which would otherwise be slated for destruction.

The card files which were started early in the life of this Committee have now become highly valuable research tools, and are so keyed together as to make it possible to move easily back and forth between desired details of period, office, people, policy, legislation and litigation involving the System. In addition to this Time File, Persons File, files for banks and economists, we have a bibliography of considerable size, still in the process of growing. When completed, it could form the basis for a highly valuable reference bibliography on central banking, with particular reference to the unpublished material which forms so important a part of that literature. The original intention was to set these files up in such a manner that they could be reproduced and distributed to other research centers, but thus far we have not felt justified in undertaking so costly a step. They are, however, ready to serve where needed.

B. Interviews

The Committee has experimented with interviewing techniques and has made transcripts of several conferences, which will be of use to historical scholars. The work of interviewing, however, has not been expanded because it was felt that interviews should be coordinated with historical research under the general direction of the contemplated historian.

C. Research and Writing

The research and writing activities represent both achievements and disappointments. Progress has been greatly impeded by the lack of qualified personnel.

The Committee achieved an initial success in its selection of Dr. Lester Chandler of Princeton to write a biography of Benjamin Strong, the first Governor of the Federal Reserve Bank of New York. The subject was one which interested him, but one which he might never have undertaken except for the aid given by the Committee. This work is proceeding at a satisfactory pace, and there is every reason to expect that an illuminating biographical work relating to the history of the Federal Reserve System will be finished in 1957 as planned.

A substantial number of topics for monographic treatment have been suggested and considered. For a number of them personnel is available. The Committee has been impressed with the possibility of making significant contributions in the field by encouraging essays and intensive monographic studies on particular aspects of the System and its experience. Indeed some members of the Committee are of the opinion that a comprehensive history cannot be written until after a number of principal episodes have been thoroughly explored in monographic studies. Definite assignments for such studies were postponed, however, pending the selection of a scholar to direct the entire project and to serve as author of the basic history.

The loss of Dr. W. Randolph Burgess, who had been expected to take major responsibility for the project and to write the definitive history of the System, has been a major disappointment. After it became clear that Dr. Burgess could not leave the national service, we approached other distinguished scholars in the field, but found them unable to put aside existing commitments. We next turned to the possibility of using younger men, either

as a writing team or as a group which might function through and be inspired by seminar discussions in which members of the Committee and others of mature experience and attainment. Two years of searching among men of caliber and proven ability have given us a heightened appreciation of the difficulties inherent in the very condition which gave rise to the original request for a grant. Economic historians equipped to study and write about monetary affairs are few in number, and modern research into the development of the role of central banking in the American economy is extremely limited. The Committee has thus far been unable to overcome the deficiency of personnel which characterizes this field of study.

At the present time, the Committee is conducting negotiations through the Brookings Institution with Dr. Redvers Opie as a possible director and historian for the project. Whether Dr. Opie will be available or not cannot be ascertained until late July or early August, after he had had an opportunity to consider this assignment in relation to his other commitments. If he should be available, he would undertake a major history of perhaps two volumes, encourage the preparation and publication of supplementary monographs and essays, and we hope organize (with the aid of funds obtained for the purpose) a seminar on the development of central banking as a means of stimulating younger men to work in this field and to offer a means of drawing on the experience of older men who have worked in the System. If Dr. Opie should not be available, the search for a director and historian would be continued in the hope that someone of similar quality can be found.

Meanwhile, the Committee would like to commission several monographic studies by authors familiar with the experience of the System. These studies would cost little and they would contribute importantly to the general purposes of the project.

With encouragement from the Committee, a legal history of the Federal Reserve System has been started by Howard Hackley of the legal staff of the Board of Governors. The portion now in draft gives an impressive and highly useful record of legislative changes and judicial interpretations bearing on the authorities under which the System has operated. It is hoped that this study can be made one of the publications of this Committee.

Mr. Bray Hammond, whose new book, American Banks and Politics from the American Revolution to the Civil War, had informal aid from the executive director of this Committee which led to its publication by the Princeton University Press, is outlining for us a monograph on "The Evolution of the Payments Mechanism." The payments mechanism is of key importance to the smooth operation of the banking system and of the whole economy. The development and implications of the mechanism are seldom understood. A preliminary memorandum outlining this project has been prepared. The Committee hopes to work out an arrangement whereby Mr. Hammond would undertake this study for the Committee.

The retirement of Dr. John Williams from the New York Federal Reserve Bank offers the possibility that he may write a small volume, perhaps of essays, on the development of monetary theory and policy during the last quarter century. Such a contribution should be a publication of the Committee. On the basis of preliminary discussions with Dr. Williams, it seems likely that such an assignment would be welcome.

These are some of the more urgent topics but there are others which the Committee would like to encourage or sponsor, when a director has been chosen.

Administration and the Future

The foregoing achievements of the Committee are substantial, even though the search for a distinguished scholar, trained in the economic and historical disciplines, equipped with sufficient knowledge of monetary theory, minded and able to accept a commitment to head this project and to write the desired "definitive" history, has not been successful.

During the past two years two types of difficulties have been encountered in the operation of the Committee. The first has arisen from the recognition by the Committee that it had assumed a commitment to the Rockefeller Foundation for a "definitive" history as the principal objective of the Committee work. The second has been the difficulty of exercising administrative responsibilities by means of a committee consisting of members geographically scattered and all busy.

As the explorations of the Committee have continued, it has become increasingly clear that a "definitive" history of the nature and scope originally contemplated is not feasible at this time. The Committee considers it likely, however, that a history of scholarly character and substantial worth may be brought into being, and it is confident that a number of highly worthwhile monographic studies dealing with important aspects of the history of the Federal Reserve System are feasible and desirable. The Committee has been reluctant to launch monographic studies of this sort until the fulfillment of its principal commitment for a "definitive" history could be assured or until a reorientation of approach could have the sanction of the source of its funds. The Committee believes that the funds can be properly and wisely used for selective monographic studies and that these would represent an important contribution to historical research, even though a definitive history is not now deemed to be feasible. After two years of experience the Committee is of the opinion that this is the way to proceed and that it requires greater latitude and freedom with respect to its obligation to the Foundation.

Accordingly, the Committee requests the approval of the Foundation for a clarification and reinterpretation of the project. The original intent of the project was to undertake certain archival activities and interviewing, to assure the writing of a "definitive" history of the Federal Reserve System, to encourage monographs and essays on the history of the System, and to edit and publish documents. Most of these obligations present only minor problems. The Committee, however, would like to be relieved of its obligation to bring about the writing of a "definitive" history, and would like instead authority to develop and encourage slightly less ambitious studies on the history of the Federal Reserve System, including such monographs, essays, and histories as may be possible. The Committee would expect that its continued activities would result in the preparation and publication of a one or two volume history of the System, if such a treatment proves feasible. It would expect also to encourage worthwhile monographic studies and essays that would contribute to a better understanding of the System, and would develop this part of the project as a supplement to, or a substitute for, more comprehensive historical treatment. The Committee believes that this greater flexibility will assist substantially in stimulating further worthwhile work in this field.

The administrative difficulties confronting the Committee have arisen because of the time required to communicate with Committee members, to schedule meetings, and to conduct negotiations. There has been no lack of interest and attention by Committee members. All members of the Committee have been most loyal in attending a substantial number of meetings. Nevertheless, delays have been inevitable. The Committee recently asked the Brookings Institution, which has collaborated on the project from the beginning, to accept an added degree of administrative responsibility by initiating proposals for the consideration of the Committee and by appointing a staff member to assume a degree of executive responsibility for the project.

The transfer of this added administrative responsibility to the Brookings Institution has been occasioned by my resignation as Chairman of the Committee on the ground that my departure for the West Coast puts a necessary end to my active participation in Committee work, and by the resignation of the Executive Director, as well as by the desire to facilitate administrative action.

The Committee is now of the opinion that this partial transfer of administrative responsibility is not enough, if negotiations are to proceed promptly for monographic and other studies. After two years of exploratory work, it is believed that the time has come to transfer further responsibility to the Brookings Institution. Accordingly, the Committee recommends that the Brookings Institution assume full administrative and executive responsibility for the project, the Committee continuing to serve the project in an advisory capacity. This arrangement is acceptable to the Brookings Institution, and the Committee requests the Foundation to approve this transfer of responsibility. The Institution would continue to consult the Committee on all major matters of studies and personnel connected with the project, and the Committee would read and criticize manuscripts and be generally available for consultation, as it now is. We believe that this transfer of administrative and executive responsibility for the project will simplify and promote the organization of the research activities which the project has always contemplated.

We would welcome a statement from the Foundation indicating its approval of the use of its grant for the continuance of the project with these two modifications -- an increased degree of flexibility in the interpretation of the responsibility of the Committee for the preparation of a "definitive" history of the Federal Reserve System and a transfer of administrative responsibility to the Brookings Institution.

Representatives of the Committee and of the Brookings Institution will be glad to call on you in the near future for such discussion of this proposal as the Foundation desires.

A copy of a Committee Resolution embodying the above recommendations and a statement of estimated expenditures as of June 30, 1956 are attached.

Very truly yours,

Allan Sproul,
Chairman.

Dr. Norman S. Buchanan, Director
Division of Social Sciences
The Rockefeller Foundation
49 West 49th Street
New York 20, New York

Attachments (2)

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

RESOLUTION

WHEREAS, the Committee on the History of the Federal Reserve System recognizes the following situation:

1. That it was established for the purpose of developing available materials and a history of the Federal Reserve System;
2. That it obtained a grant from the Rockefeller Foundation specifically for archival activities, the interviewing of experienced participants in the System, the writing of a "definitive" history of the Federal Reserve System, the encouragement of other monographs and essays on the history of the System, and the editing and publication of relevant documents;
3. That the Committee has made substantial achievements in finding and making available private collections of archival materials, in collecting remembered incidents from older officers, and in facilitating the preservation of important records within the System;
4. That the Committee has in progress a promising biography of Benjamin Strong, the first Governor of the Federal Reserve Bank of New York;
5. That after two years of effort to find an appropriate author to undertake the "definitive" history of the System, and after numerous alternatives have been considered or attempted, and have resulted in failure, the Committee has reluctantly concluded that a "definitive" history cannot now be prepared under its sponsorship;
6. That substantial and important contributions can and should be made through historical research to promote a better understanding of the role of this unique System and that such contributions can be made through monographic studies that examine important episodes in the history of the System, through essays by participants in the affairs of the System, through the most comprehensive history that may now be feasible, and through other supplementary publications;
7. That such a program of studies and writings, though definitely worthwhile and probably feasible, is not regarded by the Committee as the "definitive" history originally contemplated;
8. That, therefore, the Committee should seek an understanding with the Rockefeller Foundation which will permit and authorize the Committee to use the funds at its disposal for a program of studies that may offer important contributions to the over-all history of the Federal Reserve System, including as comprehensive a history as possible and such monographs, essays, or other publications as may be approved by the Committee; and that the Committee be relieved of its obligation to bring about the writing of a "definitive" history in the usual meaning of the term;

9. That after nearly two years of experience during which the Committee has endeavoured to exercise its administrative responsibilities as a group, it has become increasingly clear that administrative responsibilities for the project should now be transferred to the Brookings Institution and that this Committee should operate as an Advisory Committee to the project;

10. That the Committee has previously asked the Brookings Institution to assume larger responsibilities for initiating plans and proposals, which it has been willing to accept, and that the Committee has confidence in the capacity of the Brookings Institution to organize appropriate studies in line with the purposes of the project;

11. That in launching this revised research program the Institution will need the administrative freedom implicit in the proposal herein presented, in order to make plans and negotiate promptly with personnel, and that this transfer of increased responsibility to the Brookings Institution is made acute and especially desirable by reason of the resignation of the Executive Director of the Committee on the History of the Federal Reserve System effective at the end of July, 1956, and by the resignation of President Allan Sproul as Chairman of the Committee at the end of June, 1956;

Now, therefore, BE IT RESOLVED That the Committee recommends to the Rockefeller Foundation that authorization be given for the use of the unexpended funds in its existing grant for historical research and the preparation of a substantial history, historical monographs, or other essays and documents on the history of the Federal Reserve System.

AND FURTHER BE IT RESOLVED That the Committee request the approval of the Foundation for the transfer of full responsibility for administering the project to the Brookings Institution with the understanding that the Committee on the History of the Federal Reserve System will serve in an advisory capacity to the Institution with regard to research and writing for this project.

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

Minutes

Executive Committee Meeting,
Monday, May 28, 1956,
New York

Distributed
June 4, 1956

To: Messrs. Allan Sproul, Chairman
W. Randolph Burgess
Robert D. Calkins
F. Cyril James
William McC. Martin, Jr.
Walter W. Stewart
Joseph H. Willits
Donald B. Woodward

Winfield W. Riefler

The Committee convened for luncheon at 1 p.m. in the President's dining room of the Federal Reserve Bank of New York. Members present were Messrs. Burgess, Calkins, Riefler, and Stewart. As executive director, Miss Adams attended. Absent members, Dr. James and Dr. Willits, were reported unavoidably absent; Chairman Sproul was unexpectedly detained; Mr. Woodward was suddenly ill.

In the absence of the Chairman, Mr. Burgess was unanimously asked to act in his place.

Minutes of the previous meeting (April 30, 1956) having been distributed, their reading was omitted.

Reports

Reports were made following decisions of the Executive Committee at their meeting of April 16, 1954.

- (a) A pilot grant of \$1,500 was made to Columbia University for sorting, arranging, and cataloguing the rich collection of papers of Frank Vanderlip for the use of students. It is hoped that this grant may also encourage Columbia to go ahead with the amassing of financial material which will make for the establishing of a study center for students of finance in keeping with the position of New York's oldest and most distinguished University.
- (b) Mimeographed copies of the Selective Inventory of the Carter Glass papers in post binders were sent on May 18th, in accordance with the instructions of the Executive Committee, to a list of public, bank, and university libraries compiled by Committee members. They were accompanied by a letter of gift which was signed by Mr. Woodward on behalf of the Committee. The list is appended.

- (c) Data on the whereabouts of more than a hundred private collections of papers pertinent to this project is being duplicated and will be placed in ring binders and distributed to the same list of libraries, with a similar letter of gift, by June 15th. Information which was given to the Committee as confidential was so kept, and not included in the distributed material.

Miss Adams also reported a further move on the part of the Federal Reserve Bank of New York toward the classifying of historical material and coordinating responsibility for its preservation, which if adopted by the other Federal Reserve Banks might lead to a System-wide continuing inventory which would be very valuable to research students.

Brookings Proposal

Dr. Calkins reported on further steps in the plans outlined at recent meetings and crystallized in the "clause of enactment" accepted at the meeting of February 4, 1956 (in revised form dated February 17th) by which a greater degree of administrative responsibility would go to Brookings.

Negotiations with Messrs Philip W. Bell and Raymond P. Powell of Yale to undertake the history as a "team" failed because of the pressure of their other commitments.

The name of Dr. Redvers Opie, economist and financial adviser, former Oxford don who for seven years taught money and banking at Oxford with emphasis on the Federal Reserve System, a former staff member at Brookings, was presented by Dr. Calkins as a possible project head or writer of monographs; it met with a generally favorable reaction on the part of Committee members present. Dr. Calkins reported later that it was approved in post-meeting conversation with Mr. Sproul and with Mr. Woodward. It was agreed that further negotiations with Dr. Opie should be undertaken by Dr. Calkins.

Monographs

Hackley -- Chapters forming part of the proposed Legal History of the Federal Reserve System by Howard Hackley were circulated and warmly approved.

Hammond -- A draft outline of the proposed monograph on the Evolution of the Payments Mechanism by Bray Hammond was circulated and approved. It will be amplified before this monograph is finally accepted.

Williams -- Dr. John Williams, who is leaving his post as advisor to the New York Federal Reserve Bank on June 30th, is not yet ready to accept a commitment to write a monograph on Monetary and Fiscal Policies. Dr. Calkins will try to persuade him.

Dr. Burgess suggested that to the growing list of monograph writers be added the name of Mr. Sproul who, disposed to write after he leaves the Presidency of the New York Federal Reserve Bank, would add quality and balance if he could be persuaded to do so under the aegis of this Committee.

Committee Decisions

After a searching discussion of the Committee's experience, its problems and its present position, and a report showing an estimated \$225,000 remaining June 30th out of an original budget of \$310,000 it was agreed that in order to carry out its mandate from the Rockefeller Foundation the Committee should take a further step which would transfer complete executive and administrative responsibility to the Brookings Institution with the understanding that the Committee would continue to function, but in an advisory rather than a decision-making capacity. To that end, a resolution which is appended to these Minutes was approved by Committee members present, and will be circulated to absent members for their approval.

It was agreed that report of this action should be made to the Rockefeller Foundation in writing and signed by the Chairman.

It was agreed that the resignation of Mr. Sproul, presented on the ground that he was resigning from the Federal Reserve Bank of New York, and hence from his official position in the System, and the consideration of a new Chairman, should be postponed until after the transfer of the project to Brookings had been effected and the report made to the Foundation. (Dr. Calkins reported later that Mr. Sproul agreed to postpone his resignation from the chairmanship until June 30th.)

It was agreed that in accordance with the transfer of executive responsibility to the Brookings Institution, files and research material in the possession of the Committee should be sent there as soon as work now under way is finished.

It was agreed that the executive director, who had offered her resignation as of June 30th, should be asked to stay until July 30th in order to complete work in progress and the moving of files to Washington. It was understood that this commitment does not impose a full office schedule.

The meeting was adjourned at 3:30 p.m.

Respectfully submitted,

Mildred Adams
(for Mr. Woodward)

STATEMENT OF FINANCIAL STATUS
 OF THE
 PROJECT ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM
 AS ESTIMATED FOR JUNE 30, 1956

Grants received from the Rockefeller Foundation:

January 21, 1954	(for nine months)	\$10,000.
May 21, 1954	(for five months to May 31, 1959)	<u>310,000.</u>
Total		\$320,000.

Expenditures: January 21, 1954 to June 30, 1956:

Salary and Contract Payments	\$ 67,551.90	
Travel, Grants, Miscellaneous Expenses	11,241.93	
Overhead	<u>6,000.00</u>	
Total		\$84,793.83

Commitments Unexpended June 30, 1956

3,375.00

Total Expenditures and Commitments

\$88,168.83

Balance Unexpended and Uncommitted: June 30, 1956

\$231,831.17

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

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3. That the Committee has made substantial achievements in finding and making available private collections of archival materials, in collecting remembered incidents from older officers, and in facilitating the preservation of important records within the System;
4. That the Committee has in progress a promising biography of Benjamin Strong, the first Governor of the Federal Reserve Bank of New York;
5. That after two years of effort to find an appropriate author to undertake the "definitive" history of the System, and after numerous alternatives have been considered or attempted, and have resulted in failure, the Committee has reluctantly concluded that a "definitive" history cannot now be prepared under its sponsorship;
6. That substantial and important contributions can and should be made through historical research to promote a better understanding of the role of this unique System and that such contributions can be made through monographic studies that examine important episodes in the history of the System, through essays by participants in the affairs of the System, through the most comprehensive history that may now be feasible, and through other supplementary publications;
7. That such a program of studies and writings, though definitely worthwhile and probably feasible, is not regarded by the Committee as the "definitive" history originally contemplated;
8. That, therefore, the Committee should seek an understanding with the Rockefeller Foundation which will permit and authorize the Committee to use the funds at its disposal for a program of studies that may offer important contributions to the over-all history of the Federal Reserve System, including as comprehensive a history as possible and such monographs, essays, or other publications as may be approved by the Committee; and that the Committee be relieved of its obligation to bring about the writing of a "definitive" history in the usual meaning of the term;

9. That after nearly two years of experience during which the Committee has endeavoured to exercise its administrative responsibilities as a group, it has become increasingly clear that administrative responsibilities for the project should now be transferred to the Brookings Institution and that this Committee should operate as an Advisory Committee to the project;

10. That the Committee has previously asked the Brookings Institution to assume larger responsibilities for initiating plans and proposals, which it has been willing to accept, and that the Committee has confidence in the capacity of the Brookings Institution to organize appropriate studies in line with the purposes of the project;

11. That in launching this revised research program the Institution will need the administrative freedom implicit in the proposal herein presented, in order to make plans and negotiate promptly with personnel, and that this transfer of increased responsibility to the Brookings Institution is made acute and especially desirable by reason of the resignation of the Executive Director of the Committee on the History of the Federal Reserve System effective at the end of July, 1956, and by the resignation of President Allan Sproul as Chairman of the Committee at the end of June, 1956;

Now, therefore, BE IT RESOLVED That the Committee recommends to the Rockefeller Foundation that authorization be given for the use of the unexpended funds in its existing grant for historical research and the preparation of a substantial history, historical monographs, or other essays and documents on the history of the Federal Reserve System.

AND FURTHER BE IT RESOLVED That the Committee request the approval of the Foundation for the transfer of full responsibility for administering the project to the Brookings Institution with the understanding that the Committee on the History of the Federal Reserve System will serve in an advisory capacity to the Institution with regard to research and writing for this project.

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

AGENDA

Committee Meeting - May 28, 1956

Luncheon at 1 p.m., President's dining room, Federal Reserve Bank of New York

Convene at 2 p.m.

- I. Report on Executive Committee actions, April 16th
 - A. Grant of \$1500 to Columbia for Vanderlip papers (check sent Columbia 5/23/56)
 - B. Glass Selective Inventory (sent to libraries May 18th - replies)
 - C. Distribution of material on papers (in duplication process - to be sent out June ?)

- II. Report on Brookings Proposal (Dr. Calkins)
 - A. Negotiations for Messrs. Bell and Powell
 - B. Other possibilities
 1. O. Ernest Moore
 2. Redvers Opie
 - C. Monographs
 1. Commitments
 - a. Chandler-Strong biography under way
 2. Approved in principle - ready for negotiation?
 - a. Hackley - proposed Legal History of Federal Reserve System
 - b. Hammond - Evolution of the Payments Mechanism
 - c. Williams - Monetary and Fiscal Policies
 3. Other possibilities
 - a. Carl Parry on Federal Reserve System and Stock Market

- III. Committee decision on Brookings Proposal

- IV. Report to Rockefeller Foundation?

- V. Chairman's resignation

- VI. Election of new Chairman

- VII. Housekeeping details
 - A. Staff terminations as of June 30th (reported to Exec. Comm. April 16th)
 - B. Transfer of office and material to Brookings

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

May 9, 1956

Names and Addresses for Hoovenized Letter on Carter Glass
Inventory (also for gummed labels) same list for
Register of Papers

Miss Alvern H. Sutherland
Librarian, Board of Governors of
the Federal Reserve System
Washington 25, D.C.

Miss Eleanor Di Giannantonio
Librarian, Federal Reserve Bank
of Boston
Boston 6, Massachusetts

Miss Janet Bogardus, Librarian
Federal Reserve Bank of New York
33 Liberty Street
New York 45, N.Y.

Mrs. Florence Hartman, Librarian
Federal Reserve Bank of Philadelphia
Philadelphia 1, Pennsylvania

Miss Ethel Klahre, Librarian
Federal Reserve Bank of Cleveland
Cleveland 1, Ohio

Miss Bess Walford, Librarian
Federal Reserve Bank of Richmond
Richmond 13, Virginia

Miss Linda M. Johnston, Librarian
Federal Reserve Bank of Atlanta
Atlanta 3, Georgia

Miss Jo Ann Aufdenkamp, Librarian
Federal Reserve Bank of Chicago
Chicago 90, Illinois

Miss Constance Pfaff, Librarian
Federal Reserve Bank of St. Louis
St. Louis 2, Missouri

Dr. Francis L. Berkely, Jr.
Curator of Manuscripts
Alderman Library
Charlottesville, Virginia

Miss Mildred Strand, Librarian
Federal Reserve Bank of Minneapolis
Minneapolis 2, Minnesota

Miss Mary MacDonald, Librarian
Federal Reserve Bank of Kansas City
Kansas City 6, Missouri

Miss Mabel Wilkerson, Librarian
Federal Reserve Bank of Dallas
Dallas 13, Texas

Miss Elizabeth Holden, Librarian
Federal Reserve Bank of San Francisco
San Francisco 20, California

Mr. Luther H. Evans, Librarian
Library of Congress
Washington 25, D.C.

Mr. David C. Mearns, Chief
Manuscripts Division
Library of Congress
Washington 25, D.C.

Mr. Edward G. Freehafer, Director
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A Legal History of
THE LENDING FUNCTIONS OF THE
FEDERAL RESERVE BANKS

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A Legal History

of

THE LENDING FUNCTIONS OF THE FEDERAL RESERVE BANKS

CHAPTER I. INTRODUCTION

A. PURPOSE AND SCOPE

This study does not purport to be an economic treatise. The significance of the lending functions of the Federal Reserve Banks as they affect the banking system and the national economy generally has been dealt with often and adequately by competent authorities. The economic aspects cannot, of course, be entirely excluded from any treatment of a subject that falls essentially in the economic field; but they are not the theme of this discourse. The purpose of the present study is to trace the legal history of the lending functions of the Reserve Banks, in other words, to relate the story of these functions from the lawyer's, rather than the economist's, point of view. It is hoped that this will be borne in mind by any non-lawyer who may feel that too little attention is paid to the economic and banking factors.

The term "lending functions" is used here rather than "discount functions" because, strictly speaking, the Reserve Banks make loans not only through discounts but also by means of advances. The term "credit functions" would likewise be inapt because open market purchases, which provide additional credit to the banking system, are

not within the scope of this history; it deals rather with loans in specific instances to particular member banks or other borrowers.

Although the lending provisions of the original Federal Reserve Act of 1913 were regarded as among the most important provisions of that Act, they were relatively brief. In general, they did little more than authorize the Federal Reserve Banks to discount for their member banks short-term commercial paper. Over a period of nearly half a century, however, those provisions have been expanded by numerous amendments to the law, stemming from a wide variety of reasons and with various effects.

In its administration of the law, the Federal Reserve Board has had to issue and modify from time to time regulations relating to discounts and advances by the Federal Reserve Banks. The Board's earliest regulations dealt with this subject. In fact, when the Board in 1915 began designating its regulations by letters of the alphabet, it assigned the letter "A" to its regulation relating to discounts. Regulation A has since undergone numerous amendments and revisions, either because of changes in the law or for technical or other reasons. The most recent revision in 1955 resulted, not from amendments to the law (there have been none in over 20 years), but from a need to restate and clarify general principles governing the discounting function.

In addition to the issuance of regulations, the Board has been called upon frequently to interpret the discount provisions of the law. This was particularly true during the 1920's when member

banks were making extensive use of the discount facilities of the Reserve Banks. About one-fourth of the Board's 1937 "Digest of Rulings" was devoted to this subject.

Finally, the discount provisions on occasion have been interpreted or applied by the courts, although most of the court decisions have dealt with the rights and liabilities of the Reserve Banks with respect to discounted paper rather than the construction of provisions of the Federal Reserve Act.

It is with all of these legal phases of the matter that this study is concerned: changes in the law and the reasons behind them; regulations of the Board under the law; published interpretations of the Board; and court decisions. As previously indicated, economic considerations, however important they may be, are only incidental to the purposes of this study. Similarly, the operational aspects of Federal Reserve lending functions - how discounts and advances are processed by the Reserve Banks, the relative volume of the different types of discounts and advances, etc. - are beyond the scope of the present investigation.

B. GENERAL NATURE OF THE LENDING AUTHORITY OF THE FEDERAL RESERVE BANKS

As a preliminary to a discussion of the development of the lending authority of the Federal Reserve Banks, it is desirable to have in mind a general picture of the nature of that authority under present law. Briefly stated, the Reserve Banks now have power under the law -

1. To discount for member banks commercial paper ("eligible paper") having a maturity of not more than 90 days at the time of discount;
2. To discount for member banks and Federal intermediate credit banks agricultural paper with maturities up to nine months;
3. To discount for member banks bankers' acceptances which arise out of the importation or exportation of goods, domestic shipments of goods, or the storage of readily marketable staples, or which are drawn to create dollar exchange;
4. To discount "factors' paper" and sight drafts growing out of shipments of readily marketable staples.
5. To make advances to member banks on their own notes secured by "eligible paper" or by obligations of the United States or of certain Government agencies;
6. To make advances to member banks on the security of any assets satisfactory to the lending Reserve Bank, but at a rate one-half of one per cent higher than the regular discount rate;
7. To make emergency advances to "groups" of member banks;
8. To make advances to any individual, partnership or corporation (including any bank), but only on the security of direct obligations of the United States;

9. In unusual and exigent circumstances and only under special authority from the Board, to discount eligible paper for individuals, partnerships, or corporations;

10. To make direct advances to business enterprises for working capital purposes, and to enter into commitments with financing institutions with respect to such advances; and

11. With the permission of the Board, to rediscount the discounted paper of other Reserve Banks.

The above grants of authority are subject to limitations and restrictions which will be discussed later at the proper places in this study. In addition, there are certain general limitations in the law which must be noted. Thus, the aggregate amount of paper of any one borrower which may be rediscounted for a member bank may not exceed the amount which that borrower could lawfully borrow from a national bank - in general, 10 per cent of the bank's capital and surplus. A member bank may not act as the medium or agent for a nonmember bank in obtaining Federal Reserve credit, except with the permission of the Board. Finally, under section 4 of the Act, a Federal Reserve Bank in granting credit accommodations must give "due regard" to the claims and demands of other member banks, the maintenance of "sound credit conditions", and the accommodation of commerce, industry, and agriculture.

Each Reserve Bank is authorized to establish from time to time rates of discount to be charged for each class of paper, subject to review and determination by the Board.

Over all, the discounting authority of the Reserve Banks is subject to such limitations and regulations as may be prescribed by the Board and to the Board's authority to determine or define the character of paper eligible for discount.

From the point of view of form, the Federal Reserve Banks extend credit either by discounting paper made eligible by the law, or by making advances on notes secured by specified collateral. Originally and traditionally the standard method was by way of discounts. In recent years, however, Federal Reserve credit has usually been in the form of advances, due chiefly to the large amounts of Government obligations held by member banks and the availability of such obligation as security for advances on notes of member banks.

The recipients of Federal Reserve credit are, of course, primarily banks - national and State - which are members of the Federal Reserve System. This is as it should be. Access to the credit facilities of the Federal Reserve Banks has always been considered one of the principal advantages of membership in the System. However, the original Act contemplated that in some circumstances and with the permission of the Board these facilities might be indirectly available to nonmember banks as well. In 1932, as a farm credit measure, the discount window was opened to Federal intermediate credit banks. Since 1932, business enterprises, corporations, partnerships, and even individuals have been given access to Federal Reserve discounts or advances, although only in emergencies or at least in limited or unusual circumstances.

Again, the subject may be considered from the standpoint of the kinds of assets that may be used as a basis for credit, whether a discount or an advance. The orthodox view at the time of enactment of the Federal Reserve Act was that only short-term self-liquidating paper growing out of actual commercial transactions should be admitted to discount. In large part this view grew out of the concept that an "elastic" currency should be based on such paper in order that currency in circulation would rise and fall in accordance with the credit demands of business and commerce. The orthodox view still colors the discount provisions of the law. However, even the framers of the Act were willing to permit the discount of longer-term paper where it was drawn for agricultural purposes or where it took the form of a bankers' acceptance. Amendments to the law have authorized the use of Government obligations as collateral for advances; and since 1932 member banks have been permitted to borrow from the Reserve Banks, although at a higher rate of interest, on the basis of any "satisfactory" assets whether self-liquidating or not. Under present conditions, when member banks borrow at all it is normally on their own notes secured by direct obligations of the United States.

The basic purposes of the various statutory provisions authorizing discounts and advances are not explicitly stated in the law, although the law makes it clear that the Reserve Banks are not to extend credit for speculative purposes or for purposes inconsistent with the maintenance of sound credit conditions. In general, however,

it may be said that the provisions for discounts and advances have two main purposes: First, to provide temporary assistance to member banks in normal times to enable them to adjust their asset positions when necessary because of such developments as a sudden withdrawal of deposits or because of seasonal requirements; and, second, to provide credit, even on a long-term basis, in emergencies or times of unusual stress. Of the first type are the basic provisions of section 13 which authorize discounts for, and advances to, member banks on the basis of eligible paper or Government bonds. Of the second type are the provisions of section 10(a) and 10(b) of the Federal Reserve Act and those provisions which authorize extensions of Federal Reserve credit in limited circumstances to nonmember banks, business enterprises, corporations, partnerships, and individuals.

The fundamental and over-all objective of the lending functions of the Federal Reserve Banks, as stated by the Board in the Foreword to its Regulation A, is to "accommodate commerce, industry, and agriculture" and to advance the public interest "by contributing to the greatest extent possible to economic stability and growth."

C. MAJOR FACTORS AFFECTING DEVELOPMENT

While it is important to understand the nature of the statutory provisions authorizing discounts and advances by the Reserve Banks, it is also important - and more interesting - to understand why and how these provisions were put into the law, and this is largely the theme of the present study.

Over the years of the System's existence, the relative importance of the lending function has varied from time to time; emphasis has shifted from one phase to another; and concepts have been changed or modified. The factors that have led to these developments have been numerous, and they will be examined in detail in the following chapters. It is worthwhile, however, to have in mind, from the beginning, at least four major factors which have been largely responsible for the expansion of the lending authority of the Reserve Banks beyond their original simple authority to discount commercial paper for member banks.

In the first place, the drop in farm prices following World War I and the acute demand for additional agricultural credit led to amendments to the Federal Reserve Act liberalizing the authority of the Reserve Banks to discount agricultural paper.

Secondly, an active movement to promote the foreign trade of the United States, which had already begun at the time of enactment of the original Act, led to the broadening of the provisions of the law relating to bankers' acceptances and the rediscounting of acceptances by the Federal Reserve Banks.

A third and extremely important factor was the general economic depression of the early 1930's which culminated in the banking crisis of 1933. In order to revive confidence, drastic amendments were made to the law for the purpose of making Federal Reserve credit more available not only to member banks but to nonmember banks and business corporations.

Finally, changes in bank lending practices have materially affected the concept of the kinds of paper acceptable as a basis for Federal Reserve credit. With greater volumes of savings deposits, banks in recent years have invested more of their funds in mortgages and other long-term loans, and there has been a consequent shrinkage in the relative amount of short-term "commercial" paper held by banks. This development has been accompanied by increased emphasis on the "soundness" of paper offered for rediscount as against compliance with the formal requirements for eligibility laid down by the framers of the original Federal Reserve Act.

These four factors are the key to an understanding of many of the more important changes which have taken place in the lending activities of the Federal Reserve Banks. In addition, it should be noted that in recent years it has been recognized more clearly that these activities are not merely localized in their effect but have an important bearing on the effectiveness of System credit policies.

D. ARRANGEMENT

The lending functions of the Federal Reserve Banks have many facets and a purely chronological account of their development would be disconnected, complicated, and extremely confusing. At the same time, it seems desirable to present this history in a way that will make it clear how these functions have steadily and naturally expanded through the years. Accordingly, the plan of this study is something

of a compromise between a chronological and a topical arrangement. Each aspect of the subject is dealt with in a separate chapter, although the chapter may cover the entire period of the System's existence; but the topics of the several chapters are arranged roughly in the order in which they assumed importance chronologically. Thus, while advances to member banks on government bonds were first authorized in 1916, it was not until 1932 that advances, as distinguished from rediscounts, attained real significance; and consequently the chapter on advances follows those on agricultural credits and bankers' acceptances.

The following chapter will attempt to analyze the principal objectives of the original discount provisions as indicated by the legislative history of the Federal Reserve Act in 1913. Thereafter, successive chapters will consider:

- (1) the discounting of "commercial paper" for member banks;
- (2) agricultural credits;
- (3) bankers' acceptances;
- (4) discounts of notes secured by World War I veterans' adjusted service certificates;
- (5) advances to member banks;
- (6) credits for nonmember banks;
- (7) discounts for, and advances to, individuals, partnerships, and corporations;

- (8) advances and commitments for business enterprises;
- (9) rediscounts by the Federal Reserve Banks for each other;
- (10) discount rates; and
- (11) the relation of the lending functions of the Reserve Banks to System credit policies.

In an Appendix there is included a general discussion of decisions of the courts relating to the rights and liabilities of the Federal Reserve Banks with respect to discounted paper. The Appendix also contains the discount provisions of present law, the text of the Board's present Regulation A, and, for reference purposes, lists of the statutes amending the discount provisions of the Act, the various circulars and regulations of the Board, and citations to court decisions.

CHAPTER IV. AGRICULTURAL CREDITS

A. IN GENERAL

One of the special objectives of the discount provisions of the original Federal Reserve Act was to provide a market for agricultural paper.* In describing paper eligible for discount section 13 of the Act specifically referred to paper issued or drawn for agricultural purposes. It provided that nothing in the Act should be construed as prohibiting the discount of paper secured by "staple agricultural products." It even gave a certain preference to agricultural paper by permitting the discount of such paper with a maturity up to 6 months instead of the 90-day maximum maturity prescribed for other types of paper.

The Federal Reserve Act, however, was not a "farm credit" act. Proposals for a long-range system of farm credits, which had been made before 1913, did not reach legislative fruition until the enactment of the Federal Farm Loan Act in 1916.¹ Following the pattern of the Federal Reserve System, that Act set up twelve Federal land banks and provided for the voluntary formation of joint-stock land banks and national farm loan associations. The land banks were authorized to make farm mortgage loans with maturities of not less than 5 and not more than 40 years. The whole system was placed under the supervision of a Federal Farm Loan Board. No change was made in the discounting authority of the Federal Reserve Banks; but both the Reserve Banks

* See Chapter II, p. .

and member banks of the Federal Reserve System were specifically authorized to buy and sell farm loan bonds issued by the land banks.²

During World War I, the farmers had little or no financial problems. In 1920, however, when deflation set in, farm prices dropped; and the need for greater agricultural credit became acute.³

In 1921, the War Finance Corporation was revived with authority, among other things, to provide loans for agricultural purposes.⁴ That Corporation made a large volume of loans to farmers, livestock companies, and cooperative marketing associations; but it was merely an emergency agency. There was a growing sentiment in favor of a more permanent system of farm credits designed to meet the "intermediate" credit needs of the farmer - loans with maturities less than the 5-year minimum maturity permitted by the Farm Loan Act and yet longer than the 6-months maturity prescribed for the discount of agricultural paper by the Federal Reserve Banks. The growth of this sentiment led to the enactment of the Agricultural Credits Act of 1923.⁵

The chief advocates of the new farm credit legislation in Congress were Senators Lenroot and Capper and Chairman McFadden of the House Banking and Currency Committee. Outside of Congress the principal impetus probably came from Eugene Meyer, at that time Managing Director of the War Finance Corporation and later to become Governor of the Federal Reserve Board. Actually, Meyer felt strongly that the best way to help the agricultural interests was to induce more country banks to become members of the Federal Reserve System.⁶ However, he

urged the enactment of the farm credit bill as a comprehensive measure to meet the problems and difficulties that had come to the attention of the War Finance Corporation in connection with agricultural credits.⁷

The Agricultural Credits Act set up twelve Federal intermediate credit banks with authority to make agricultural and livestock loans with maturities of from 6 months to 3 years. It provided further for the voluntary organization of "national agricultural credit corporations" which, under regulations of the Comptroller of the Currency, were authorized to make loans on agricultural paper with a maturity of not more than 6 months and on livestock paper with a maturity up to 3 years; and member banks of the Federal Reserve System were authorized to purchase stock in these corporations. Such was the new machinery provided by the statute. In addition, certain amendments were made to the existing farm credit provisions of the Federal Farm Loan Act and the Federal Reserve Act; and it is the latter which are of particular interest here.

The general objective of the 1923 amendments to the Federal Reserve Act was to make eligible for discount certain types of agricultural paper which previously had not been eligible either because of the maturity limitations or because of other limitations of the law as they had been interpreted by the Board. The maturity requirements were liberalized both for agricultural paper generally and for bankers' acceptances based on agricultural transactions. "Sight" or demand drafts drawn to finance domestic shipments of agricultural products were made eligible for discount, as were also drafts of "factors"

drawn to finance producers of staple agricultural products. A new section 13a was added to the Federal Reserve Act, dealing specially with the discounting of agricultural paper for Federal intermediate credit banks and cooperative marketing associations. All of these changes will be discussed in subsequent sections of this chapter. As stated by Senator Capper, who sponsored the bill in the Senate, the purpose of these provisions was "to make such changes in the rules of eligibility governing agricultural paper as seem necessary to fit the actual requirements of the farmer."⁸

In the opinion of Eugene Meyer, the amendments to the discount provisions of the Federal Reserve Act were the most important in the bill.⁹ His statement before the House Banking and Currency Committee regarding adjustment of the Federal Reserve System to meet changing conditions is well worthy of quotation because of its applicability, not only to the agricultural credit functions of the System, but to the System's functions in general:¹⁰

"* * * The adjustments contemplated are in line with the experience of the last few years, and their purpose is merely to adapt the Federal reserve system, so far as agriculture is concerned, to changed conditions. Those who object to adjusting the eligibility rules of the system to the time required for the orderly marketing of agricultural products under present conditions seem to fear that the soundness of the system may be jeopardized. But the system suffers from friends as well

as from foes. Those who defend its every act and policy and who stand for the immutability of its present law and regulations may be as harmful as those who are extreme in their denunciation of the part played by it in the collapse of commodity markets and prices. The true friends of the Federal reserve system are those who are willing to see its machinery adjusted along sound lines to meet changing conditions, both in this country and abroad."

Shortly after the enactment of the Agricultural Credits Act of 1923, the Board in a published statement reviewed and explained the increased farm credit facilities provided by that Act. In general the Board said that it had "so construed and administered the law as to improve, in the highest possible degree, the credit standing and economic position of the agricultural interests, placing at their disposal, through its discounts for member banks and its open-market operations, the vast resources of the Federal reserve system to the fullest extent permitted by the law and by the principles of sound banking."¹¹

Since 1923, Congress has enacted numerous statutes to provide further credit assistance to agriculture, including, among others, the Farm Credit Acts of 1933 and 1937, and the Federal Farm Mortgage Corporation Act of 1934. However, no substantial changes in the authority of the Federal Reserve Banks to discount agricultural paper have been made since the liberalizing amendments made by the Agricultural Credits Act of 1923. There have been amendments to the law

authorizing advances by the Reserve Banks to member banks on the security of obligations of Federal intermediate credit banks and other Federally established organizations to provide agricultural credit; but a discussion of these amendments, while relating to farm credits, more properly belongs in a later chapter dealing with advances to member banks on their secured notes.

In general, discounts of agricultural paper are subject to the same terms and conditions as those applicable to discounts of commercial paper, as discussed in Chapter III, including requirements with respect to endorsement and negotiability and limitations on the amount of paper of one borrower which may be discounted for any member bank. The one important exception relates to maturity; and the more liberal maturity requirements applicable to agricultural paper will be discussed in a following section. First, however, it is necessary to consider the nature of "agricultural paper."

B. NATURE OF "AGRICULTURAL PAPER"

The Federal Reserve Act itself did not undertake to define "agricultural paper" or "agricultural purposes", although it made it clear that paper based on livestock was intended to be covered. More specific description was left to the discretion of the Federal Reserve Board.

In 1915, in a separate regulation pertaining to agricultural paper,¹² the Board stated merely that paper issued or drawn for

agricultural purposes or based on livestock meant paper the proceeds of which had been used or were to be used for agricultural purposes, "including the breeding, raising, fattening, or marketing of live stock." After the passage of the Agricultural Credits Act of 1923, the Board in a revised regulation¹³ more particularly referred to paper drawn for, or the proceeds of which were used for, "the production of agricultural products, the marketing of agricultural products by the growers thereof, or the carrying of agricultural products by the growers thereof pending orderly marketing, and the breeding, raising, fattening, or marketing of live stock." The same language is contained in Regulation A today.¹⁴ As will be noted later, paper of cooperative marketing associations has been specifically declared to constitute agricultural paper if it meets certain requirements. Otherwise, the Board has not attempted by regulation to describe agriculture paper in any detail.

In some early published interpretations, however, the Board was called upon to determine whether certain types of paper were agricultural, as distinguished from commercial, paper. The need for making this distinction arose, of course, from the more liberal maturity requirement prescribed by the law for agricultural paper.

The Board announced that the basic test is whether the commodity for the purchase of which a note is given will actually be used for agricultural purposes. Even though the commodity itself is of an agricultural nature, the note is not "agricultural paper" if the

purchaser does not intend to use it for an agricultural purpose.¹⁵ Thus, purchase of such a commodity for the purpose of resale is not sufficient;¹⁶ in such a case the paper must be treated as commercial rather than agricultural paper.¹⁷ However, as long as the commodity is actually to be used for an agricultural purpose by the purchaser, the note given by him may be considered agricultural paper, whether discounted by the maker or by the seller-indorser.¹⁸

As specific examples, the Board has ruled that notes given for commercial fertilizer,¹⁹ tractors used in agricultural operations,²⁰ agricultural implements,²¹ and the draining and tilling of farm land²² may be considered agricultural paper.

Livestock paper, that is, paper to finance the breeding, raising, fattening, and marketing of livestock, has always been included in the definition of agricultural paper.²³ In fact, one of the principal purposes of the Agricultural Credits Act of 1923 was to provide needed credit to breeders of livestock. For this purpose, the Board held that cows, horses, and mules are livestock.²⁴ However, notes given by dealers in cattle and mules are commercial rather than agricultural paper;²⁵ and the notes of a packing company given for the purchase of livestock to be slaughtered are not notes "based on live stock" within the meaning of the law.²⁶

C. MATURITY

The original Federal Reserve Act allowed a maximum maturity of 6 months for agricultural paper, as contrasted with the 90-day maturity requirement applicable to all other types of paper. This allowance was made, however, with no intent to single out agricultural paper for special favor but simply in recognition of the fact that the marketing of farm crops and livestock normally requires a longer period of financing than ordinary commercial transactions. Even a 6-months limitation soon proved to be inadequate; and the Agricultural Credits Act of 1923 increased the maturity requirement for agricultural paper to 9 months.

Apparently, this increase in the maturity requirement for agricultural paper was prompted largely by the contention of representatives of livestock associations that the then existing 6-months limitation was not adequate to provide assistance to breeders, as distinguished from raisers, of livestock.²⁷ The Senate Banking and Currency Committee felt that the longer period of maturity "would be helpful and was in some cases necessary", and that such a lengthening of the maturity of agricultural paper would in no way impair the liquid character essential to Federal Reserve Bank discounts.²⁸ Congress agreed with those "in control of the Federal reserve system" that paper having a maturity of more than 9 months should not be eligible for discount because the paper rediscounted by the Reserve

Banks "must be self-liquidating."²⁹ As a safeguard, the Senate Banking and Currency Committee inserted a new restriction against the use of paper with maturities greater than 6 months as security for Federal Reserve notes, unless the paper was secured by warehouse receipts or security documents or chattel mortgages on livestock.³⁰

In addition to increasing the maturity prescribed for the discount of paper drawn for agricultural purposes, the Agricultural Credits Act of 1923 increased the maturity prescribed by section 13 of the Federal Reserve Act for the discount of bankers' acceptances from 90 days to 6 months where the acceptances were for agricultural purposes and were secured by title documents covering readily marketable staples. The Federal Reserve Board had previously ruled that agricultural acceptances with maturities up to 6 months could be purchased by the Federal Reserve Banks in the open market; and Congress felt that there was no reason "why such acceptances should not be given the full benefit of the rediscount privilege."³¹

D. AMOUNT LIMITATIONS

The longer maturity permitted for agricultural paper was a concession to the orthodox doctrine that only short-term paper should be eligible for discount; and Congress made the concession with a qualification. To prevent the discounting of long-term agricultural paper in excessive amounts, the original Federal Reserve Act provided that discounts of such paper should be limited to a percentage of the

capital of the discounting Federal Reserve Bank, "to be ascertained and fixed by the Federal Reserve Board."

Pursuant to this provision, the Board by regulation limited the aggregate amount of such paper with a maturity of more than 3 months and less than 6 months which each Federal Reserve Bank might discount to 25 per cent of the Reserve Bank's paid-in capital.³² At the same time the Board indicated that in those districts in which 6-months paper was particularly required to carry through agricultural operations, the 25 per cent limit would be increased from time to time upon request of the Federal Reserve Banks.³³

In 1916, Congress sought to make the statutory limitation more liberal by basing it on a percentage of the assets, rather than the capital, of the discounting Federal Reserve Bank.³⁴ Still later the Agricultural Credits Act of 1923 authorized the Board by regulation to limit the amount of paper with a maturity of from 3 to 6 months and from 6 to 9 months which might be rediscounted by a Federal Reserve Bank. Pursuant to these changes in the law, the Board in its 1923 revision of Regulation A provided that there should be no amount limitation on the discount of paper with a maturity of more than 3 months and less than 6 months, but that the aggregate amount of discounted agricultural paper with a maturity of between 6 and 9 months should not exceed 10 per cent of the total assets of a Federal Reserve Bank.³⁵ While the authority for such limitations is still in the law, the limit fixed by the Board in 1923 was omitted from Regulation A in 1937; and no such amount limitation is now in force.

It is to be borne in mind, however, that agricultural paper continues to be subject to the same limitations on the amount of paper of any one borrower which may be discounted for a member bank as those applicable to the discounting of other types of paper. These limitations have been discussed in a previous chapter.*

E. SIGHT DRAFTS

Drafts payable at sight or on demand have no fixed maturity and may not actually be presented for payment within 90 days, or even within 6 or 9 months. Such drafts, therefore, could not meet the fixed maturity requirements prescribed by section 13 of the Act as a condition to rediscount by the Federal Reserve Banks. It was the custom, however, for many member banks during crop-moving periods to discount large volumes of sight drafts secured by bills of lading covering the shipment of wheat, cotton, or other agricultural products; and these drafts, although having no fixed maturity, were usually paid with promptness and were considered a liquid and desirable form of paper. Accordingly, the Board recommended to Congress that the law be amended to make such drafts eligible for rediscount by the Reserve Banks under certain conditions.³⁶

Such an amendment was made by the Agricultural Credits Act of 1923.³⁷ It extended the discount privilege to bills of exchange payable at sight or on demand if drawn to finance the domestic shipment of "nonperishable, readily marketable staple agricultural products" and if secured by bills of lading or other shipping documents

* See Chapter III, p.

conveying or securing title to such staples. It was provided, however, that all such bills should be forwarded promptly for collection and that demand for payment should be made with reasonable promptness after the arrival of the staples at their destination; and no such bill could be held by or for the account of a Federal Reserve Bank for more than 90 days. In discounting such sight bills the Reserve Banks were authorized to compute the interest to be deducted on the basis of the estimated life of the bill and to adjust the discount after payment of the bill to conform to its actual life.

Five years later, in 1928, the provision was expanded to permit the discounting of sight bills covering nonagricultural as well as agricultural staples and covering the exportation as well as the domestic shipment of such staples.³⁸

In its 1923 revision of Regulation A, the Board followed generally the language of the law with respect to discounts of sight or demand bills;³⁹ and the regulatory provisions on this subject remain substantially the same today.⁴⁰

As to what constitutes a "readily marketable nonperishable staple", the Board stated in 1923 that it did not deem it advisable to formulate a comprehensive definition and that the Reserve Banks should exercise their discretion in the matter.⁴¹ In specific instances, however, the Board held that cottonseed should be,⁴² and cottonseed oil should not be,⁴³ considered readily marketable staples for this purpose. As has been noted, the statutory provisions were changed in 1928 to

cover nonagricultural as well as agricultural staples. When Regulation A was revised in 1937, it carried a footnote stating that, within the meaning of the Regulation, a readily marketable staple meant "an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable and (b) the staple itself easy to realize upon by sale at any time."⁴⁴ This definition followed a similar definition which had previously been adopted by the Board for the purpose of determining the eligibility of bankers' acceptances growing out of the storage of readily marketable staples; and the scope of the term will be considered further in a later chapter relating to the discounting of bankers' acceptances.*

F. FACTORS' PAPER

During the hearings on the Agricultural Credits Act of 1923, Eugene Meyer pointed out that, in addition to sight bills, another class of agricultural paper had theretofore been ineligible for discount because of rulings of the Federal Reserve Board. The Board had held that so-called "finance" paper the proceeds of which were to be loaned to third persons was not eligible for discount.* *On this theory, the paper of cotton "factors", who carried cotton for their customers until the cotton was sold, could not be offered for discount.⁴⁵ Governor Meyer felt that this was a "hairsplitting" distinction.⁴⁶

* See Chapter V, p. .

** See Chapter III, p. ____.

Congress apparently agreed with Governor Meyer. The Agricultural Credits Act of 1923 amended the second paragraph of section 13 of the Federal Reserve Act to provide expressly that nothing in that Act should be construed to prevent "the notes, drafts, and bills of exchange of factors issued as such making advances exclusively to producers of staple agricultural products in their raw state" from being eligible for discount. A paraphrase of this provision was incorporated in the Board's 1923 revision of Regulation A;⁴⁷ and a similar provision appears in the present regulation.⁴⁸

It is to be observed that this provision relates only to factors' paper drawn to finance producers of agricultural products "in their raw state." Thus, the Board held that, if the proceeds of a cold-storage company's notes were to be used for making advances to producers of eggs and poultry, the notes would be eligible for discount, but that butter is not an agricultural product in its "raw state" and consequently notes covering advances to those engaged in the commercial production of butter from cream purchased from others would not be eligible for discount.⁴⁹

Some years later, as noted in the previous chapter, the Board reversed its general position regarding the eligibility for discount of "finance" paper. Under its present Regulation A, therefore, not only agricultural factors' paper but any paper the proceeds of which are to be loaned to third persons may be eligible for discount if the proceeds are ultimately to be used for commercial, agricultural, or industrial purposes.

G. PAPER OF COOPERATIVE MARKETING ASSOCIATIONS

By 1923, cooperative marketing associations had assumed considerable importance as agencies for enabling farmers to market their crops to better advantage.⁵⁰ Normally, such associations were non-stock organizations whose members consisted of the producers of the particular crop which the organization was designed to market and to which the members delivered their crops for sale. The commodities were pooled according to grades and after all of a particular pool had been sold by the association the proceeds were distributed pro rata to the producers who had contributed to that pool.⁵¹

In a number of rulings prior to 1923⁵² the Board had held that in some circumstances notes of cooperative marketing associations were eligible for discount as agricultural paper, but that in other circumstances such notes were not eligible for discount or were eligible only as commercial paper and therefore must have a maturity of not more than 90 days. For example, the Board had held that notes of an association engaged in packing and marketing products not grown by itself, the proceeds of which were used to pay current expenses and to purchase supplies, were eligible for discount only as commercial paper.⁵³

The Agricultural Credits Act of 1923 recognized the essential agricultural nature of cooperative marketing associations and, as stated by Eugene Meyer, "swept away" technical distinctions based on the legal form in which their paper was issued.⁵⁴ In a new section 13a

added to the Federal Reserve Act, it was provided that notes, drafts, and bills of exchange issued or drawn by such associations should be "deemed" to have been issued or drawn for an agricultural purpose if their proceeds (1) were advanced to their members for an agricultural purpose, (2) were used to make payments to members for agricultural products delivered to the associations, or (3) were used to meet expenditures incurred in connection with the grading, packing, preparation for market, or marketing of any agricultural products handled by the associations for their members.

After the enactment of the Agricultural Credits Act of 1923 the Board published a revised statement of general principles affecting the discount of paper of cooperative marketing associations.⁵⁵ Among other things, this statement made it clear that the following types of paper would be eligible for discount as agricultural paper: growers' drafts accepted by the associations covering deliveries of crops, if the proceeds were used by the growers for agricultural purposes; growers' paper used to finance the carrying of their products for a reasonable period incident to orderly marketing; and paper of the associations to finance the packing and marketing of the products of their members, to pay for products purchased from their members, or to make advances to their members for agricultural purposes.

In its Regulation A, the Board followed the language of the amended law as to the eligibility of paper of cooperative marketing associations for discount; but, in addition, the Regulation provided

that such paper would not be eligible if the proceeds were used to defray expenses of organizing the association, or to acquire warehouses or purchase or improve real estate or other fixed or permanent investments.⁵⁶

H. DISCOUNTS FOR FEDERAL INTERMEDIATE CREDIT BANKS

As noted at the beginning of this Chapter, the Agricultural Credits Act of 1923 set up a system of Federal intermediate credit banks to provide credit to farmers with maturities "intermediate" between the short-term credit available through the Federal Reserve Banks and the long-term credit obtainable from the Federal land banks. The intermediate credit banks were authorized to discount agricultural and livestock paper for State and national banks, agricultural credit corporations, livestock loan companies, and cooperative marketing associations, and to make direct loans to cooperative marketing associations. The maturity of all such discounts and advances was limited to a minimum of 6 months and a maximum of 3 years.

In turn, the Federal intermediate credit banks were permitted to rediscount their paper with the Federal Reserve Banks on the same basis on which agricultural paper generally could be offered for discount to the Federal Reserve Banks. Thus, to be eligible for discount, such paper had to be indorsed by the intermediate credit bank and had to have a maturity at the time of discount of not more than 9 months, exclusive of days of grace, subject to the right of the Federal Reserve Board

to limit the amount of 3 to 6 months' paper and 6 to 9 months' paper which might be rediscounted by a Federal Reserve Bank. In addition, the new law specifically provided that no Reserve Bank should rediscount for a Federal intermediate credit bank any note bearing the indorsement of a nonmember State which which was eligible for membership in the Federal Reserve System.

This was the first instance in which the discount facilities of the Federal Reserve Banks were made available to any but member banks of the Federal Reserve System.

In addition to authority to discount paper for the intermediate credit banks, the Agricultural Credits Act of 1923 gave the Reserve Banks authority to buy and sell debentures and other such obligations issued by the Federal intermediate credit banks or by the national agricultural credit corporations provided for in the same Act, but only subject to the same limitations as those applicable to the purchase and sale of farm loan bonds. Farm loan bonds, under the Farm Loan Act of 1916, could be bought and sold by the Reserve Banks to the same extent as State, county, and municipal bonds could be purchased pursuant to section 14(b) of the Federal Reserve Act; and that section prescribed a maturity limitation of 6 months at the date of purchase. Finally, it may be noted that the Agricultural Credits Act added to section 14 of the Federal Reserve Act a new provision authorizing the Reserve Banks to purchase and sell in the open market acceptances of the intermediate credit banks and the national agricultural corporations, whenever the Federal Reserve Board should declare "that the

public interest so requires." All of these provisions relate to purchases by the Reserve Banks rather than to the discounting and lending functions of the Reserve Banks; but they have been mentioned here in order to indicate the extent to which Congress in 1923 provided for the use of the Federal Reserve System in facilitating the operations of Federal intermediate credit banks and in furtherance of extensions of agricultural credit.

Discounts for the intermediate credit banks were made subject to regulations and limitations to be prescribed by the Federal Reserve Board. In its 1923 revision of Regulation A,⁵⁷ the Board required each Federal Reserve Bank, in discounting paper for any intermediate credit bank, to "give preference to the demands of its own member banks" and to have "due regard to the probable future needs of its own member banks." In addition, a Federal Reserve Bank was prohibited from discounting such paper whenever its own reserves were less than 50 per cent of its aggregate liabilities for deposits and Federal Reserve notes in circulation;⁵⁸ and the total amount discounted by all Federal Reserve Banks at any one time for any one intermediate credit bank was limited to the amount of the capital and surplus of such intermediate credit bank.

In 1928, both of these amount limitations were made less rigid by an amendment to the regulation allowing them to be exceeded "with the permission of the Board."⁵⁹ In the 1937 general revision of Regulation A, the limitation on discounts by all Reserve Banks for any one intermediate credit bank was omitted altogether. Finally, in

1955, the other limitation was also omitted, primarily because the reserves of all Federal Reserve Banks had for some time been less than 50 per cent of their deposit and note liabilities and the Board's permission would therefore be necessary in all cases. It was specifically provided that all discounts for intermediate credit banks should be made only with the permission of the Board.⁶¹

In the meantime, Congress had amended the law to provide the Federal intermediate credit banks with additional facilities for "acquiring funds through the Federal reserve system."⁶² The Act of May 19, 1932,⁶³ authorized the use of intermediate credit bank debentures as collateral for advances by the Reserve Banks to member banks and, in addition, amended section 13a of the Federal Reserve Act to permit the discount for the intermediate credit banks of notes payable to such banks and indorsed by them if they have maturities of not more than 9 months and are secured by paper eligible for discount by the Reserve Banks. The authority for advances on debentures of intermediate credit banks will be discussed in a later chapter.* The purpose of the added authority to discount notes payable to the intermediate credit banks was simply to permit the discounting of paper representing direct advances made by such banks to agricultural associations and other financial institutions. As explained by Chairman Steagall of the House Banking and Currency Committee, it was "a piece of lost machinery in the intermediate credit banks" that the Committee was attempting to supply.

* See Ch. VII, p. .

By way of summary, the Federal Reserve Banks are presently authorized, with the permission of the Board, to discount for any Federal intermediate credit bank (1) paper meeting the regulatory definition of "agricultural paper" and (2) notes payable to such intermediate credit bank which represent loans made by it and which are secured by any paper eligible for discount by the Reserve Banks. In either case the paper must be indorsed by the intermediate credit bank and have a maturity of not more than 9 months at the time of discount. No amount limitation is now prescribed; but the Reserve Bank must give due regard to the demands and probable future needs of its member banks.

FOOTNOTES

- 1 Act of July 17, 1916 (39 Stat. 360).
- 2 The Reserve Banks were authorized to buy and sell such bonds to the same extent that they could purchase and sell municipal bonds under section 14(b) of the Federal Reserve Act. See 12 U. S. Code, sec. 943. Section 14(b) permitted the purchase and sale of municipal bonds having maturities of not more than 6 months. Member banks were given blanket authority by the Farm Loan Act to buy and sell farm loan bonds. See 12 U. S. Code, sec. 942.
- 3 See discussion during the Congressional debates on the Agricultural Credits Act of 1923; 64 Cong. Rec. 1742, 1746.
- 4 41 Stat. 1084.
- 5 March 4, 1923 (42 Stat. 1454).
6. Ibid., p. 43, p. 55. The Banking and Currency Committees agreed that it was desirable to encourage more country banks to join the System. (See Senate Report No. 998, p. 8; House Report No. 1712, p. 19). A proposal to increase dividends paid on Federal Reserve Bank stock was finally abandoned as not being a substantial inducement to membership. (See House Report No. 1712, p. 19) However, the Agricultural Credits Act sought to make membership more attractive by somewhat liberalizing capital requirements, and a Joint Congressional Committee was assigned the task of considering what measures might be taken to increase membership.
- 7 House Hearings on S. 4280, Jan. 31, Feb. 2-19, 1923, p. 1.
- 8 64 Cong. Rec. 1758.
- 9 House Hearings on S. 4280, Jan. 31, 1923, p. 1.
- 10 Ibid., p. 62.
- 11 1923 BULLETIN 913.
- 12 Reg. C, Series of 1915; 1915 BULLETIN 38.
- 13 Reg. A, Series of 1923, sec. VI(a); 1923 BULLETIN 893.
- 14 Reg. A, 1955, sec. 3(e); 1955 BULLETIN 12.
- 15 1918 BULLETIN 310.
- 16 1916 BULLETIN 526.
- 17 1918 BULLETIN 1118.
- 18 1918 BULLETIN 310, 312.
- 19 1915 BULLETIN 75.
- 20 1918 BULLETIN 309.

- 21 1916 BULLETIN 67.
- 22 1918 BULLETIN 743. But the note of an irrigation company is commercial rather than agricultural paper, even though all of its customers are farmers. 1921 BULLETIN 964.
- 23 See 1916 BULLETIN 679; 1917 BULLETIN 378.
- 24 1916 BULLETIN 112; 1915 BULLETIN 72.
- 25 1915 BULLETIN 212.
- 26 1917 BULLETIN 690.
- 27 See statement by Sen. Capper, 64 Cong. Rec. 1757.
- 28 Sen. Rep. No. 998, 67th Cong., p. 7.
- 29 64 Cong. Rec. 4903.
- 30 Eugene Meyer felt that this restriction was unimportant because of the large reserves available to the Reserve Banks. Hearings on S. 4280, 67th Cong., p. 60.
- 31 Sen. Rep. No. 998, 67th Cong., p. 7.
- 32 Reg. No. 5; 1914 Annual Report, p. 61.
- 33 Circular No. 13, 1914 Annual Report, p. 184.
- 34 Act of Sept. 7, 1916 (39 Stat. 752). See statement by Sen. Owen, 53 Cong. Rec. 11002.
- 35 Reg. A, Series of 1923, sec. VI(e); 1923 BULLETIN 893.
- 36 1923 BULLETIN 911. See statement by Mr. Platt during hearings on S. 4280, 67th Cong., p. 104; and also Sen. Rep. no. 998, 67th Cong., p. 6.
- 37 Act of May 29, 1928 (45 Stat. 975).
- 38 Stat. ; now contained in F. R. Act, sec. 13, par. ; 12 U.S.C.
- 39 Reg. A, Series of 1923, sec. VII; 1923 BULLETIN 894.
- 40 Reg. A, 1955, sec. 3(b); 1955 BULLETIN 11.
- 41 1923 BULLETIN 276.

42 1925 BULLETIN 737.

43 1926 BULLETIN 854.

44 Reg. A, 1937, sec. 1(b); 1937 BULLETIN 984.

45 See Hearings on S. 4280, 67th Cong., p. 60.

46 Ibid., p. 74.

47 Reg. A, Series of 1923, sec. VIII; 1923 BULLETIN 894.

48 Reg. A, 1955, sec. 3(g); 1955 BULLETIN 12.

49 1926 BULLETIN 251.

50 1923 BULLETIN 911. For statement by Eugene Meyer regarding development of such associations, see Hearings on S. 4280 before House Banking and Currency Committee, 67th Cong., p. 61.

51 1923 BULLETIN 999.

52 See summary of such rulings in 1922 BULLETIN 1044.

53 1921 BULLETIN 1312.

54 Hearings on S. 4280, before House Banking and Currency Committee, 67th Cong., p. 61.

55 1923 BULLETIN 999.

56 Reg. A, Series of 1923, sec. VI(b); 1923 BULLETIN 893. The provisions remain unchanged in the present Regulation. See Reg. A, 1955, sec. 3(f); 1955 BULLETIN 12.

57 Reg. A, Series of 1923, sec. VI(d); 1923 BULLETIN 894.

58 This limitation was not applicable, however, where paper of a Federal intermediate credit bank was rediscounted at a Federal Reserve Bank by a member bank. 1926 BULLETIN 252.

59 1928 BULLETIN 777.

60 1937 BULLETIN 984.

61 Reg. A, 1955, sec. 6(a); 1955 BULLETIN 14.

62 75 Cong. Rec. 8860.

63 47 stat. 159.

CHAPTER VII. ADVANCES TO MEMBER BANKS

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E. THE GLASS-STEAGALL ACT: A BREAK WITH THE PAST

A date of the utmost importance in the history of the lending functions of the Federal Reserve Banks was February 27, 1932, the date of enactment of the so-called Glass-Steagall Act.⁴⁶ It was a brief statute of only three sections, but one which marked a definite change in the concept of the nature of the lending authority of the Reserve Banks. Previously, emphasis had been placed on compliance with more or less formal and technical requirements for eligibility, particularly self-liquidation out of commercial transactions; thereafter emphasis was placed more and more upon the soundness of the paper offered as a basis for credit.

The Glass-Steagall Act was essentially an emergency measure. Its purpose was, if possible, to restore confidence in the banking system, halt bank failures, loosen credit, and bring currency out of hoarding. As stated by the bill's co-author, Representative Steagall, the banking and credit machinery of the country had "drifted into unhappy days."⁴⁷ An "omnibus" banking bill - the so-called Glass bill - was then pending in the Senate. Designed to correct the abuses which had led to the "unhappy days" - the use of bank funds for speculative purposes and participation by banks in the securities business, that bill was to be enacted more than a year later as the Banking Act of 1933. In the meantime, some immediate action was

deemed necessary to dispel the predominant atmosphere of uncertainty and apprehension.

The extreme urgency of the situation is indicated by the legislative progress of the Glass-Steagall bill. It was introduced in both Houses on February 11; it was reported and debated in the Senate on Friday, February 12, and on the same day hearings were held by the House Banking and Currency Committee; on Monday the 15th it was passed by the House; after further debate in the Senate on the 18th, it was passed by that body on the following day; and the bill was signed by the President on the 27th. Indeed, some members of Congress complained of the shortness of time allowed for consideration of the bill.⁴⁸

The bill contained three provisions. One of them amended section 16 of the Federal Reserve Act to permit direct obligations of the United States to be used as collateral for the issuance of Federal Reserve notes until March 3, 1933. Previously, such notes could be issued only against gold, gold certificates, and eligible paper rediscounted by the Reserve Banks. Because of the shrinkage in the amount of commercial paper offered for discount, Federal Reserve notes then outstanding were backed to the extent of nearly 80 per cent by gold, although the Federal Reserve Act required, and contemplated, only a gold reserve of 40 per cent against outstanding Federal Reserve notes.⁴⁹ There were those who felt that permission for the use of Government obligations as security for Federal Reserve notes would be inconsistent

with the original concept of an "elastic" currency backed by commercial paper rather than Government bonds.⁵⁰ The majority, however, were willing, at least as a temporary measure, to depart from the original concept because they believed that hoarding of currency would be offset by an "emergency circulation of Federal reserve notes secured by Government bonds."⁵¹ Moreover, this amendment would have the effect of "turning loose" about \$800,000,000 of "free gold",⁵² and would thereby "fortify the gold status of the Federal reserve banks in this period of extraordinary disturbance."⁵³

But it is with the other two provisions of the Glass-Steagall Act that this history is more directly concerned, for they permitted the Federal Reserve Banks for the first time, although only in emergency situations, to extend credit to member banks on the basis of any sound or "satisfactory" assets, whether or not technically eligible for re-discount.

Two new sections were added to the Federal Reserve Act, sections 10(a) and 10(b). Section 10(a) authorized any Federal Reserve Bank, with the consent of at least five members of the Federal Reserve Board, to make advances to groups of five or more member banks on their promissory notes under certain conditions, one of which was that the bank or banks in the group that received the proceeds had no adequate amounts of "eligible" paper. Section 10(b) provided authority, until March 3, 1933, under which a Reserve Bank in "exceptional and exigent circumstances" could make an advance to an individual member bank on

its notes "secured to the satisfaction" of the Reserve Bank, if the member bank had no further "eligible" paper.

The principal objective of these provisions was to reassure banks by making it clear that in an emergency they could use long-term paper, such as mortgages, as a basis for borrowing from the Reserve Banks. Actually, there was no real shortage of "eligible" paper among the banks of the country as a whole. During the hearings on the bill before the House Banking and Currency Committee, Governor Meyer of the Board estimated that member banks held from \$8 billion to \$8-1/2 billion of eligible paper including Government bonds.⁵⁴ The difficulty, Governor Meyer said, was that the banks were "timid" about borrowing. In the prevailing state of confusion and fear, banks felt it necessary "to keep on hand enough liquid securities or eligible paper to respond to any contingency that might arise" in order to meet possible demands of their depositors.⁵⁵ Senator Glass put the situation as follows:⁵⁶

"* * * There is plenty of eligible assets in the portfolios of the member banks of the Federal reserve system, * * *. The member banks of the system, the banking community of the United States, have ceased to function through abject fear and have communicated this fear to depositors. * * *"

In other words, the purpose of the Act was largely psychological. At another point during the debates, Senator Glass remarked:⁵⁷

"* * * The chief psychological advantage of this measure - and it is perhaps a valuable psychological advantage - is that it gives assurance to these frightened and timid bankers throughout the country that if they will only respond to the requirements of commerce, if they will only help in relieving themselves and the country from this depression and in doing so exhaust their eligible assets, then and only then may they make use of their ineligible assets."

Similarly, Senator Fletcher felt that the bill would place banks in a position where they could "take greater risks and make loans and accommodate their customers to a greater extent" than they had been doing.⁵⁸

Some feared that, by broadening the base for borrowings from the Reserve Banks, the bill would be inflationary.⁵⁹ The Senate Committee's Report, however, stated that the bill was "not intended nor should it be used for undue inflation of the currency."⁶⁰ Similarly, the House Report expressed the belief that the bill, "without undue expansion", would result in easier credit which would aid in ending bank failures and in improvement of business conditions generally.⁶¹ In other words, it was felt that if the bill did cause some inflation it would not, in the circumstances, be an undue or improper inflation. As one Congressman put it, "If by easing credit we increase confidence and dispel fear, we shall observe a resulting flow into rediscount channels of hoarded rediscountable paper, with a resultant issuance of

Federal reserve notes. * * * There is nothing inflationary in such a program, because there is no undue or unwarrantable element in that which is normal."⁶² There were some, indeed, who were afraid, not that banks would borrow too much under the bill, but that they would borrow too little.⁶³

In any event, it was emphasized that the provisions of the Act were to be utilized only in exceptional and emergency situations. A few, like Senator Vandenberg, suggested that commercial practices had changed over the years, that "Federal reserve definitions should progress with the times", and that "sound" assets should be eligible as a basis for Federal reserve credit even though they "fell outside the arbitrary limitations set up in the original Federal reserve act."⁶⁴ But Governor Meyer of the Board declared that the bill was intended to be used only in "exceptional cases",⁶⁵ and that it would provide facilities to be availed of "in an emergency."⁶⁶ The Act itself stated in its title that it was to provide means for meeting the needs of member banks "in exceptional circumstances"; and the new section 10(b), authorizing advances on any satisfactory assets, was limited to "exceptional and exigent circumstances" and was enacted to remain in force only until March 3, 1933.

The general objectives of sections 10(a) and 10(b) were summarized two months after their enactment by the Senate Banking and Currency Committee when Congress was considering a more comprehensive banking bill. In its report on the Glass bill which later became the Banking Act of 1933, that Committee stated:⁶⁷

"Within recent months there has been a very widespread demand for some means of furnishing emergency relief to banks that are in difficult straits. The Federal reserve system was intended to furnish a means of mutual aid and if properly administered was entirely adequate to the necessities of the case. However, with conditions as they stand it is likely that some plan whereby actual assistance could be furnished to banks which are willing to stand sponsor for one another and thus enable them to clear up danger spots in their own several communities would be helpful. We therefore suggested such a plan as an additional means of strengthening and rendering useful the provisions of the Federal reserve system. The general plan so recommended was founded upon the idea of joint action by clearing houses or groups of banks in different localities designed for the purpose of getting accommodations on their joint unsecured notes at reserve banks up to such amount as might be held prudent; likewise, in exigent cases, relief was provided for individual banks. Such emergency credit should be retired as soon as possible, and therefore it seemed best to provide severe restrictions upon its use and duration.* * *."

Although regarded in those "unhappy days" of 1932 as a piece of emergency legislation, the Glass-Steagall Act marked a turning point; and, as it later developed, it proved to be more than a

temporary measure. The authority for the use of Government bonds as security for Federal Reserve notes was extended from time to time and finally made permanent. Section 10(a), authorizing advances to groups of member banks, is still on the statute books, although of little practical significance. Section 10(b), providing for advances on satisfactory assets, is now permanent legislation and no longer restricted to emergency situations. It is in order at this point to consider in more detail the purposes, history, and application of these particular sections of the Federal Reserve Act relating to advances to member banks.

CHAPTER VII - FOOTNOTES

46 47 Stat. 56.

47 75 Cong. Rec. 3963.

48 E.g., Mr. Shannon (75 Cong. Rec. 3983); Mr. McFadden (75 Cong. Rec. 3986); and Sen. Couzens (75 Cong. Rec. 4053).

49 Report of House Committee on Banking and Currency (Rep. No. 475, Feb. 13, 1932), p. 2.

50 Mr. McFadden, 75 Cong. Rec. 3986.

51 Sen. Robinson, 75 Cong. Rec. 4223. In the House, Mr. Stafford said: "This bill could not be justified in normal times, because some of the security that is offered for Federal reserve notes, though perfectly sound, is not of liquid character, such as bonds and mortgages. But hard cases require exceptional treatment. I justify this only as a temporary expedient * * *." (75 Cong. Rec. 3981).

52 75 Cong. Rec. 3966.

53 Report of Senate Banking and Currency Comm. (Report No. 237, 75th Cong., Feb. 12, 1932), p. 2.

54 Hearings on H. R. 9203, Feb. 12, 1932, p. 15. Later, the Board reported that, as of Dec. 31, 1931, member banks held \$4,694,000,000 of Government bonds and \$2,573,000,000 of eligible commercial paper. 1932 BULLETIN 142.

55 Mr. Steagall, 75 Cong. Rec. 3964.

56 75 Cong. Rec. 4136.

57 75 Cong. Rec. 4137. Senator Wolcott likewise thought the measure would cause banks to stop "hoarding" eligible paper and make more loans. 75 Cong. Rec. 4143.

58 75 Cong. Rec. 4242.

59 Mr. LaGuardia, 75 Cong. Rec. 3970.

60 Rep. No. 237, 72d Cong., Feb. 12, 1932.

61 Rep. No. 475, 72d Cong., Feb. 13, 1932.

62 Mr. Beedy, 75 Cong. Rec. 3980.

63 See statement by Secretary of the Treasury Ogden Mills during Hearings on H. R. 9203, Feb. 12, 1932, p. 23.

64 75 Cong. Rec. 4228. Similarly, Rep. Williamson felt that a liberalization of the eligibility rules should be made permanent legislation. 75 Cong. Rec. 3972.

65 Hearings, p. 18.

66 Ibid., p. 3.

67 Sen. Report No. 584, on S. 4412, 72d Cong., April 22, 1932, p. 12.

May 23, 1956

A Preliminary Memorandum on a
Proposed Study of the Evolution of
the Payments Mechanism

From: Bray Hammond

The object of this study would be an account of the payments mechanism of the economy, including the Interdistrict Settlement Fund of the Reserve Banks, local and regional clearing houses, correspondent arrangements, and monetary transfers, both private and governmental, as well as check collections. That mechanism, centering in the Reserve System, is an achievement of organization characteristic of the modern economy and co-ordinate with its productive and distributive techniques. Its evolution has followed the railway, the telegraph, the clearing house, the airplane, electronics, the development of large scale business organization, and the growth of governmental functions. It is an important raison d'etre of the Federal Reserve System, prominent in the early days of the Reserve Banks but since then so efficient and noiseless that its operation may easily be overlooked. I should not suppose that the more difficult and discretionary central banking functions, such as open market operations, would ever reach such a degree of automaticity; but it is at least of historical interest that the payments mechanism once occupied as much attention as the central banking

processes now absorb, or more.

There seems to be no occasion for a detailed technical description of the mechanism. I have in mind rather an account concerned with its economic significance and the contrast between it and what it followed. Up to a century ago or so domestic movements of specie were still a factor in effecting payments at a distance, as movements of gold are in international exchange today. The sale of domestic exchange was still a major element of bank income and the movement of funds from region to region, whether in specie or in bills, was still a dominant influence on the demand for funds. The situation in 1824 is indicated by the following statement from instructions sent by Nicholas Biddle to the New Orleans office of the Bank of the United States. "More particularly," Biddle said, "it appears to us that the discounting domestic bills at the mere interest of the money, without any charge for the exchange, is not an adequate profit for the risk and must have so injurious a tendency on the purchases of foreign exchange that it would be preferable for the Bank to decline such discounts unless at least one per cent were added to the interest."

At that time, seasonal movements of grain and meat down the Mississippi and of cotton northward and overseas dominated business, and inter-regional trade was spoken of and reckoned with as "export" and "import" trade, exactly as if it were international. Production

has become more varied since then and differences between seasons and regions have been reduced. Along with these underlying changes, it has become the function of the Interdistrict Settlement Fund to equalize variations in local money markets and make the economy homogeneous in a monetary sense. Although no warrant remains for domestic exchange charges, a large proportion of non-member banks derive sufficient income therefrom to dominate their policy.

In describing the evolution of the payments mechanism, the following should be taken into account:

1. The early 19th century effort to segregate federal monetary transactions from those of private transactors in the economy--an effort officially terminated by the establishment of the Federal Reserve Banks as fiscal agents of the Treasury.

2. The circuitous and inflationary routing of checks for collection which the Federal Reserve Banks were intended to stop and which were occasioned by the persistent effort of bankers to derive income from out-of-town payments long after movements of specie and other funds had ceased to give excuse for exchange charges.

3. The litigation and administrative difficulties encountered by the Federal Reserve Banks in the effort to enforce the legal requirement that checks cleared through them be paid at par.

4. The contemporary resistance to par clearance by banks, outside the Federal Reserve System, which derive income from exchange charged on checks to out-of-town payees--a resistance which keeps many banks outside the Federal Reserve, subjects banks within the system to unfair competition, and puts the Federal Reserve and the Federal Deposit Insurance Corporation in a deadlock over enforcement of the prohibition against payment of interest on demand deposits.

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DIVISION OF RARE BOOKS
AND
MANUSCRIPTS

11 June 1956

Dear Miss Adams:

Thank you so much for your thoughtfulness in advising me of Dr. Hammond's impending visit. We will be pleased to have him here, and our staff will give him all possible assistance in his research in the Carter Glass papers.

With kind regards,

Sincerely yours,


Francis L. Berkeley, Jr.
Curator of Manuscripts

Miss Mildred Adams
Research Director
Committee on the History
of the Federal Reserve System
33 Liberty Street
New York 45, New York

FLB/dck

Enclosure

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CHARLOTTESVILLE
ALDERMAN LIBRARY

DIVISION OF RARE BOOKS
AND
MANUSCRIPTS

11 June 1956

Dear Dr. Hammond:

We will be delighted to have you and Mrs. Hammond here during the week beginning June 18th, and to make the Carter Glass papers available to you for research.

I am sorry to say that I shall be away from the University for the two weeks beginning June 16th, and thus will miss the pleasure of seeing you and Mrs. Hammond. Messrs. Russell Smith and William Runge of our Manuscripts staff, however, will be on the alert for your arrival and will be glad to assist you. I am also informing Mr. John Cook Wyllie, the Curator of Rare Books, that you will be here, and I am sure that he will be glad for you to call on him if there is any way in which he can be helpful.

Sincerely yours,

Francis L. Berkeley, Jr.
Curator of Manuscripts

Dr. Bray Hammond
627 G Street, S. E.
Washington 3, D. C.

FLB/dck

Copy to: ✓ Miss Mildred Adams

June 8, 1956

Dear Dr. Berkeley:

A distinguished former member of the research staff of the Federal Reserve Board, Dr. Bray Hammond, whose book on pre-Civil War banks is about to be published by the Princeton University Press, will be coming to Charlottesville the week of June 11th to look at the Carter Glass papers. He has gone through the inventory so that he should know what he wants to see.

Dr. Hammond is very much interested in the work of this Committee, and we are hoping that he will be able to do a monograph or two for us. I recommend him to your hospitality with pleasure, as I know that you will enjoy each other. We will be most grateful for your courtesy to him.

Cordially yours,

Mildred Adams

Dr. Francis L. Berkeley
Curator of Manuscripts
Alderman Library
University of Virginia
Charlottesville, Virginia

JHW:km

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

Minutes of Committee Meeting
Monday, April 16, 1956
Washington, D. C.

Distributed
April 30, 1956

TO: Messrs. Allan Sproul, Chairman
W. Randolph Burgess
Robert D. Calkins
F. Cyril James
William McC. Martin, Jr.
Walter W. Stewart
Joseph H. Willits

Winfield W. Riefler

The Committee convened at 10:40 a.m. in the lounge of the Brookings Institution at Washington, D. C. Members present were Chairman Sproul, Messrs. Burgess, Calkins, Riefler (for Mr. Martin), Stewart and Woodward. Miss Adams was present as Executive Director. Absent members, Dr. James and Dr. Willits, were both reported ill.

Minutes of the previous meeting (February 4, 1956) having been distributed, their reading was omitted. It was, however, moved, seconded and carried that the "clause of enactment" assigning to Brookings a larger administrative responsibility, which was included in those Minutes, should be replaced by a revised version circulated to members on February 17, 1956 and approved by them. With the passing of this resolution, the revised clause was declared to have become the official Minute on the subject.

Purpose

Thereafter most of the meeting was devoted to a series of reports from Dr. Calkins detailing various steps by which he was moving to carry out the Committee's desires as expressed in the "clause of enactment." Dr. Calkins reported as follows:

1. The conference held February 21st with Dr. Norman Buchanan of the Rockefeller Foundation fell into three parts; a report on action taken at the Princeton meeting to emphasize monographs and increase the administrative responsibility of Brookings, a consideration of timing and a discussion of personnel. Dr. Buchanan showed little surprise at the reorientation of emphasis; he expressed the opinion that Foundation approval of the changes could be handled either by the officers of the Foundation or the Executive Committee of its trustees when a definite proposal is submitted. It was agreed that the Committee should submit its proposal in writing. Several scholars were suggested for roles in the project, but none of them have survived screening.

2. The Committee's proposal of February 4th to transfer to the Brookings Institution, under certain conditions, a greater share of administrative responsibility was presented to the Board of the Institution at their

March meeting. They approved the plan as offered, with the proviso that Dr. Calkins can find an appropriate person to head up the project.

3. The search for such a person, who would become a full-time staff member at Brookings, has met the same difficulties which the Committee had previously encountered. As a way of breaking this impasse, Dr. Calkins suggested the choice of a younger man showing promise of growth and distinguished work. He named two, Dr. Philip W. Ball of Haverford and Princeton, Dr. Raymond Park Powell of Yale, both assistant professors of economics, both in their early thirties. The Brookings proposal is that they work as a team, with Dr. Ball appointed as a Brookings staff member and nominal head of the project, and Dr. Powell (who wants to keep his Yale connection) as co-director. To give such a young team authoritative guidance, Dr. Calkins suggested an advisory sub-committee of three older experts to include Dr. Lester Chandler, and perhaps Dr. Howard Ellis.

If these men should prove to be not available or acceptable, Dr. Henry Wallich of Yale, formerly on the staff of the New York Federal Reserve Bank, was suggested as second choice. Dr. Calkins thought it desirable to give these young scholars as much leeway and chance for initiative as possible.

4. Dr. Calkins then presented a five-point memorandum on Proposed Activities, of which Number 2, The General Plan for Study, contained three alternative plans; Plan A, a two-volume history with related monographs; Plan B, a group of coordinated monographs; Plan C a symposium on episodes in the System's history (a copy of this memorandum will be included in the Minute Book).

Point 3 in Dr. Calkins' memo, the seminar which had been discussed at earlier meetings, would be modified to become initially a series of conferences of people planning and working in the project. Small group meetings of this kind could initially be financed out of Committee funds. As they grow, funds could be sought outside.

At the end of this presentation, and after listing other names and outlining possible alternative arrangements, Dr. Calkins asked the Committee's views on the men he suggested and the plans proposed. If these were favorable, he would then see Dr. Buchanan of the Rockefeller Foundation, interview Dr. Ball (he had seen Dr. Powell), report back to the Executive Committee, and ask for formal approval.

Discussion by the Committee of the men proposed revealed a cautious willingness to accept them (Ball and Powell as a team, Wallich for second choice) if after further exploration Dr. Calkins recommended the appointments.

On plans, Committee members showed a reluctance to cede to these young men complete freedom to plan the project. Discussion of the plans proposed revealed a basic difference of opinion, Mr. Burgess and Mr. Woodward preferring Plan A, Mr. Riefler and Dr. Stewart upholding Plan B, Mr. Sproul not convinced that the men proposed could handle the history by first intent but willing to assume that they could do valuable work which might lead ultimately to the history.

Consensus

It was agreed that Dr. Calkins should talk with Dr. Bell. On the suggestion of Mr. Burgess, it was agreed that after this preliminary conversation, negotiations with both men should be carried on for the Committee by Dr. Calkins and Mr. Sproul jointly.

Formal action on the Brookings proposals was postponed until after negotiation with Messrs. Bell and Powell made possible a more specific plan.

It was agreed that plans now in prospect must, if approved by the Committee, be cleared with the Rockefeller Foundation and the Foundation's assent be expressed in writing before the proposed shift of administrative responsibility to Brookings could be completed.

Monographs

Dr. Calkins also reported that two monograph ideas previously considered are developing while a new one bears promise.

Mr. Howard Hackley has been moving ahead in his own time on sectors of the legal history of the Federal Reserve System. He prefers to work this way, desires no compensation, wants no favors asked for him of the Board of Governors of the Federal Reserve System, would welcome Committee aid in publication. He has developed an outline, of which the Committee has a copy.

Mr. Bray Hammond's suggestion of a monograph to be done on check clearance and collection has been widened in scope to become a study of the evolving role of the payments mechanism. He will prepare an outline.

Dr. John Williams has expressed himself as interested in writing a short book or a long monograph on Monetary and Fiscal Policy, with accent on the former. The Committee asked a more specific description and commitment to be sought by Dr. Calkins.

Approval of these three ideas was expressed in principle. Further negotiation will be needed before commitments are ready for Committee action.

Postponed

Discussion of two other monograph suggestions, of the employment of Dr. Howard Ellis, of seminar plans, of further search for an historian were held in abeyance as dependent on the development of the Brookings proposals.

Other Business

An invitation having been received by the Executive Director for a centenary celebration at the home of Woodrow Wilson in Staunton, Virginia, on April 28th, it was agreed that Mr. Hugh Leach, President of the Federal Reserve Bank of Richmond, be asked to represent this Committee.

The meeting was adjourned at 1:20 p.m., with an Executive Committee meeting scheduled to follow after luncheon.

Donald B. Woodward
Secretary

PROPOSED ACTIVITIES
for the
HISTORY OF THE FEDERAL RESERVE SYSTEM

1. Appointment of project director

Possible nominees - Mr. Calkins

2. General Plan for Study

Plan A. A two-volume History of the Federal Reserve System
and monographs, including:

Benjamin Strong, A Biography - Lester Chandler

Legal History of the Federal Reserve System - Howard H.
Hackley

The Payments Mechanism - Bray Hammond

Recent Monetary and Fiscal Policy - An Analysis - John
Williams

Plan B. A series of coordinated monographs, including those
listed above and others.

Plan C. A symposium - Episodes in the History of the Federal
Reserve System.

3. Seminar

4. Encouragement of other studies

5. Depository for Papers at Columbia University

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

AGENDA

Committee Meeting
Washington, April 16, 1956

Convene at 10:30 a.m.

- I. Minutes of Committee meeting held February 4, 1956, copies of which were distributed to Committee members February 17, 1956. (Secretary has copy.)
- II. Resolution to amend the Minutes in accordance with the revision of the "clause of enactment" which was proposed by Dr. Calkins after the meeting, circulated to members and approved by them.
- III. Report on conference held February 21st with Dr. Norman Buchanan of the Rockefeller Foundation. (Dr. Calkins).
- IV. Reply of the Brookings Institution to the Proposal of this Committee that Brookings assume further administrative responsibilities for this project. (Dr. Calkins).
- V. Report by Dr. Calkins and discussion by Committee of:
 - A. Appointment of a full-time staff member to take charge of this project.
 - B. Plans for continuing project:
 1. Monographs to be authorized--
Hackley - Legal History
Hammond - Evolving Role of Payments Mechanism
Williams - Monetary and Fiscal Policy
 2. Monographs for further consideration--
International Exchange
Financing of World War I and II
 3. Employment of Dr. Howard Ellis for a major assignment.
 4. Seminar.
 5. Historian.
- VI. Committee action on the Brookings reply.
- VII. Report of this action to the Rockefeller Foundation.
- VIII. Other Business.

Luncheon at 12:45.

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

March 15, 1956

TO: Messrs. Allen Sproul, Chairman
V. Randolph Burgess
Robert D. Galkins
F. Cyril James
William McC. Martin, Jr.
Walter W. Stewart
Joseph H. Willits
Donald B. Woodward, Secretary

Winfield W. Riefler

The meeting of this Committee which was postponed from Saturday, March 17th, will be held at Brookings on Monday, April 16th.

Arrangements made for the earlier meeting will be carried forward on the same pattern.

The Committee will convene in the lounge at the Brookings Institution at 10:30 a.m. on Monday, the 16th.

Luncheon will be served at Brookings at 12:45.

The Chairman hopes it will be possible to complete the business of the full Committee by 2 p.m., and to hold a meeting of the Executive Committee between 2 and 3.

Mildred Adams

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

March 1, 1956

TO: Messrs. Allan Sproul, Chairman
W. Randolph Burgess
Robert D. Calkins
F. Cyril James
William McC. Martin, Jr.
Walter W. Stewart
Joseph H. Willits
Donald B. Woodward, Secretary

Winfield W. Riefler

Arrangements for the meeting of this Committee in Washington on March 17th have been made as follows:

The Committee will convene in the lounge at the Brookings Institution at 10:30 a.m. on Saturday, the 17th.

Luncheon will be served at Brookings at 12:45.

The Chairman hopes it will be possible to complete the business of the full Committee by 2 p.m., and to hold a meeting of the Executive Committee between 2 and 3.

Mildred Adams

*Meeting
Cancelled*

office

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

February 10, 1956

TO: Messrs. Allan Sproul, Chairman
 W. Randolph Burgess
 Robert D. Calkins
 F. Cyril James
 William McC. Martin, Jr.
 Walter W. Stewart
 Joseph H. Willits
 Donald B. Woodward, Secretary

Winfield W. Riefler

In view of the discussion last Saturday of the terms on which the Rockefeller grants were made, and the relative responsibility as between this Committee and Brookings, members may be interested in three sets of quotations, two of them from the Rockefeller letters of grants, the third a copy of the document defining the relationship between the Committee and Brookings.

On January 21, 1954, when the pilot project was starting, Miss Flora Rhind, Secretary of the Rockefeller Foundation, wrote to Dr. Calkins as follows:

"I have the honor to inform you that action has been taken by the officers of The Rockefeller Foundation making available the sum of \$10,000, or as much thereof as may be necessary, to The Brookings Institution for an exploratory study of historical materials relating to the Federal Reserve System. This grant is for use during the period ending April 30, 1954, and it is our understanding that it will be administered by the Brookings Institution in collaboration with the Committee on the History of the Federal Reserve System of which Mr. Allan Sproul is President.

.....

"May we request that when communicating with the Foundation concerning this grant, you quote the reference number 'GA 55 5404.'"

On May 24, 1954, Miss Rhind wrote Dr. Calkins concerning the major grant as follows:

"I have the honor to inform you that at a meeting of the Executive Committee of the Rockefeller Foundation on May 21, 1954, action was taken providing up to \$310,000 to The Brookings Institution for the preparation of a history of the Federal Reserve System. This grant is in addition to the Foundation's grant No. GA SS 5404, and the combined sums are available for the period ending May 31, 1959."

These paragraphs are so general as to include a wide range of possibilities. The letters make no reference to any plan or description governing or inspiring the grant. All that the Foundation asks is attention to the code number, an annual budget and an annual statement of expenditures.

On May 21, 1954 the Committee approved a statement of the proposed relation between the Committee and Brookings. A week earlier (May 14, 1954) this had been approved by the Brookings Board of Trustees. It reads as follows:

"PROPOSED RELATION BETWEEN THE COMMITTEE ON THE HISTORY OF THE
FEDERAL RESERVE SYSTEM AND THE BROOKINGS INSTITUTION

1. The Committee on the History of the Federal Reserve System and the Brookings Institution will assume joint responsibility for the administration of the proposed project on the History of the Federal Reserve System and the expenditure of funds that may be granted by the Rockefeller Foundation for this activity. The proposed grant will be made to the Brookings Institution for administration jointly by the Committee and the Institution.
2. The Committee will enlarge its present membership and provide for the replacement of members as agreed upon by the Committee and the Brookings Institution.
3. To facilitate the administration of the project, the Committee will designate an Executive Committee with power to make administrative decisions jointly with the Brookings Institution on matters that may require action, and a member of this Executive Committee will be designated and empowered to act for the Committee in accordance with general policies established jointly by the Committee and the Brookings Institution.

4. The Committee, directly or through its designated representatives, and the Brookings Institution, through the President, will jointly determine the research and related activities to be undertaken, the allocation of funds, the manner in which these activities shall be pursued, the personnel to be engaged, the contracts, grants, or other commitments that may be made.
5. The administrative arrangements and the payment of funds will be handled by the Institution on the authorization of the President in accordance with procedures approved by the Committee and the Institution.
6. Employees engaged for work on the project shall be appointed by the President of the Institution in consultation with a designated representative of the Committee, and they shall be joint employees of the Committee and the Institution for specified periods, and not regular employees of the Brookings Institution.
7. Contracts or grants for writing, research, or other services shall be arranged by the President of the Institution in consultation with a designated representative of the Committee. These contracts or grants, as the circumstances may require, shall specify the obligations of the parties, the amount and manner of payment, the responsibility for supervision, and the responsibilities respecting reading and criticism of manuscript, editorial work, approval for publication, and publication arrangements. Such contracts or grants may be entered into with the Brookings Institution itself for portions of the work on terms that comply with the Institution's usual operating practices.
8. The Institution will keep a record of its overhead and other expenses incurred in administering the project, and render an accounting to the Committee annually. Such expenditures up to \$3,000 per year (as provided in the request) shall be charged against the funds for the project. Any expenditures beyond \$3,000 per year shall be subject to reimbursement with the approval of the Committee.

9. These arrangements shall apply for the duration of the project over the next five years, unless altered with the approval of the Committee and the Brookings Institution."

The third paragraph was expanded on May 4, 1955 in regard to authorizing payments.

Presumably it is this third document which would be amended by the "enactment clause" approved by the Committee at their meeting on Saturday, February 4, 1956.

These three items have now been taken from the files and placed in the Minute Book. Their substantive paragraphs are sent you with apologies for their absence at Princeton.

Mildred Adams