

April 7, 1955

Internal Memorandum

San Francisco, California - Interview with Mr. C. E. Earhart, President of the Federal Reserve Bank of San Francisco

Mr. Earhart is a long, lean and amiable, gray-haired man who has come up through the Bank from early days. Like other presidents, he is extremely well informed about the district in which his Bank operates. This includes not only the state of California, but Oregon, Washington, Nevada, Idaho, Utah, and most of Arizona with the exception of a small territory in the southeast. In 1914, when the Bank first started operation, the territory included 716,499 square miles and had a population of some 6,000,000 people. It included 1,726 banks with resources of \$1,965,000,000.

At present, the territory is the same, but the population in 1954 had more than trebled and numbered 19,045,000 people. (The number of banks and their resources now operating in the district can be ascertained).

The San Francisco Bank had, during its history, had five branches. The first was opened July 26, 1917 at Spokane, Washington and was closed in 1938. (The cause of this incident lies in bank mergers and insufficient business, but the closing led to bitterness and great political activity. Mr. Earhart hopes never to have to close another branch). The second branch was opened at Seattle, Washington September 19, 1917, the third at Portland on October 1, 1917, the fourth in Salt Lake City, Utah on April 18, 1918. Not until January 2, 1920 was a branch opened in Los Angeles which then was a small and sprawling city with little more than great ambition to support its demands for a branch. At the present time, Los Angeles ^{grown huge} would like to be constituted as a separate Federal Reserve district, and some activity has been directed toward this. Thus far, there has been no encouragement either from San Francisco or from Washington. Mr. Earhart's way of handling the boundless ambitions of the southern city, not to mention the competitive ambition of other cities in the district, is to declare that the ~~San Twelfth Federal Reserve District~~ ~~San Francisco Federal Reserve Bank~~ has five offices. He plays down the word "branch" and

attempts to operate the entire district as a whole. The other item of strategy has been to bring in directors from other towns to the head office board of directors.

Asked about the incidents in the San Francisco Bank about which controversy has swirled or still swirls, Mr. Earhart was quick to present the following list:

1. The long battle over the power of the Chairman versus the power of the Governor. San Francisco was one of the banks in which this argument was loudest and longest sustained.
2. The difficulties of handling the Liberty Loan as a new technique for which there was no precedent.
3. The par clearance troubles which, in this vast extended district, have been considerable and are by no means ended yet.
4. The sudden expansion of the region's economy in the first World War.
5. The failed banks of the agricultural depression of the 1920's. This situation was particularly bad in the mountain states.
6. The woes of the bank holiday of 1933.
7. The branch banking controversy. This has been particularly acute in San Francisco, and most publicity has been given to the difficulties between the Trans-America holding company and the Bank of America. In the beginning, the Federal Reserve Bank of San Francisco hoped to limit branch banking to what might be called ⁽³⁾ the trade areas in the district but could get no agreement on them. This was the last hope, as earlier they had hoped they could hold branch banking to ⁽¹⁾ the city or the county. ⁽²⁾ The last hope was that it could be held to ⁽⁴⁾ the individual state, and that has pretty much succeeded except for the empire ideas of Mr. Giannini.
8. The troubles surrounding World War II, both economic expansion and the problem of evacuating the Japanese and caring for their property.

9. The present intensive competition which has followed on the heels of the Trans America hearings.
10. The factor of growth which, like the factor of size, has been constant, if not continuous.
11. Off-shore trade has been a factor, but not steady.

On some of these headings, Mr. Earhart expanded. As to Number 5, concerning the bank failures of the 1920's, he said that these were particularly bad in the mountain states, or what they call the inter-mountain states, that is, Idaho, Utah, Nevada and Arizona. He said that the agricultural depression of the 1920's forced men down to the very bottom of their economic possibilities. He spoke of one farmer who had borrowed money at a member bank and whom he met after the member bank had failed and he (Mr. Earhart) went out to collect, or try to collect. The farmer had a son, and between the two of them, there was only one pair of shoes. Both men could not go to town at the same time, but one must stay at home and go barefoot. He said that there were still men in the inter-mountain states who remembered their dealings with the Federal Reserve Bank, and he promised to give me some names of men who might have interesting data to contribute on this period, which was obviously so much worse in the west and the southwest than it was in the east.

On the branch banking controversy and the present intensive competition which has followed the Trans America hearings, he said that branch banking was ^{an} ~~so~~ important a factor in the west, ^{is, for example,} ~~that~~ there ~~was~~ only one bank, with its branches, in Nevada and two ^{only} banks ^{with their branches,} in Arizona. Of these, the Valley National Bank of Arizona is the largest in the Rocky Mountain region with 1/4 billion dollars in assets, 29 branches, 250,000 customers, and 2/3 of the bank credit in Arizona. This has grown recently out of the Gila Valley Bank, founded in 1899 with \$250,000 of capital.

So far as California is concerned, the Bank of California is the only one which crosses state lines, but to this must, of course, be added the Trans America holding

corporation.

The affairs of the Trans America holding corporation and the Bank of America have been very much in the public eye. This is no place in which to attempt a recapitulation of their various mergers and evolutions. In summary, the most recent phase is as follows. After the Trans America hearings of 1951, under the Clayton Act, Trans America was ordered to sell its remaining shares in the Bank of America. Then in 1953 the United States Court of Appeals set that decision aside, saying that the Federal Reserve System had not proved its charge of monopoly. The Supreme Court refused to review the case, which left the Federal Reserve System in the position of having been beaten in its attempt to break up this great ^{banking empire} merger.

According to the Trans America Report for 1954, during that year the fifteen smaller banks in Oregon were consolidated with the First National Bank of Portland, ^{a Trans America bank} The Farmers' Bank of Carson Valley, Nevada merged with the First National Bank of Nevada, ^{a Trans America bank}

In California, three banks in Mountainview and Oakdale were merged with the Central Bank of Oakland, ^(under Trans America) Trans America then bought a third interest in the San Francisco Bank and combined its interest with the Central Bank of Oakland, which had fifteen branches. The name of that merger of the San Francisco Bank and the Central Bank of Oakland was then changed to the First Western Bank and Trust Company. ^{newly named + constituted colonies} Twenty-three more banks in California were then taken in as branches of this ~~First Western Bank and Trust Company.~~

These mergers have resulted in six ^{newly constituted} giants now under Trans America operation, named as follows: First Western Bank and Trust Company of California; the First National Bank of Portland, Oregon; the First National Bank of Nevada; the Bank of Nevada; the National Bank of Washington; and the First National Bank of Arizona.

As of December 1, 1954, the First Western Bank and Trust Company had 54 offices in 39 communities, from Weed in northern California to Santa Ana in southern California. Mr. F. N. Belgrano, Jr. is chairman and president.

During most of the operations of the Giannini family, their banks have been members of the Federal Reserve System. At the present time, this new First Western Bank and Trust Company is not a member. Mr. Earhart expects that it will apply for membership once its affairs are in order. Meanwhile, there is a lively controversy between the Trans America holding company and the Bank of America, which was one of the early Giannini constructions. The Bank of America charges that Mr. Giannini wanted it to have the 23 small banks that merged into the First Western Bank and Trust Company. The daughter of Giannini, Mrs. Claire Giannini Hoffman, is said to have gone to the board of Trans America to make this plea but to have had no luck. Mr. Earhart says that while there is an active controversy on the surface, the currents run very deep, and there is no telling what the situation really is. Obviously, the Trans America activities are highly influential in this district.

On the matter of par clearance, the San Francisco Bank in the early days carried on an active campaign through the Wells Fargo Express Company, presenting checks to banks over the counter, to be cashed without deduction of charges. The Brookings State Bank of Brookings, Oregon sued the Federal Reserve Bank because they presented checks over the counter. Mr. Earhart does not remember how this suit came out.

On the matter of growth, which is a constant in this picture, Mr. Earhart says that the district has grown "in surges." The economics of the district is now geared to post-war growth and would be very hard hit if this expansion, particularly in the housing industry and industry in general, should cease.

Expansion in this district has been in terms of human immigration ^{first, then} ~~as well as~~ in finance and industry. The story starts, of course, in 1849 with the Gold Rush and followed with the land grants to railroads and people brought in by railroads. The Union Pacific came to San Francisco, the Southern Pacific and the Sante Fe went to Los Angeles. (The Sante Fe was there first, and the Southern Pacific followed). Immigrants were brought in at \$1.00 a piece (packed in cattle cars) in the hope that they would settle,

farm the land, and create produce that would provide shipping for the new railroads. Also, there was the matter of the railroads' sale of land that was given them by the National government in order to encourage their building.

The story is full of detail and color, also full of failures and recoveries. By the time the Federal Reserve Bank was established in 1914, the city of San Francisco had gone through its great earthquake in 1906 and had recovered and rebuilt itself. The district boomed with shipbuilding and food-raising in ^{World War I} ~~the 1920's~~, including the opening of certain Sacramento Valley lands to the growing of rice, which was an entirely new crop there. It was badly hit in the 1920's and recovered. In the 1930's came the wave of immigration from the mountain country of Oklahoma. These were ^{subsistence farmers, share-} ~~men~~ ^{with families} ~~croppers~~ but with no property who came to settle, and the difficulties they had were recorded by ^{John} Steinbeck, among others. In the 1940's, it was a vast Negro immigration which surprised ^A the city. San Francisco had something like 5,000 Negroes before World War II and 50,000 Negroes afterward. As with the Oakies, the government and the people expected the Negroes to go home, but in both instances they stayed.

Meanwhile, the balance between various parts of the district has shifted as the totals have grown. In 1914, San Francisco was far bigger than Los Angeles and the undoubted financial center of the state. It is still the financial and banking center of the state in spite of the growth of Los Angeles in population, but at the present time Los Angeles has 1,970,000, while San Francisco has only 775,000. (These are figures of 1950). It should be observed by an outsider, however, that the huge population of Los Angeles extends over an enormous territory which has been added bit by bit to the once small city. If San Francisco chose to engage in similar operations and took in the east bay region, San Mateo and Marin Counties, which as a matter of fact form a San Francisco community center or a metropolitan San Francisco, they would more than balance the large population of Los Angeles. However, there are long-standing prejudices between San Francisco and the east bay region which have not yet been quieted, and any talk of merger

is promptly countered by agitated objection.

Meanwhile, the northwest has also been growing, but it has not yet approached its own potential. Seattle and Portland are the great ports of the north, Los Angeles of the south.

There has been at least one and perhaps two drives on the part of Los Angeles to split the district.

A further detail in this growth factor is the great tendency of towns to spread into suburban areas and the consequent difficulty for unit banks of serving the needs of their customers. At the present time, the Crocker National Bank is attempting to compete with the branch banking tendencies of its competitors by arranging trucking service with money to meet payrolls or facilities for collecting ^{daily intakes} ~~great payments~~. There is some question as to whether these trucking services, which sound as though they operated ^{somewhat} like the old rolling meat markets, can be called branch banks. (This should be followed up as an interesting detail).

Meanwhile, the physical size of the region has been enlarged by the fact that one bank in Alaska has joined the Federal Reserve System, and Alaska is now part of the twelfth district. If Hawaii becomes a state, it also will become part of the twelfth district.

This factor of size of the twelfth district is not as important now as it was in earlier days when transportation and communication were both more difficult. Nevertheless, it is still true, in spite of airplanes and telephones, that the west is to a certain extent an empire in itself with different necessities and patterns from those prevailing in the east.

Under item Number 11, Offshore trade, Mr. Earhart said that this was only an occasional factor. In the days of the China trade, it was an important one, but recently, it has decreased, and particularly since the end of World War II. (This is not at all a sure date. The Japanese aggression against China must have meant that the China trade shrank before the end of World War II). The Research Division of the San Francisco Bank

has one man who specializes in Oriental trade and finance. There is practically no China trade at present except what comes out of Singapore, and while Japanese trade has been growing since the end of World War II, it has by no means developed the volume or the banking needs that accompanied the old China trade. There is also the fact that the Army and Navy are doing most of the transporting of goods and people back and forth between the west coast and the Orient. (It might be worthwhile to look into the manner in which the Army and the Navy handle their funds. Do they have their own banking, or do they work through commercial banks?)

On item 9, Competition, Mr. Earhart's worry is lest branch banking and the tendency toward mergers force the entire district into the pattern of Nevada with its one bank constituting a complete banking monopoly in the state. He hopes that it will be possible to keep at least ten competing banks within the region, that is, ten banks with branches. From the eastern point of view, this sounds like an incredibly small number, but the fault lies in the lack of a California law against branch banking.

Mr. Earhart contributed several details of interest. One concerned a citizen of Great Britain who deposited gold in a San Francisco bank in 1933 and is now demanding payment, not in dollars, but in the increased value of the gold which he deposited.

The second is an item found its way into a recent story in a popular magazine. ^(The American?)
A man came into the bank and asked to be allowed to exchange a Federal Reserve Bank Note for legal tender. The question, of course, dates from the days when bank notes could be exchanged for gold. The phrase has never been removed from the ^{F.R.} bank notes, and the officer who was met with this inquiry had considerable difficulty answering it. According to the short story which was built on the incident, there was no reply that was satisfactory in the least.

Drive-in banking is a developing institution in California, and it serves the growing suburban communities.

The armored car which goes to factories and stores either with payrolls or to take in ^{deposits} ~~profits~~ is another peculiarity of this territory. It is said in some quarters to constitute a branch of the bank and to come under Regulation Q of the Federal Reserve System. The bankers are rather worried.

About men early in the System, Mr. Earhart spoke particularly of three, Mr. Perrin, Mr. Kains, and Mr. Ira Clerk.

Mr. Kains was a Canadian who brought with him several men from the Canadian Bank of Commerce. These men came early in World War I and stayed in San Francisco. To a large extent, they set the pattern of custom and behavior there. They were steeped in branch banking and in meticulous attention to detail. They are the ones who originated the extraordinarily fine subject filing system in the San Francisco Bank. To the present day, this Canadian influence is felt, and there are even certain Canadian terms which persist in the San Francisco Bank. Miram Johnson, Senator from California, tried at one time to get the Canadians out of the Bank in order to put in political supporters of his own, but they were by this time citizens themselves, and he failed.

This Canadian influence is undoubtedly the reason why Dr. Bopp found the San Francisco Bank seeming to his mind so rigid.

Mr. Ira Clerk was an Australian who found the Canadian ways very sympathetic and carried them on. He was an extremely orderly man with excellent organizational ability. He knew what he wanted and demanded it. Apparently he demanded instant service from the files and was constantly testing their ability to grant it. It was Mr. Clerk who is said by Dr. Bopp to have had the entire progression of officers in the Bank so well organized that he knew in advance who would follow whom as president. Regrettably, he died, and his son, now employed in the Bank, said that he left no papers.

Mr. John Perrin, Governor from 1914 to 1926, came from Indianapolis. His family were hardware merchants who sent him to Yale and then to Europe to study banking. He was president of a bank in Indiana before he came to San Francisco, and he played an

important part in the organizing committee of the Federal Reserve System. He was actively engaged with Governor Hamlin at one time. Mr. Earhart calls him "an American aristocrat." With Pierre Jay, he believes Mr. Perrin to have been the best chairman in the System. Governor Kains (governor from 1914 to 1917) bowed to Mr. Perrin and so did Governor Lynch. The famous battle for authority within the San Francisco Bank was between Chairman Perrin and Governor Calkins, who came to the Bank in 1919.

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