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FEDERAL RESERVE BOARD CONFERENCE

MINUTES

OF

CONFERENCE WITH THE FEDERAL RESERVE BOARD OF THE FEDERAL ADVISORY COUNCIL AND THE CLASS A DIRECTORS OF THE FEDERAL RESERVE BANKS

HELD AT WASHINGTON, D. C.
MAY 18, 1920

PRESENTED BY MR. GLASS

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BEFORE THE FEDERAL RESERVE BOARD.

CONFERENCE WITH THE FEDERAL RESERVE BOARD OF THE FEDERAL ADVISORY COUNCIL AND THE CLASS A DIRECTORS OF THE FEDERAL RESERVE BANKS.

WASHINGTON, D. C., *Tuesday, May 18, 1920.*

The conference convened at the offices of Governor Harding, Treasury Building, Washington, D. C., on Tuesday, May 18, 1920, at 10.30 o'clock a. m., Hon. W. P. G. Harding, Governor of the Federal Reserve Board, presiding.

Appearances:

Hon. Adolph C. Miller, member of the Federal Reserve Board.

Hon. Henry A. Mohlenpah, member of the Federal Reserve Board.

Hon. John Skelton Williams, Comptroller of the Currency and member ex-officio of the Federal Reserve Board.

Hon. David F. Houston, Secretary of the Treasury and member ex-officio of the Federal Reserve Board.

George L. Harrison, counsel, Federal Reserve Board. Also the members of the Federal Advisory Council:

Philip Stockton, Federal reserve district No. 1.

A. B. Hepburn, Federal reserve district No. 2.

L. L. Rue, Federal reserve district No. 3.

W. S. Rowe, Federal reserve district No. 4.

J. G. Brown, Federal reserve district No. 5.

Oscar Wells, Federal reserve district No. 6.

James B. Forgan, Federal reserve district No. 7.

F. O. Watts, Federal reserve district No. 8.

E. F. Swinney, Federal reserve district No. 10.

R. L. Ball, Federal reserve district No. 11.

A. L. Mills, Federal reserve district No. 12. Present also:

J. H. Puelicher, Marshall & Ilsley Bank, Milwaukee, Wis.

John Perrin, chairman of the board and Federal reserve agent, Federal Reserve Bank of San Francisco.

Hon. Edmund Platt, chairman of the Banking and Currency Committee, House of Representatives.

Also the following class A directors of the Federal reserve banks:

Boston: Thomas Beal, Edward S. Kennard, and Frederick S. Chamberlain.

New York: James A. Alexander, R. H. Treman, Charles Smith, and J. H. Sisson.

Philadelphia: Joseph Wayne, jr., M. J. Murphy, and Francis Douglas.

Cleveland: O. N. Sams, Robert Wardrop, and Chess Lamberton.
Richmond: John F. Bruton, Charles E. Rieman, and Edwin Mann.
Atlanta: J. K. Ottley, Oscar Newton, P. R. Kittles, and W. H. Kettig.
Chicago: George M. Reynolds, Charles H. McNider, and E. L. Johnson.
St. Louis: J. C. Utterback and Sam A. Ziegler.
Minneapolis: Wesley C. McDowell and E. W. Decker.
Kansas City: J. C. Mitchell, C. E. Burnham, and W. J. Bailey.
Dallas: John T. Scott, E. K. Smith, and B. A. McKinney.
San Francisco: C. K. McIntosh, J. E. Fishburn, and M. A. Buchan.

PROCEEDINGS.

Governor Harding. Gentlemen, the board desires me to welcome you to Washington and to express its appreciation of your consideration in leaving your business and coming here to this conference.

We have been very judiciously advised from time to time by the Federal Advisory Council, which body has always held its four statutory meetings a year, and at times its executive committee has come on by request for a special meeting; but the present situation is such that we felt it would be helpful if we could have with us not only the Advisory Council but also the class A directors of the Federal reserve banks. We should have liked to have had all of the directors, but we could not ask them all to come to Washington at one time, for it is necessary that a quorum of directors be left at home to attend to the business of the Federal reserve banks.

The class A directors are the banker members of the boards of directors of Federal reserve banks. They have a dual relationship. They are not only directors and, as a rule, very influential directors of Federal reserve banks, but they are officials of member banks and thus they see both sides of the picture. So it seems to be peculiarly appropriate, at a time when there is a banking situation to discuss, to have bankers here to discuss it.

As you are busy men it will be our purpose to detain you for as short a time as possible, and if it is agreeable to the members of the conference, we will try to finish our discussion by half past 1 or 2 o'clock so that you can then be free to take afternoon trains home, if you wish, or to devote your time, if you stay in Washington, to such other engagements as you may have.

Of course, we all realize that the credit position is extended and very considerably extended. There is no occasion, though, to be unduly disturbed over the situation. We want to look at the facts as they are and not deceive ourselves in any particular. Having diagnosed the case, then we want to determine what is the proper policy to pursue. We have had an analysis made of the general banking credit expansion in this country, and, without going into details, I am going to save time by stating the result.

After allowing for the normal credit expansion in a growing country, we find that since the 30th of June, 1914, the expansion of bank credit in this country has amounted to about $11,000,000,000. At the same time the expansion in the volume of currency in circulation, deducting from our starting point the currency held in the Treasury, and deducting from the present figures the amount held in the Treasury and in the Federal reserve banks, has been about $1,900,000,000. When we remember that during the last three years the Government has floated $26,000,000,000 of securities to take care of its own war requirements, and to enable it to make advances to Governments associated with us in the war, this expansion of bank credit does not seem to be excessive or disturbing, when looked at purely from the standpoint of war necessity, but the situation that we want to discuss particularly to-day, and which seems to be disquieting, is the expansion that has taken place in the last twelve or fourteen months. From the 1st of April, 1919, to the 1st of April, 1920, the expansion of bank credit was about 25 per cent. This has been in spite of the very large reduction of the amount of Government obligations outstanding. The reduction in Government obligations has all been absorbed by commercial credits, with the net result of expansion of bank credits of about 25 per cent. During the same time there has been an advance in commodity prices of about 25 per cent. This has been accompanied by a decrease in production of essential articles.

Assuming for the year 1918 an index number of 100 in each of 10 principal article of everyday use and necessity—not necessarily production figures, but distribution and consumption figures, such commodities as grain, live stock, wool, copper, cotton, petroleum, pig iron, steel bars—putting them at 100 for the year 1918 we get an index number for the year 1919, on the average of the 10 commodities, of 89.07. While these figures can not be accepted as indicating a positive decline in production, they do indicate a decided trend in that direction, a certain trend toward a reduction in the distribution of those products; so to all intents and purposes we may assume that there was a decline in essential production during the year 1919 of about 10 per cent.

It is this tendency of production to decline, particularly in some essential lines, which constitutes a very unsatisfactory element in the present outlook. It is evident that the country can not continue to advance prices and wages, to curtail production, to expand credits and to attempt to enrich itself by nonproductive and uneconomic operations without fostering discontent and radicalism, and that such a course, if persisted in, will eventually bring on a real crisis.

There is a world-wide lack of capital, and with calls upon the investment market which can not be met there is an unprecedented demand for bank credits. The fact must be recognized that however desirable on general principles continued expansion of trade and industry may be, such developments must accommodate themselves to the actual supply of capital and credit available.

Official bank rates now in force in the leading countries are higher than at any time during the present century, except during the war panic week at the beginning of August, 1914. Only within the last few weeks the official rate in Italy has been raised from 5 to 5½, the Bank of France rate from 5½ to 6, and the Bank of England rate from 6 to 7 per cent.

Every effort should be made to stimulate necessary production, especially of food products, and to avoid waste. Planting operations in many sections have been delayed because of adverse weather conditions, and should there be an inadequate yield of crops this year the necessity for conservation and conservatism will be accentuated. War waste and war financing result inevitably in diminished supplies of goods and increased volume of credits.

Now I assume, looking at the matter from the standpoint of the economist, that the trouble with the general situation throughout the world, and in this country, is the disruption of the proper proportion or relationship between the volume of credit and the volume of goods. Whenever that phenomenon occurs, there are two remedies which suggest themselves: First, a reduction in the volume of credit, credit contraction. That is a drastic remedy, it is unpleasant medicine, but it may be necessary at times to take medicine of that kind. The other and better method is to restore the proper equilibrium by building up production; in other words, letting the country catch up with itself. We can approximate this result in two ways. We can restrict credit and expand production, letting the expansion of production proceed at a greater rate than the restriction of credit, and we are then working along in the right direction. This is our essential problem to-day, the formulation of some constructive policy to be adopted by the Federal reserve banks which will build up essential production and at the same time preserve the solvency of other concerns which may not be essential per se but which are highly essential as part of the general situation, because there is no chain which is stronger than its weakest link.

Now, there is undoubtedly, however, a spirit of extravagance in this country which must be curbed. There are some indications that the people are waking up to what the consequences will be if this wild orgy of extravagance and waste should be continued indefinitely. It may be that some real personal sacrifices must be made for the general economic good. But it is very clear if we find it impossible under the present circumstances to increase the volume of production of the most essential articles, the only thing for us to do is to reduce consumption of those articles.

Now, we might as well look at the situation as it is. A prudent man never lives for the day alone. He always looks to the morrow and the months to come. That is the situation in regard to the output of the mines and of the farms in particular? What has been done to get normal output and production at the present time and to provide proper means of distribution of the output in order that there may be no acute shortage in the fundamental necessities of life next winter? In this connection, I might call attention to one circumstance which has caused a good deal of uneasiness. It may not prove as bad upon analysis as it appears at first blush, but I refer to the lack of liquidation which we have experienced during the early months of the present year.

We all know that normally, after the fall trade is over and the crops have been harvested and distributed, there is a marked easing of money accompanied by the liquidation of debts. This occurs usually in January and February and up to the middle of March of each year. Liquidation of this kind is entirely natural and is necessary in order that the banks may strengthen their resources in order to meet the demands which will be made on them later in the year as the crops are in the process of making or harvesting. This year we have had no such liquidation. Commercial loans have expanded steadily, and, while there has been some reduction up to the last week or so in loans secured by Government obligations, it is noticeable in the last few days that those loans have been increased. It would appear that this means an anticipation on the part of the American people for their requirements for bank credit which they usually make later on in the year. We may well inquire that, as we have had this demand at a time when we ought to have had liquidation, what is our situation going to be in the later months, when we are going to have the demands which we have been accustomed to having? Now, I hope that the answer to this is—and if this is correct it is the reassuring feature of the situation—that the demands which have been made in the past few months, when we should have had liquidation, are due, at least in part, to the fact that essential commodities have been held back by lack of transportation facilities. Then our problem is directed to opening up the transportation facilities in order that these goods may flow to market. This done, we will get some liquidation which ought to be sufficient to offset the demands which will be made upon the banks for essential purposes later on in the year.

But we have figures to show that the extravagant spirit has not yet been checked. There are some indications that the peak has been reached and that people are coming to more realizing sense of the situation and that they will pursue a sounder and a saner course. There ought to be a recrudescence of our old war-time spirit, of doing something that is worth while, and we should get down to work and solid business. There should be a general spirit of cooperation on the part of the Federal reserve banks, the member banks, the nonmember banks, and the public to work out a policy which will result in greater production, less unnecessary consumption, and greater economy; all unnecessary borrowings for the purpose of pleasure and luxury should be restricted as far as possible and the liquidation of long-standing, nonessential loans should proceed.

We should be careful, however, not to overdo this matter of liquidation, because too drastic a policy of deflation, which might result in crowding to the wall and throwing into bankruptcy legitimate enterprises, however unessential their operations may be, would have a tremendously bad effect and would defeat the purpose of the very policy which we are trying to have established. There must always be a wise and discriminating judgment used.

A sensible and gradual liquidation will result in permanent improvement, as we all know, but any attempt at radical or drastic deflation merely for the sake of deflation will result in very serious consequences, and such a policy should be avoided.

It will be helpful for us to discuss and to understand the parts which must be played by the Federal Reserve Board, the Federal reserve banks, and the member and the nonmember banks in solving the financial and economic problems that confront us.

Our problems are interrelated, but they are distinctive. The Federal Reserve Board is a governmental body, sitting here in Washington. It does not come, except indirectly, in contact with the member banks, and it can not be expected to have any intimate knowledge of the details of your business. And it ought not to attempt to interfere with the details of your business. The function of the Federal Reserve Board is to deal with general conditions and principles and to keep away from the mass of details which it is impossible for any board sitting here in Washington to digest.

The Federal reserve banks do come in direct relationship and contact with their member banks. They have an intimate knowledge of the credit policy and of the borrowings of the member banks; they are kept fully informed from day to day of the change of position of the member banks, and through their contact with the Federal Reserve Board, as the coordinating and supervising body, they keep informed as to the board's general policy, and they transmit to the board such specific and general information as may be of assistance in determining these policies. But the primary banking business of this country is transacted by the member and the nonmember banks. Those are the banks which come in contact with the public, which are the custodians of the funds of the public, put with them on deposit, and they are the media through which commercial loans are made.

We have heard a great deal about the necessity of discriminating between an essential and a less essential and a nonessential loan. The discount operations of the Federal reserve banks and their powers to make investments are all clearly defined in sections 13 and 14 of the Federal reserve act. Those sections are permissive and not mandatory. A Federal reserve bank is not required to make any particular loan or any particular investment. The Federal Reserve Board may define eligible paper, but all rulings and regulations of the board must be in strict conformity with the terms of the Federal reserve act. The Federal Reserve Board has no legislative powers whatever. It can merely interpret by regulation or rule the enactment of Congress.

Now, without discussing any power that the Federal Reserve Board may have to define essential and nonessential loans, I wish to point out that section 13 provides, in a general way, that any paper maturing within the prescribed time, the proceeds of which have been used or are to be used for commercial, industrial, or agricultural purposes, is eligible. There is no specific condition imposed as to whether or not, in the judgment of any man or body of men, any particular loan is an essential loan for the well-being of the community or the country at large.

The board has reached the conclusion that there is no occasion now, whatever may be necessary later on, for it to attempt by any general rule of a country-wide application to define essential and nonessential paper. You remember the difficulties that were experienced in making such a definition during the war, when we had the War Trade Board, the War Industries Board, the Capital Issues Committee, and other temporary boards here passing upon all these matters. At that time the problem was simpler than it would be now, because there was a general underlying principle that anything essential must be something that was necessary or contributory to the conduct of the war. Now we have no war. The temporary boards have all dissolved and gone. The Federal Reserve Board is not a temporary board. It is a permanent organization and it must conduct its business in strict accordance with the terms of the Federal reserve act. Therefore, I think we are all agreed that there is no occasion at the present time, if ever, for the Federal Reserve Board to attempt to define, by regulation of country-wide application, what is an essential and what is a nonessential loan. A Federal reserve bank is in much better position to undertake this than is the Federal Reserve Board.

But even here there are difficulties in the way. Some of the Federal reserve districts cover very large areas. A rule adopted by one Federal reserve bank may not be susceptible of adaptation in another Federal reserve district, because what seems to be essential or necessary in one place may not be in another. While there is no particular objection to a Federal reserve bank, in the wisdom of its directors, undertaking to make a general discrimination between loans plainly unnecessary, plainly nonessential, and those which are less essential or more essential, it seems to the board that that whole question of discrimination might very properly be left for solution at the source, as a matter between the individual banker and his own customer, because the individual banker, particularly at times like the present, has a very close, confidential relationship with a borrowing customer. They can talk matters over with the utmost frankness. The individual banker is in position to give advice. He can accustom his customer to come to him, in advance of seeking a loan, or of making any commitment involved, to discuss the situation with him before the commitment is made. The individual banker in many cases—of course this may not be possible in the larger cities—but the great mass of banks all over the country that do mostly a local business can very largely anticipate the legitimate and necessary credit demands which are going to be made upon them; they can estimate the fluctuation in the volume of their deposits, and they are better qualified than anyone else to give advice to a borrowing customer. They can often restrict the amount of a loan before it is made and can persuade a customer in very many cases that he really does not need the money after all.

Then, again, the individual banker can determine, not so much the essential nature of a loan from an elementary standpoint, as to whether the loan is going to produce something that is absolutely needed, but he can decide better than anyone else whether the loan is essential or necessary for the public good in his particular locality, not only as a means of producing something that ought to be produced, and which is needed for consumption, but as a means of preserving the solvency of his community. We all know that if the bankers in any community, large or small, were to clasp the screws on tight, they could bring disaster to the community, which might spread to other communities.

Of course, there may be cases, and there have been cases, doubtless, probably in all of the districts, where some of the banks have overdone the matter of extending credits, but there is one very encouraging feature of the present situation, and that is such cases are comparatively few. The majority of all the member banks in each of the Federal reserve districts are not borrowers from the Federal reserve banks, and the number of member banks which are borrowing from the Federal reserve banks in an amount exceeding their own capital stock is not large in proportion to the total membership. Every banker knows, or he ought to know, what reasonable line of credit he can get from his Federal reserve bank, and I want to call your attention to the power that the directors of the Federal reserve banks have to limit their loans.

I referred a moment ago to the fact that there is no mandatory provision in the Federal reserve act requiring that any particular loan be made. The nearest approach to compulsion in the matter of loans that you will find anywhere in the act is that provision which permits, and upon the affirmative vote of five members of the Federal Reserve Board, requires a Federal reserve bank to rediscount for another Federal reserve bank. With this exception there is no other mandatory provision relating to loans in the Federal reserve act. While sections 13 and 14 are permissive, there is, however, a strict injunction laid upon the directors of the Federal reserve banks in that part of section 4 which requires the directors of a Federal reserve bank to administer its affairs without favor or discrimination for or against any member bank, and in making loans, discounts, and advancements, which in their opinion may be safely and reasonably made, to pay due regard to the wants and requirements of other member banks. Thus the directors of Federal reserve banks are clearly within their rights when they say to any member bank, "You have gone far enough; we are familiar with your condition; you have got more than you share, and we want you to reduce; we can not let you have any more." They must exercise their discretion as to the proper course to pursue, but they have the power, and there are many cases where the rule ought to be laid down and a member bank ought to be made to understand that it can not use the resources of the Federal reserve banks for its own private advantage for profit; that it must not abuse the rediscount privilege of the Federal reserve system.

When a banker understands, just as he did in the old days before we had the Federal reserve banks, that there is a limit to his borrowing—and you will remember in the old days no national bank was permitted to become indebted for borrowed money in an amount exceeding its capital stock—when a banker realizes that if he wants to expand his business he must do it more and more out of his own resources and not lean so heavily upon the Federal reserve bank, when he understands that limitations and penalties may be imposed upon his borrowings, then if I know anything about the psychology of banking I know that the banker may be depended upon to use a wiser discretion in the matter of granting credit.

The recent amendment to paragraph (d), section 14, which empowers the Federal reserve bank, for itself and without regard to any other Federal reserve bank, to establish a normal or basic line of credit upon some principle applicable to all member banks in its district alike, and to impose a graduated or penalty rate upon excessive borrowings, does not repeal, amend, or modify in any particular the provisions of section 4 or section 13, and a Federal reserve bank is still, even though it adopts the progressive or penalty rate, entirely within its rights in declining to take undesirable paper at any rate. The progressive or penalty rate I will not discuss at this time, because we will have an open discussion a little later on and we will take it up then.

It may be argued that the volume of credit must necessarily be greater now than was the case a few years ago on account of the higher prices and higher wages which are prevailing, so that any given transaction requires a greater number of dollars to finance it than was formerly the case. That is true, but I believe that I can present figures to you that will convince you that if there could be a freer flow of goods and credit—in other words, a greater velocity in the turnover of credit—the resources of the banks of this country are abundantly able to finance all essential enterprises and a good many of the nonessential as well. The fundamental trouble with the situation to-day is that there is a large volume of essential goods and commodities held back from the markets and kept out of the channels of distribution, either for speculative purposes, being held with the idea of getting higher prices later on, or where they are held back of necessity on account of lack of facilities to transport them to market. In the latter case it is a wise and proper policy to ease the situation along, to assist the people who are thus compelled to hold and not throw any obstacles in their way, provided there is a genuine and sincere disposition to put the stuff in process of distribution as soon as transportation can be had. But in the case of the hoarder, who for selfish and profiteering purposes wishes to hold back from the mouths of hungry people essential articles of food and clothing, every good banker should exert every influence within his power to force people of that kind to turn loose their hoards. Here is an opportunity for wise discrimination, and this discrimination can be exercised more intelligently and effectively by the individual banker himself than by any governmental board.

We find instances also which always occur when there is a constantly advancing tendency in the market, where merchants have stocked up. There are many cases where mercantile loans are too large and ought to be reduced. There are merchants everywhere who ought to be reasoned with and who ought to be encouraged to push their stocks out and get rid of the high-priced stuff, because some of these days, it may be sooner rather than later, the reign of reason is going to be restored and the man in the street is no longer going to want to pay $25 to $30 for a silk shirt or $20 for a pair of shoes or $1 for 4 pounds of sugar, and lower prices will be demanded, and trade will fall off unless lower prices prevail. It seems to me, from the standpoint of good merchandizing and good banking, that the merchants should be encouraged to reduce their stocks and not tempt the passer-by by extravagant display in the windows at high prices, which under the abnormal state of mind which has prevailed may themselves help to sell the goods, because you all know cases where a customer would pass by with contempt a two or three dollar article and turn his attention to something at $25, although it may not be one whit better suited to his purposes.

In order to bring about a correct tendency and to lead to a permanent cure of our present situation, a campaign of education must be begun and continued. Here, again, there is no agency so well qualified as the banker, who receives on deposit the money of the public and makes loans to the public, to give advice, so thus there should be a concerted effort all over this country on the part of the bankers to arouse in the public a spirit of common sense. Let us take our heads out of the clouds and get down to business, and let us save, produce, and let each do his part in a constructive and productive way for the community, to add to the volume of goods and facilitate distribution, thereby doing something to cure the discrepancy, the bad relationship which has existed between the volume of goods and the volume of credit and money.

In any circumstances, you all know that the Federal reserve banks and the Federal Reserve Board will do their part to cooperate with the sound, sensible, and reasonable member banks. In order that we may accomplish any real results and effect any permanent good, there must be cooperation on the part of the public with the banks, and on their part with the Federal reserve banks and the Federal Reserve Board. We must all pull together for sound, economic, and financial principles. We should do all in our power, and we can do a great deal to check the false ideas which have gained circulation and inculcate in the minds of the people a sense of the importance of steady, everyday production and distribution, and to encourage the avoidance of waste and the elimination of extravagance.

I have here some charts, which will be distributed among you, which show the movement of principal asset and liability items of each Federal reserve bank and of the system, of the 12 banks combined. These figures are taken from July 3, 1919, to April 30, 1920. They show the gold reserves, the total cash reserves, the member banks' reserve deposits, the Federal reserve notes in circulation, the acceptances bought, paper secured by Government war obligations, divided into the headings, secured by Liberty bonds, secured by Victory notes, and secured by Treasury certificates, and the total discounted paper on hand. Then there is another table which shows the volume of bankers' acceptances purchased from other Federal reserve banks and the volume of bankers' acceptances sold to other Federal reserve banks, figures at the close of business on each Friday from July 3, 1919, to April 30, 1920.

Now, gentlemen, I declare the meeting open for general discussion.

Mr. HEPBURN. I would like to inquire if any arrangement has been made to place your opening remarks before the public, Governor Harding, because, if not, I think that should be done and that they should be given the widest distribution.

Governor HARDING. I have a synopsis prepared which was given to the press on yesterday for release to-morrow morning. It is rather more abridged than the statement I made this morning, but it is the substance of it.

Now, gentlemen, I want to introduce our member designate, the Hon. Edmund Platt, who is at present chairman of the Banking and Currency Committee of the House of Representatives.

The Federal Reserve Board is greatly indebted to Mr. Platt for cooperation during all these years, especially more recently since he has been chairman of the committee, and for the assistance he has given the board in all matters of legislation. It is with a great deal of pleasure that the members of the board are going to welcome him as a member, and I want you to know him.

I have the pleasure of introducing to you Mr. Platt. [Applause.]

Mr. PLATT. Mr. Chairman and gentlemen, it is a great pleasure for me to be here. I feel a little bit of trepidation before an audience made up exclusively of bankers, because I think I may be subject to a little criticism for not having had a great deal of banking experience. In fact, I think my actual banking experience is confined chiefly to acting as teller at a few bank elections. But I have been interested in banking for a good many years, and, upon coming to the Banking and Currency Committee in the House in the year 1913, when the Federal reserve act was under consideration, I was not entirely unprepared.

I have had the great privilege of serving on the committee under Mr. Glass and in taking part in the preparation of the Federal reserve act. I think there are three or four words in it that I wrote myself, very unimportant words; also, in the farm loan act. I have got to leave in a minute or two, because the bill of which I am in charge, under a special rule, comes up just after the opening of the House to-day, a bill to help out the farm loan system, which, as you know, is in rather a serious condition because of the failure of the Supreme Court of the United States to decide on the question of the constitutionality of the act.

The Supreme Court, on April 26, instead of deciding one way or the other on that question, asked a reargument of the case, and at the same time stated that they would hear no more arguments after April 30, so that the earliest possible date at which a reargument can be made will be October 11, and in the meantime it is practically impossible to sell any more farm loan bonds. We are forced to adopt the expedient which was adopted as a war measure of allowing the Treasury to buy more bonds, and I think the Secretary of the Treasury does not hanker after that sort of an investment just now. But apparently there is no help for it, and the best thing we can do is to hold the thing down so that it won't be open too wide and so that the bond issues will only be commitments already made before the Farm Loan Board shut down on further loans. I am hopeful of getting the bill through without any very serious amendments. In the meantime I think the program of legislation for the Federal reserve system is pretty nearly complete for the session. We have one or two bills that are not of very much importance that we would like to get through this year, but everything that the board has suggested, or that anybody else has suggested, which seemed to have merit enough to make it worth while to put through, has already been dealt with.

I thank you very much, gentlemen.

Governor Harding. We will go ahead with the regular routine. We have a rule of calling on the different districts, and we would like to hear from at least one director from each district, or from all three, if all three would like to say something. We will dispose of one district at a time, and as the director arises, in order that his name may appear in the record properly, I request that he give his name, so that the secretary may get it.

We will call first upon the Federal reserve district of Boston.

Mr. Beal. Mr. Chairman and gentlemen, it is an unusual honor thrust upon me to be made the senior director of district No. 1. Just at present I think district No. 1 is in quite a fortunate position. Through the active work of our governor and of our Federal reserve agent we have been able to reduce our liability so that at present, with the exception of the Cleveland district, I think the Federal reserve bank of district No. 1 is at the top of the reserve list. We seem to have been able to have had some liquidation in our district, which possibly is due to the fact that while last autumn we were low and borrowing largely, it was chiefly, I think, for the purchase of cotton and of wheat. All the gentlemen here know that we have large cotton mills in our section of the country and that our section is a very large user of raw cotton. That cotton, of course, has now been turned into goods and payments have been made for those goods. As a result, our bank, as I have already stated, and as the figures show, is in quite a liquid condition.

Governor HARDING. Are there any questions any members of the conference desire to ask Mr. Beal? It would be well, as we go along, to have a pretty thorough understanding of the problems of each district. The Federal Reserve Bank of Boston a few months ago was a heavy borrowing bank and discounting with other Federal reserve banks, and now it is one of the strongest in the system and one of the three banks which is extending accommodations to the 11 other banks. Is there another director of the Federal Reserve Bank of Boston who will favor us with some remarks?

Mr. CHAMBERLAIN. I have nothing new to say. I am the baby director on the board and Mr. Beal is our spokesman.

Mr. KENNARD. I am a group 3 director of the first Federal district, and I want to say that we have a very healthy looking baby. I think I am rather optimistic on this question. I do not think we should have any undue alarm over it, because I think the question of supply and demand will finally properly adjust itself. I think the people of this country are becoming more and more enlightened with regard to economic conditions. I also think that the rates for money should continue on a high level with the hope of causing liquidation in commodities. Of course, liquidation would result in low prices and the easing up of business. I do not think this body should encourage any drastic measures of readjustment. I think the deflation should be gradual, and I think we should give more care to the commercial paper that is rediscounted at the Federal reserve banks. I have an open mind on whether bankers' acceptances should be included in rediscounts in computing a member bank's line of credit. I think that that is a rather difficult thing to manage, but I think it would be a good idea for the Federal Reserve Board to allot a certain amount of Federal reserve notes for each district, and that they have some responsibility in that matter. I thank you, gentlemen.

Mr. KENNARD. The transportation facilities are congested. At the district, Mr. Kennard?

Mr. KENNARD. The transportation facilities are congested. At the present time the warehouses are congested and they haven't the shipping facilities. I noticed on coming here, in passing through the New England States, that there were several hundred cars on the siding waiting to be shipped. A railroad man told me a short time ago that he had 47 cars billed for New York which he was unable to ship, and that he was obliged to sidetrack that long train 50 miles east of Portland. The condition in New England is as bad as it is in any part of the country, I think.

Governor HARDING. District No. 2, the Federal Reserve Bank of New York.

Mr. ALEXANDER. I take it, Governor Harding, that your address is to be the keynote of the discussion here this morning. Probably the facts in the case are well known and your presentation of them will be quite generally accepted as correct.

I take it we are to give consideration here to what remedies, if any, can be devised which will be constructive and not disastrous in their consequences.

In our district we have to deal with two rather distinct problems, the one being the problem of the smaller banks in the communities and the other being the problem of the large banks whose business is not only country-wide but world-wide.

The banks that are borrowing most heavily in the second Federal reserve district are the larger banks, the banks that are doing very largely a commercial business. As we know, there are upward of 30,000 banks in the country, and those banks are not all doing the same character of business. Many of those institutions will pass through this entire period without borrowing a dollar from the Federal reserve bank.

When we consider the matter of rationing credit, figuring perhaps what the Federal reserve bank can lend from its resources, we are holding, at the disposal of institutions that will never want to rediscount, a very considerable amount of credit. In handling the affairs of a commercial bank, we are obligated, if not expressly there is certainly an implied obligation, to lend to customers some percentage of the amount, or rather some multiple of the amount, of their balance. It may be five times, but we all very well know that if all the customers should want five times the amount of the money they have at one time, they wouldn't get it. Experience has shown that the careful lending bank, the bank that keeps itself in a liquid condition, has been able to meet the requirements of its customers on that basis. Therefore it seems to me that the Federal reserve banks have resources that are ample to take care of the situation.

A good deal of effort has been made to educate the banks, perhaps on the part of the Federal Reserve Board, and to educate the member banks on the part of the Federal reserve banks. However, the users of credit are not the member banks. The users of credit are the manufacturers and the merchants of the country; the speculators of the country, if you please. Therefore, it seems to me to be of prime importance that these credits should be widely distributed, not by the banks exclusively but in such a way that they will get into the hands of the people who are using the money in business enterprises. During the war, when we put the country on rations as to the price of coal and other essentials, we could go to the users of these commodities and say to them "You must restrict yourself," we did not rely upon the hotels and restaurants exclusively and say to them that they could serve only such and such a thing, but we approached the actual source of the demand.

It is largely a matter of education. We find to-day, I think, a hesitation in business. Large users of credit are inquiring as to what the future has in store for them. I think now is the logical time to deal with this question, perhaps the best time that has occurred up to now, to bring this credit situation home to the users of credit, although while this hesitation is on they will get some loans. prices are being reduced, but nevertheless unless there is a very substantial contraction and a very definite and positive announcement made in some way to users of credit in the country, they may become more hopeful again that the situation is not one to be feared and they will feel justified in going ahead and making very substantial and enlarged commitments for the future.

Speaking for myself—and I think I voice the sentiment of the entire board of the Federal reserve district of New York—we think that at the present time the commercial rate, the discount rate, should be raised; that it should not be raised to 6¼ or 6½ per cent as a measure of our treatment of the situation, but that the rate should be 7 per cent on commercial paper.

Governor HARDING. May I ask if that raise of rate would penalize anybody who could not liquidate on account of lack of transportation facilities, or would it encourage the liquidation and distribution of goods?

Mr. ALEXANDER. Well, I am afraid somebody is bound to be penalized in order to bring about production. A percentage of 1 per cent is not a very heavy penalty in the way of an interest charge, but it is a very positive announcement that the credit situation is such that further expansion must be prevented and that curtailment should be had wherever possible.

I do not think we need to consider that question unduly, Governor Harding, any more than we need to unduly consider the position of these people who bought Government bonds and who have seen them fall to 85.

Governor HARDING. I think it would be well for each director, as he arises, to give his views on the discount rate in his respective district. That is one of the things that we want to take into consideration. And may I ask you about the transportation situation in your district, how it looks to you?

Mr. ALEXANDER. There is almost no such thing there now——

Governor HARDING. Everybody is on strike?

Mr. ALEXANDER. All tied up. As soon as one strike is settled another group goes out, and it is a very serious question. There is one thing, I think, to be feared, and that is that if the transportation facilities are improved and commodities move freely, and credits are thereby released, it may make a temporary ease in the money market and may encourage people to go ahead and expand. I believe now is the time to put the rates up and to keep them up.

Governor HARDING. Does any other director from district No. 2 desire to make a statement?

Mr. TREMAN. I think Mr. Alexander has well expressed the general sentiment of the directors in our district, that there is a spirit of hesitation and uncertainty prevailing throughout the country, and that the business interests are looking to the Federal Reserve Board and the Federal reserve banks to indicate what is to be done.

We have felt in New York that it was advisable to advance the rate further than at present because we got good results from the action which was taken in the winter. We believe the time is coming when there should be a further warning by the advancement of the rate throughout the country. Not that it would curtail business, that is, the advancement of a point or half a point in the commercial rate, but it would be a warning to a great many banks that will not be affected by the graduated or progressive rate, that in dealing with their customers they should recognize what many of them apparently do not recognize yet, and that is that the credit situation is a very strained one and should be dealt with now before the conflagration becomes too severe.

As to the particular method to be employed, Mr. Alexander, I think, has correctly stated the position of the directors of the Federal Reserve Bank of New York; that is, that there should be an immediate raise in rate; second, that the position outlined by Governor Harding with regard to the process and methods of education should be carried out. We have held many conferences in the New York district with the bankers of our district, asking a certain number, generally from 35 to 40, located at different points in the district, to come in to New York and have a conference. Personally, I believe that that is one of the most helpful ways in which we can bring the exact situation before the bankers; that is, by getting together in a room, as we are here, and exchanging views, and by having pointed out to them by the officials of the bank the exact situation, and receiving from them an exchange of views as to conditions in their district. To my mind the difficulty at the present time is that there is no realization of the strained credit position except in certain districts. I am in very close touch with certain of the distributing interests, jobbers in hardware and jewelry and other lines. I sat last week for two days with a group in Atlantic City discussing the situation in different parts of the country, and I am sure that they are disturbed and that they are looking to the Federal Reserve Board and the Federal reserve banks to outline a remedy which will deal with the situation in a sound and sane way at the present time without causing undue alarm. We can do that if we begin and restrict, within reason, the granting of credit through individual banks. You must do something more than send them requests not to do it. The way to do it is to bring them face to face with the officials of the Federal reserve banks in each district and have them understand the situation and have them in turn go back and deal with the commercial and business interests.

We can, in addition to reaching the business organizations through their officials, reach the agricultural societies and organizations through their officials. So that if there should be an effort to get in touch with the large interests in each district and merely point out the necessity for a reasonable curtailment of credit, the same as we curtailed sugar and coal when there was a real need for it, it seems to me that by the raising of rates now, by the education of bankers individually and by these group meetings, and by going on further and extending our suggestions to the business interests of the country, I believe that we can forestall any very serious disturbance in the fall. If no action is taken, I should think that we are moving in the direction of what may prove to be quite a serious situation.

Mr. OTTLEY. Mr. Alexander has suggested a raise in rate from 6 to 7 per cent. In view of the basic line that is under consideration by the Federal reserve bank, would it be your idea, Mr. Alexander, to just make a flat rate of 7 per cent, or start off the basic line at 6 per cent, with a rising scale?

Mr. ALEXANDER. Make the basic rate 7 per cent. I am in hopes that there will be no plan of progressive rates put in effect in New York. Make the rate 7 per cent. I am speaking of commercial paper. You will probably want a differential in favor of obligations secured by Government bonds, and the present rate is 5½ per cent, and perhaps you would want the rate on certificates of indebtedness 5½ per cent, but the commercial paper rate is the important thing. The commercial paper is the thing that is being created in volume right now, and we want to limit it as much as we possibly can, limit the creation of commercial paper.

Mr. CHARLES SMITH. Mr. Chairman, I represent on our board more particularly the banks in the rural communities in the second district. I do not come in quite as close contact with the larger banks, but I wish to say in passing that the entire board of our bank is in hearty accord with an advancement of rate, as expressed by both Mr. Alexander and Mr. Treman.

In representing the smaller banks in the rural communities, we possibly come in closer touch with our people than in the larger banks. I find in coming in contact with all of our people in our vicinity and throughout the various sections of the State that they are all in hearty accord with the idea that the loans should be reduced and brought down to a reasonable business basis. The farmers with whom I have talked are in thorough accord with this. They accept the situation very gracefully.

The greatest problem that is confronting the farmer to-day, and the farmer is the original producer to-day, is the labor proposition. That is a thing in which we are trying to assist him in the rural districts throughout the State.

Mr. WILLIAMS. Before we leave this question, Mr. Alexander, as you suggest a 7 per cent rate, do you not think that one of the effects of a 7 per cent rate, as a minimum rate for all banks, would be to discourage essential industries? Six per cent is the maximum rate in New York except on bonds and certain other things. A small bank might have an application from an essential industry, and it would realize that if it were to lend to that industry the accommodation that is needed, it could only reimburse itself at a higher rate or at a loss. It would have to charge that essential industry 6 per cent and would have to pay 7 per cent, and there would therefore be no inclination to extend the accommodation at a loss, even to an essential industry. On the other hand, if you put the rate at 7 per cent, that would not deter the profiteers who are making 70 per cent profit, 20 per cent or 50 per cent. My apprehension and wonder is whether a higher rate of interest would not in the long run discourage the essential producers and at the same time have no effect at all upon the profiteers, upon the men who are making exorbitant and extortionate profits.

Mr. ALEXANDER. In the case of a corporation there can be a contract rate, whatever is agreed upon——

Mr. WILLIAMS. But the farmers, for example, are not corporations, and a great many of the smaller transactions are not carried on with corporations——

Mr. ALEXANDER. No, I am coming to that point. Between corporations there is a contract rate, but in smaller transactions, where you are dealing with individuals and with farmers, 6 per cent is the legal rate. I do not think it makes a particle of difference to any of those borrowers, certainly none of those with whom we come in contact, whether they pay 5 per cent, 6 per cent or 7 per cent. The question is, "Can we get the money?" That is the question to-day. They say, "You lend us the money and we will pay the rate."

Now, there is the objection, as stated by you, of charging 7 per cent to the member banks when they can only collect 6 per cent. I think that is a feature of the situation that must be met. In other words, I think the purpose to be served is so great and of such prime importance that these other matters must be considered of smaller importance. I think the bank would have to stand in between with the users of credit for essential purposes, if necessary, or they can have balances which will justify them in making a loan at 6 per cent, although they have to pay 7 per cent for the money.

Mr. WILLIAMS. It seems to me that you will have no effect upon the profiteer with any rate of interest you elect to charge as long as he can make the enormous profits which we know are being realized in certain directions and have been for many months past. It seems to me the greatest factor would be to restrict arbitrarily the granting of credit to nonessential industries or those concerns that are making inordinate profits, especially on products that are not most needed.

Mr. ALEXANDER. That is exactly what you would accomplish by making a profiteer understand that credit is a luxury and difficult to get.

Mr. WILLIAMS. But you can do that better by saying, "We won't let you have the money" than by letting them have the money, even at 10 per cent.

Mr. ALEXANDER. True. We could say that they couldn't have the money, and we should see to it that the profiteer is cut out and that the essential industry is carried even at the expense of the bank.

We all know, as has been pointed out by Governor Harding, that during this period of constantly rising prices a great many intermediaries have injected themselves into the situation. There is one case in point, and I could name another, but this case was a case of profiteering in silks. A man bought a certain amount of silks, and later bought them back in the open market at twice what he had sold them for. He traced that silk and found that the transaction had passed through the hands of nine dealers, not one of whom had been in business before this period of rising prices, and none of whom will stay in business when prices remain stationary or are inclined to fall. People of that kind will disappear rapidly, I think, under present conditions, because they will be forced out. It will prove unprofitable. The profiteer and user of money for speculative purposes will disappear from the situation when he finds that there is no profit in buying commodities to be held, dealing in commodities when prices are not rising steadily, but are subject to the usual fluctuations. That man is going to protect himself by not using credit, and in my judgment, he ought to be encouraged not to use it.

Governor HARDING. We will now hear from the Philadelphia district, district No. 3.

Mr. WAYNE. I do not think we are unduly alarmed in the third district over the credit situation. We have felt for some time that it required rationing; the green signal has been out and I think the bankers generally have been conducting their banking operations along proper lines.

I know that the third district Federal reserve bank has been more or less criticized for its apparent condition during the past year or 18 months, due to the fact that we have been borrowers or rediscounters with other Federal reserve banks. We feel, however, that our bank has been in a very sane and solvent condition, and the mere fact that we have been borrowing from other Federal reserve banks has not been due to any overtrading on the part of the merchants of our district. If there has been any overtrading on the part of the people of the third district, it has been on the Government financial side.

The statistics of our banks show, I think, that we have less commercial loans in the Philadelphia Federal Reserve Bank than in any other reserve bank in the system, and a very much heavier proportion of Government-secured obligations. We may have been subject to criticism for not liquidating more promptly the obligations secured by Government bonds, but we more or less acted along the suggestion of the previous Secretary of the Treasury and the Federal Reserve Board at the time those loans were taken, and it now looks to us to be a pretty bad time to force those bonds on the market. They are being more or less liquidated. We have been endeavoring in our own bank in the last month to force Liberty bonds on the market, but they do not go on very comfortably. People who have to part with them and lose 13 points do not part with their money very gracefully. But as to the district, I think we are in a very comfortable position, because if anything should turn up and we would have to sell our Liberty bonds we have a margin to go on.

I can not say that I agree with the representative New York bank on the discount rate. The Pennsylvania district is strictly a 6 per cent district. We have a legal rate of 6 per cent in Pennsylvania and we can not make it any higher, by contract or otherwise. There is practically no profit in borrowing money from the Federal reserve bank to-day and loaning it to customers. It is an accommodation to them. I can not see how anything is going to be gained by raising the rate unless it is absolutely necessary. I do not see how it will accomplish anything. If it is necessary to borrow money, the money is going to be borrowed anyway, whether the rate is 7 per cent or not. In our operations we are simply lending the money necessary for legitimate business, putting our indorsement on the paper, without a profit. Of course, if there is an advantage in making the rate 7 per cent, we will stick to it, because we intend in every way to cooperate with the Federal Reserve Board in doing what they think is necessary.

Governor HARDING. May I ask if a 7 per cent rate in New York would force your bank to put in a 7 per cent rate also?

Mr. WAYNE. No; but you know the general custom is that when one bank raises its rate we usually get a suggestion from the Federal Reserve Board that they will approve a raising of rate for our district, and that usually goes through.

Governor HARDING. Not a suggestion, but a mere categorical statement of fact——

Mr. WAYNE. We have the privilege, of course, of acting on our own best judgment when it comes to making rates, and that is the way I understand it.

Governor HARDING. Would a 7 per cent rate in New York impose upon your bank the necessity of following suit?

Mr. WAYNE. I would not think so, but probably we would make the rate 7 per cent if New York made it, because we are pretty close to each other and it is remarkable how they will switch over from one district to the other. Everybody thinks that Philadelphia is a very rich town. When you find money at 6 per cent in Philadelphia and higher in New York, Chicago, Boston, and other places, the merchants will come down to Philadelphia because the rate is lower than it is elsewhere. Being upon the 6 per cent rate in Philadelphia you get your money at 6 per cent or you don't get it, and very frequently lately they haven't got it at all, although we have taken care of the legitimate business and will continue to do so. We are not unduly alarmed over the situation, but it requires action.

Governor HARDING. How about transportation facilities with you?

Mr. WAYNE. Very poor. The freight blockade is serious. I do not think during the past few weeks that the transportation situation has shown any improvement.

Governor HARDING. Is there any other director from the Philadelphia district who desires to be heard?

Mr. DOUGLAS. Mr. Chairman, Mr. Wayne has covered the ground very well so far as our district is concerned, but I would like to say that it seems to me that what we need most to-day is the cooperation of all the banks in this country with the Federal reserve bank. At the present time I do not think they are having the fullest cooperation. Some of the banks, of course, are cooperating to the fullest extent, while other banks I do not think are cooperating. They are a little half-hearted in it, not, I think, because they are antagonistic, although there are some banks that are antagonistic. But it seems to me that if a letter stating the actual conditions that are prevailing at the present time in the country were sent to the various banks, not only member banks but other banks throughout the country, in the way of a plan of education, showing the banks the exact condition, that it would be very beneficial and would help a great deal in the deflation of credit. I think that a great many of the country bankers, if they understood the situation thoroughly, would cooperate to a greater extent with the Federal reserve banks.

Governor HARDING. Is there anyone else from the Philadelphia district?

Mr. MURPHY. I think that the Philadelphia situation has been pretty clearly set forth. There has been some criticism of the district because we have been rediscounting, but I think your records here will show that before the war Philadelphia had perhaps as strong a reserve position as any other district in the system. There was a combination of peculiar factors that entered into it. There were a great many war contracts that were canceled in the district; there was an oversubscription of Liberty loans, and a very large borrowing coming in from other districts; but all that is being corrected; the borrowings are going down and production is being kept up, and it seems to me that the situation will solve itself, so far as our district is concerned, without any further increase in the rediscount rates.

Governor HARDING. We will hear now from the Cleveland district, No. 4.

Mr. WARDROP. Mr. Chairman and gentlemen, fortunately or unfortunately we have never had any trouble in maintaining our 40 per cent in our district. As to the question of an increase in rate, if we were to take only our own district into account I would say, "No, it is not necessary to increase the rates"; but we must consider what is best for the entire country, and after hearing what the other gentlemen have to say who are going to speak I may change my mind and think that it is necessary to have an increase in rate to-day.

What we lack to-day in this country, as Governor Harding has said, is efficiency in labor and economy and transportation. I think that these three things are bound to cause some depression in business; in fact, it has already set in. I think a reasonable depression in business will be a good thing for the country. I think it can be so handled that it will not be serious. I think the Federal reserve banks can prevent any serious condition arising; but I think we must get down to a lower level. There is lots of business in this country, and I think good times are ahead of us. I really think we would do better if we could get down to a lower basis, a different basis, and then from that we can work up again.

Now, on the question of rates, and how they should be controlled, I think that is a matter that must start at the bank counters. Each bank must decide, the bankers must decide in their particular banks with their own customers, as to what loans are essential and as to what they shall do about them. I think that is the place to start. As to the question of certain banks that may be overborrowing, I think that is a matter, of course, that would have to be determined by the Federal reserve bank and possibly by the Federal Reserve Board; but as to the local situation, as I see it, I think there is no serious danger ahead of us. I think if we just keep our heads and are careful in restricting improper credit that the situation is perfectly sound.

Governor HARDING. Does anyone else from the Cleveland district wish to be heard?

Mr. SAMS. I agree with Mr. Wayne in his view that the question resolves itself, in the last analysis, to the work of the individual bankers over their own counters. We are fortunate, probably, in having a district that is very symmetrical in its activities, in industry, commerce, and agriculture. As a group 3 member, I can speak more particularly for the farmers. The farmers are just at this moment borrowing more money than they have done in several months, but that is due to two causes—first, a seasonal cause, the planting of crops for this year, and, secondly, because of the jam in transportation. That is not permitting them to market their live stock and their products as promptly as they otherwise would do.

Governor HARDING. Is there anyone else who desires to be heard from the Cleveland district?

Mr. LAMBERTON. I am only the baby director, Mr. Harding. Mr. Wayne and Mr. Sams have expressed the feeling of the directors of our district and I will not take up any more of your time.

Governor HARDING. We will now hear from district No. 5, the Richmond district.

Mr. BRUTON. Mr. Chairman, I think you will agree with me when I say that Richmond feels very comfortable, sitting in the same row of seats with Cleveland. Just at this time we are specially interested in agricultural demands, and the farmers are getting more loans now to take care of that than formerly, on account of the large expense of making the crops. We hope it will not be necessary to increase the rate of interest for fear that it might be construed as a reflection upon this great industry, which, in the final analysis, is doing the work of the country. Probably I am a little old-fashioned, but I have the impression that some positive relief could be had at the discount table of the Federal reserve bank, by the discounting committee, in drawing in on a certain few banks in the district and limiting their borrowings, which would give to their banks the opportunity to make essential arrangements.

I did not want to go into this progressive-rate proposition. The more I study it the more it gets to be like the study of real property that I had to study when I was reading law, rather complex and complicated; but if we could say to our overborrowing banks that we would make an appreciable increase in the discounts on them, say five times the formula that has been set forth, and begin to cut at the top, it would give some of the smaller banks an opportunity of borrowing for their needs during the season. We hope that the rate will not be increased. We feel that it would be a mistake in our district, and I think the relief can be had at the discount table, if necessary, by increasing the rate against those banks that are borrowing too much money. Some of them have two feet in the trough already and it might be advisable to reduce on some of them.

Governor HARDING. Does anyone else from the Richmond district desire to make a statement?

Mr. MANN. This is a meeting of bankers to discuss banking questions. I am from the coal fields, and I have made a study of the situation in West Virginia, and the difficulty with us is the question of transportation. The operator is getting out about 50 per cent of his production—I mean he is getting cars for only 50 per cent of his production, and he could produce twice as much if he had the cars ready to transport his material.

Mr. RIEMAN. Mr. Chairman and gentlemen, the situation of Baltimore is somewhat like that of Philadelphia and New York, only on a smaller scale. Some of our large banks are large borrowers, but chiefly because of their commercial business. There has been some curtailment with us lately by reason of the 6 per cent rate. I do not think in our locality we have had the full benefit of that increase in rate yet. By that I mean that in another month's time there will be more loans paid off, by the merchants, on account of the rate. I hardly see the necessity for increasing the rate at this time. The transportation situation is bad, particularly in the sections where the ocean steamers go out. Agricultural conditions in Maryland are rather bad on account of lack of labor.

With regard to the retail business, I have made a pretty close examination of it and I do not think the shelves are overloaded.

Governor HARDING. We will hear from the Atlanta district, No. 6.

Mr. OTTLEY. Mr. Chairman and gentlemen, the condition of the farmers, merchants, and manufacturers in the sixth district is generally good. The condition of the banks throughout the district, in large majority, is good. The borrowings in excess from the Federal reserve bank by the banks of the district are confined to a very few banks, and through the officers and the board of our bank the matter has been taken up directly with all of the borrowing banks, particularly with a few that are excess borrowers, and they have been told in polite but positive terms that there were others who had to be accommodated later on and that they must get their houses in order.

Governor HARDING. How do you account for the very large borrowing at your New Orleans branch?

Mr. OTTLEY. Well, I am able to give you some late information on that. The Atlanta board met with the New Orleans branch officers last Friday and Saturday, and Doctor Saunders, who is well known to you, got up and made an explanation in behalf of the New Orleans banks and explained that they were caring for the cotton from Mississippi, Oklahoma, Arkansas, and even as far out as California, which was being shipped into that port.

Governor HARDING. Was it shipped there to be shipped out? Is there any sale in prospect, or just being brought in there on speculation?

Mr. OTTLEY. They claim that the transportation problem is a serious factor in their very large holdings. They lay great stress on the transportation problem, and said that strikes had been in progress in New Orleans, from one class of labor or another, since last fall. They seem to think that the situation is better now. They stated, for illustration, that four ships, which had contracted to bring in sugar, if I remember correctly, in January, February, March, and April, all had landed there just a few days ago and dumped their cargoes, which, of course, had to be cared for.

I will just answer one question that you asked Mr. Wayne. Speaking from a 6 per cent district, we would not feel at this time, from an independent standpoint, that a raise in the rate was necessary, other than to put in this basic line and make the penalties very strong as they progressed. I think that would take care of the excess borrowing of banks, but the large operators all carry accounts in New York and Atlanta, and if the rate was raised in New York it would necessarily cause us to raise the rate in the sixth district, to protect ourselves, or otherwise we would be swamped.

Governor HARDING. Does any other director from the Atlanta district desire to be heard?

Mr. NEWTON. I come from the agricultural and lumber section of our district, and one of the sections, the agricultural section, is moving along in good shape. The crops are in fairly good shape so far. There is considerable congestion in the movement of lumber and the shortage of cars has interfered very much with the outgoing lumber. As Mr. Ottley stated with regard to New Orleans, the grain, sugar, lumber, and cotton situation has caused these banks to do a great deal of borrowing.

Governor HARDING. Is there anyone else from Atlanta?

Mr. KITTLES. The Group 3 banks in the sixth district are in very good condition.

Governor HARDING. District No. 7, Chicago?

Mr. REYNOLDS. Governor Harding and gentlemen of the board, believing as I do that if we pass through this crisis successfully and maintain prosperity in anything like its present level, I think the first requisite necessary is the maintenance of confidence. Believing, furthermore, that confidence is to a considerable extent a state of mind, it seems to me that we people who are from the outside points here could do more for the state of mind, along the line of trying to enable the members of the Federal Reserve Board to look through our glasses and get the focus of things as we see them at the other end of the line. Those pictures, of course, are all helpful, and they are necessary, in the last analysis, to the reaching of a conclusion as to what is necessary to be done.

It seems to me that in the present situation a campaign of education is the best means calculated to reach a great many people and do a world of good. You must not overlook this fact, that ever since the first agitation of the currency and banking legislation, stress has been laid upon the system and its ability, and every speech made by every man everywhere throughout the country has been to that effect, and the public has come to believe that there is no limit to the amount of credit which the Federal reserve banks can extend.

Now, in the Chicago district, when we found business rather overextended, we began to ask these people to reduce their loans, and they rather thought that we were joking with them. There was a question as to whether or not we were really serious and whether or not there was a real necessity for our asking them to cooperate with us.

It is my personal belief that we ought to approach this whole thing from a broader and wider angle. I say it is an aftermath of the war. It is one of the conditions that grew out of the war, and before the war, and during the war itself, there was not a man anywhere in the country, that stood for anything, that did not offer his resources and himself to do everything in the world he could for the accomplishment of the purpose of the Government in the winning of the war. I think if we can follow out the same plan in a campaign of education that it will be very helpful, if we impress upon the people of this country that this is a war problem and that there must be cooperation now the same as before, that they must have the same patriotic spirit in meeting and in solving this problem that we had in meeting and solving our other problems.

For myself, I think we are making splendid progress in our district. The history of the Chicago bank and the record of the Chicago bank is one of which its directors may well be proud. I know that for three years prior to the 1st of March, or the 1st of April, at any rate, the Federal Reserve Bank of Chicago carried large amounts of rediscounts with other Federal reserve banks in the country, and it did it with pleasure and pride; it carried amounts varying anywhere from thirty to a hundred million dollars, approximately, and we did that because we thought it was our duty to do it. Yet, when conditions obtained, resulting from the war, which made it necessary for our bank to rediscount a few million dollars, our governor became a little discouraged. He thought that was putting the shoe upon the other foot. However that may be, I think the Chicago bank rediscounted perhaps up to $55,000,000, and the statement of yesterday morning shows that it has been brought down to $10,000,000, indicating that we are in very good condition.

I might say that so far as I am concerned, I am ready and willing to do anything and everything necessary to help correct the situation. If it is necessary to have penalties, to take a loss of profits, or to put Government restriction upon business, anything necessary to do, I am ready to do my part, and I think I have always been ready to do it. But I would not be honest with myself if I did not express my own frank opinion on some of the questions that have been raised here. I have not lost my belief in the theory that the yardstick is the interest rate, which is after all the best means for controlling demand for money. If these conditions are such that it is necessary to raise the rate to 7 per cent, let us raise it to 7 per cent, and in our district we will be perfectly willing to do whatever is necessary.

Now, on this question of graduated rates of interest for loans by Federal reserve banks, I hope the Federal Reserve Board and the other people interested in this problem will not overlook this one principle: As I understand it, reserves are kept and enmassed and impounded for the purpose of loans in times of emergency. Now we all know that the country banker that is not borrowing now is in the little restricted districts where there is no occasion for it, but when you talk about the New York situation, as expressed by Mr. Alexander, they are operating world-wide; they are dealing not only in their own States, but almost over the entire world, and it stands to reason that they are the strictly commercial institutions that must bear the brunt of this burden. Take the central reserve cities and there are deposits in those banks, as you know, secondary reserve deposits, which since the organization of the system have been lying there dormant. In times like this, when there is an emergency, there is a shrinkage first in deposits, and then many of these institutions come back on us for credit requirements which are not borrowers ordinarily. We have that situation in this crisis. Many of the large banks, metropolitan institutions in their communities, have come to us for help, and we have had to give them help because they have had reserve balances. We regard it as our duty to help those banks and to prevent failure. They come to us and say frankly, "We have got to have help; we admit it from the beginning, and we can not give you paper that is eligible."

That is the principal trouble, and it is the trouble with all the big institutions in other cities all over this country. A man will come to us and want a million dollars. He has had a large balance with us, and we talk to him and ask him to get along with as little as he can. We say to him, "Don't take all this money now; take a little of it and come back a little later, and if you need it we will try to help you through with it." In every institution in this country there is a large amount of paper which is not eligible for rediscount at the Federal reserve bank, but at the same time it represents the very cream of paper in so far as the question of safety is concerned—I do not say liquidity—but in so far as safety is concerned. At times like this of course that is a burden on the banks, and it is those conditions with which we have had to contend. We have been for three or four weeks past holding the loans down; in other words, there has been no increase, but there has been a little diminution in the loans, and we think that is making splendid progress.

Now, it may seem to you people here that under conditions which arise whereby there should be deflation rather than inflation, that the banks should stop loaning money. That is just as impossible, without trouble, as it is for us to fly out of this room, but I think the banks in the seventh district and the bankers in the other parts of the country, so far as I know, are doing their utmost to cooperate with each other in this matter, and I haven't one particle of fear about the outcome. It is just a question of using what we might call horse sense and not getting stampeded, or excited, doing something under stress of excitement, or going off, as we sometimes say in the country, half-cocked.

I think we are making progress. I am not worrying about what the fall demands for money are going to be. Let us go ahead and correct this condition. I think we will find that the fall condition will adjust itself along with these other things.

With regard to Mr. Williams's question to Mr. Alexander, I want to say one thing on that, and I think I can say it without fear of successful contradiction, and that is that profiteering is not confined to the small operations, but if you will look at the books and records of a great many of the high-class institutions you will find there that they are making enormous amounts of money, and you have got to reach them somehow.

Mr. Williams. I agree with you fully.

Mr. Reynolds. That is the situation. Those are the people we have got to get after, too. We have an illustration of that condition in the sugar situation. I heard of a case in the Northwest the other day where the sugar was passed around and yielded a profit to half a dozen middlemen——

Mr. Williams. Before the consumer got it?

Mr. Reynolds. Yes; before the consumer got it. When I came home from my vacation in California I found there were rediscounts higher than they should be, and in one instance I was given an explanation.

They said to me, "Mr. Reynolds, we had to loan between $25,000,000 and $30,000,000, approximately, to take care of the tax requirements of our customers." I said, "You do not have to pay the taxes of your customers." He said, "We realize that is an obligation of the public to the Government; we know the Government is having its difficulties in financing; we know the Secretary of the Treasury put out Treasury certificates last May and wanted us to carry them, and the Feneral reserve banks heretofore had been carrying them: therefore, we thought we were serving the general condition." That is the situation. The great majority of big corporations to-day who had to pay a large amount of taxes had to borrow a very large amount of money. How we are going to pay the next tax which comes due in June is not bothering me just now. I bring these things to your notice because I believe this meeting ought to be one that will enable us to give a viewpoint of things we get at the other end of the line.

I said to a banker the other morning, "How do you like being a banker nowadays?" He said, "Sherman said, 'War is hell;'" but, he said, "I would rather be in the trenches on the other side than loaning to the banks these days." That illustrates the state of mind toward the people and in our institutions in Chicago, and I think in all institutions we do not go down so deep to analyze to any great extent as to whether this is a nonessential or an essential, but we take it right by the scruff of the neck and try to determine whether that fellow must have that money, and if he does not have to have it, even though it is essential, we put him on the waiting list. That is my theory, of the way to correct this situation, and I give you my observations, thinking after all this whole thing is very largely a matter of sentiment and very largely a matter of determination on the part of the bankers to cooperate with the board and of the board to cooperate with the banks, and if that could be done we will sail through automatically, and we will have a little demobilization in business without any apparent damage to any particular class of business. It is a case where you can not get "George" to do it; everybody has got to do his part if a reduction of the loans is to be brought about.

I thank you, gentlemen. [Applause.]

Governor HARDING. Is there any other Chicago director to be heard?

Mr. MCNIDER. We heartily concur in Mr. Reynolds's statement. I want to say further we are pleased more than I can say at the attitude of the Governor of the Federal Reserve Board. Your talk, Mr. Governor, is one which should be in the hands of every banker in America. You have reflected the sentiment as it should go to every bank. The good sense, the intelligence, and the courage of that talk should be distributed. It is educational in its way and should reach everybody.

The mid-West is not disturbed materially. We are suffering, as other districts are, by lack of railroad facilities. Iowa, for example, has a lot of live stock and grain that is unmoved, and it will come in as the railroads are able to handle the situation.

We believe that the Federal Reserve Bank of Chicago has been handled with sanity and courage; that they have taken care of the conditions as the conditions arose; that they have not been fearful of the things that come up, and we believe we have in our organization a lot of brains, a lot of banking courage, and a lot of banking ability, and out of that we expect that the position of the Chicago banks will be one that will meet with the approbation of almost everyone. We are agricultural largely. Our principal industry in the seventh district is agriculture. What we need more than anything else is a statement to the people that they may be educated along the right lines of what the real conditions are. When we have that you may rely upon the sanity, the courage, and the reason of the seventh district to do its part.

Doctor MILLER. What would Chicago suggest as the method of educating the people to an appreciation of the existing emergency?

Mr. MCNIDER. In Iowa just now we are holding a series of group meetings, 11 groups in the State, and in those meetings talks are being made to the bankers of the entire State, 2,000 in number, along the lines Governor Harding so well advocated this morning. We feel there must be reason, there must be sanity, that the essentials must be taken care of, that there can not be an extraordinary cutting down of credits at this time, because that would create disaster, but we feel it must lie in the judgment of the banks themselves as to how they may extend their lines and how to curtail them. The banker at his counter must meet the individual cases as presented to him.

In general the governor's line is one we firmly believe in. We believe there should be reduction; that there is too much inflation, but that we ought to deflate in a sane and reasonable manner.

Governor HARDING. Is there any other Chicago director to be heard?

Mr. JOHNSON. Gentlemen, I do not know that there is any more to be said than what has been said, but the governor in his speech has gone right to the point, and I believe it should be distributed and it should be emphasized in part. You said, sir, there were 300 banks that were exceeding their capital and surplus probably in their rediscounts and there are 7,500 other member banks not doing that, and 23,000 nonmember banks not bound at all by the system. Now, it would seem to a good many that the proper thing to do would be to put our finger on the sore spot and press it until we cured it, but I do not think that possible. I believe that education and propaganda must be carried on, with authority and with strength, carried on from this board and from these gentlemen here down to all the nonmember banks on to the small business man in the small factory.

The assets of the nonmember banks, with which I am acquainted, are very largely in nonessentials. The borrowing was done for the purpose of carrying property and not for the purpose of producing anything except speculative profits.

One great thing we need is leadership. I think that our chairman, in pointing out what the Federal Reserve Bank of New York is doing with its people, pointed out the way to develop leadership for the banks. Every one of them is more or less of a leader in his own community, and that leadership should be developed, and through them the education carried out, because it has brought us to the situation where we are—that may have been diminished, but we are still operating, and whatever we may do the possibilities are that in six months we will be in no better position than we are now. The reserves are exhausted; they must be restored; they can only be restored from the bottom; the top is doing the best it can; the man in charge of the important bank is struggling with the situation and doing his best and doing it successfully, but there is a glacial movement underneath which has got to be controlled; it has got to be controlled through this board and these banks and through these gentlemen and their associates reaching down to the bottom. I believe, and I believe, Mr. Chairman, that your speech, properly disseminated among them, with the show of authority, even if you do not have it, will bring it about.

Now, as to discount rates, of course with 300 banks borrowing above the limit and 7,500 not, the remedy is obvious, but I agree with Mr. Alexander that the psychological effect of the raising of the base rates to 7 per cent would be—it was suggested at 8 per cent from the Federal Reserve Bank of St. Louis.

Governor HARDING. Is there somebody here from the eighth district, St. Louis?

Mr. ZIEGLER. The eighth district is unfortunately not being represented by Mr. Walker, of St. Louis. However, I should be glad to have you hear Mr. J. C. Utterback, of Kentucky.

Governor HARDING. Mr. Utterback.

Mr. UTTERBACK. Mr. Chairman and gentlemen, it seems the peak of this credit expansion has moved in circles, starting at Dallas coming on over to Richmond, Boston, New York, Philadelphia, until at present it seems to be resting at St. Louis, and I believe that we are bearing the burden at this time. The St. Louis district, its directors, and its officers are bending every energy to meet this situation, and I have no apprehension but what they are going to meet it successfully and very quickly.

We have a varied commerce to deal with, agriculture and lumber, jobbing and manufacturing, and tobacco. In the western part of Kentucky, from where I come, the tobacco situation has been most serious and most appalling, due to the foreign exchange situation.

I presume that we have west of the Tennessee River—we do not reach into Tennessee—$20,000,000 to $25,000,000 worth of tobacco that has not yet moved. I would hate to see the discount rate raised, for the reason that in Kentucky we are limited to 6 per cent, and we can not pass it on to the borrower.

I believe that large borrowers in the Federal reserve bank system to-day should receive the most earnest consideration of the directors of those banks. If you will take the large banks of Louisville, and in Memphis, and in St. Louis they have a world of country correspondents that are not members of the Federal reserve system, although those banks are carrying the burdens of the country banks, which in turn are carrying the burdens of commerce and of trade and of production, and I believe that when a bank gets over its bank line it should not be arbitrarily dealt with, but it should be dealt with in the most exacting way, in a way that will enlighten the directors of that bank as to just the exact cause of that situation.

I believe that St. Louis will in a very short time begin to build its reserve up and be out of discounting with other Federal reserve banks.

Governor HARDING. District No. 9, the Federal Reserve Bank of Minneapolis.

Mr. MCDOWELL of North Dakota. Mr. Chairman and gentlemen, it is just like going to school to me to be at a Federal Reserve Board meeting of this kind, because I live in a little country town of 300 people, where I farm 90 per cent of the time and run a bank mornings and evenings. Mr. Decker is here from Minneapolis and he will give you the classic talk on banking, the same as Messrs. Alexander and Reynolds have done for New York and Chicago.

I just want to say to you that I do not like this increase in rates. Out in our part of the country we have been going a little bit wrong in our thinking, so much so that we have established a bank of our own, called the "State Bank of North Dakota," and the farmers, seven-ninths of them pay all the taxes in our State, and they are looking for something with which to shoot it into the big business and into the banker, and I think that any method that would raise the rate arbitrarily when he has had four or five years of poor crops—any of the 700 or 800 small bankers over that State, whose average deposits probably do not exceed $200,000; when he is compelled, after the stress of those four poor crops; when it costs $15 to $20 an acre to plant an acre of wheat up in our State; when hay is $25 to $30 a ton; when oats are $1.25 a bushel; when it costs $5 an acre to sow an acre of wheat; when barley is $1.75 a bushel; when farm labor is $100 to $125 a month; when those conditions prevail it looks to me like the institution that they told us when we started the Federal reserve system that was going to take care of us and prevent panics was now going to fall down and penalize them just the moment that the Giver of All Good Things had failed to give us our share of prosperity during this war.

It seems to me that now is a poor time to penalize the little fellow, and I am afraid we are just going to create a little more unrest out in the Northwest, where socialism has got such a strong foothold now, if we do not look at this thing not from any other standpoint except that of safety. The Federal Reserve Bank of Minneapolis is making $10,000 a day. Is that profiteering when they have been using our money without any interest ever since it started? Is the Federal Reserve Board going to be put in the same class as the sugar profiteer and the manufacturer who has been making big money?

Only just the other day down in Chicago a Federal judge took judicial notice of the fact that the Federal bank employees were too lowly paid and let a man go who was charged with an offense because he had not been getting money enough.

Governor Harding, if your address could be published over North Dakota in substance and in detail just as you have delivered it this morning I know of nothing better to cure the conditions up there and get people to understand. We have been accustomed to read the reports and interviews of the New York Wall Street people; our people have become surfeited with them and have revolted against it; we have had the opinions of railroad kings and big men down there, but your bank is known over our country as a Government institution in which the people have something to say about its management, and out in our country to-day the men whose sayings are read the most now, since the passing of that great man, J. J. Hill, who was a bigger business man than even a railroad man—the men whose interviews are read the most are the interviews of men like Mr. Decker and Mr. Rich of the Federal reserve bank.

So I say again that it does not seem to me that now is the proper time to increase our rate. We want to cure that unrest out there more than we do anything else. We want to stop some of this high finance in politics, in business. We want to do as Mr. Reynolds so well said, we want to learn to stand together now in times of stress, the same as we did in times of war, and I think we should move very, very slowly in that regard. [Applause.]

Governor Harding. Is there any other director from the Minneapolis district to be heard? District No. 10, Federal Reserve Bank of Kansas City.

Mr. Mitchell, of Denver. Mr. Chairman and gentlemen, I happen to be a class A director of the Kansas City district, representing group 1. About a month ago in our meeting there in Kansas City we thought we were rapidly reaching the danger line; our reserves were very, very low; I think on that day they were below 40 per cent. We felt that it was necessary to rediscount, and we did rediscount to the extent of $15,000,000.

I was in Kansas City on last Thursday; I found that our rediscounts had been paid off to the extent of $10,000,000 and our loans had been reduced to about that same amount, while our reserve was pretty well maintained; I think it was about 47 per cent. Gentlemen, in my opinion we corrected the trouble there by putting in the progressive interest rate; we felt that we had to do something. We considered it a little bit drastic, but we thought we would try it, and we did try it. On last Thursday in Kansas City—we heard nothing but words of commendation even from the banks; they were paying a good, high and stiff rate of interest; but I heard nothing but commendation of that policy, so I believe it is one of the remedies.

Our situation in Colorado, I think, is very much better than almost any other portion of the tenth district. We are not large borrowers in Colorado. Our Denver banks are, I believe, only borrowing about $7,000,000, with over $100,000,000 of deposits. The entire State, I think, is borrowing something like $8,000,000, or the entire district the Denver branch represents borrowing about $8,000,000, so that it is pretty light.

Conditions in Colorado are very good. So far as the water situation is concerned it looks as though we would have an absolutely full reservoir, every reservoir in the State. We have never had so much moisture. Conditions are a little bit backward; we are about 30 days behind. We never have had anywhere near approaching the acreage which will be planted for sugar beets. The Great Western Sugar Co. alone has over 300,000 acres contracted.

The situation in Wyoming and in Montana, which is not in my district but we are closely in touch with them, the cattle situation there is very bad on account of the drought last year. The stockmen have lost millions of dollars by death and by having to ship these cattle out before they were mature for the market, and the consequence is the herds there are very much depleted and they have got to have some relief from some quarter or other and it means, in my opinion, we have got to finance them and take a good many chances on their being good.

Governor Bailey is here and Mr. Burnham.

Governor HARDING. Governor Bailey.

Mr. BAILEY. Governor Harding and gentlemen: I would be just reiterating what Mr. Mitchell has said in regard to conditions in Kansas City. First, I want to say that if we had ample railroad facilities to relieve our situation in Kansas City, speaking for my own State alone, our agricultural report is that we have got 27,000,000 bushels of wheat in the elevators and in the bins adjacent to the railroads ready to go. I think it is nearer 40,000,000 bushels of wheat that could go to market at once if we could get railroad facilities.

I will give a little concrete example of my own case. I loaned a man $25,000 in October on wheat at a station only 60 miles from the Missouri River, for 30 days. No note was ever given in better faith or was contemplated to be paid at the end of 30 days on the theory that he would ship the wheat. I have renewed that note for him consistently every 30 days since and it is still unpaid and the wheat is still in the elevator. We are soon going to have two crops of wheat in Kansas, and I have discovered this situation: A little banker, that lives north of me, to whom I loaned money, went up to Falls City, which is the headquarters of the officer of the Missouri Pacific who distributes cars for that division, and he begged him for some cars. He said, "I would be glad to do it, but I have just come back from the East and they have taken 200 box cars off of my division and sent them to Minneapolis." I do not know who told him to do this, I did not learn then, but he said he had been East and somebody had told him to do it, but I should like to have somebody analyze to me the philosophy of sending 200 box cars to Minneapolis when their harvest is three weeks shorter than ours, and we have got two crops of wheat in Kansas to go pretty soon.

I just want to emphasize this railroad situation, gentlemen, because that would solve very largely the financial stress of the Missouri River.

As Mr. Mitchell said we are the initial bank of this graduated rate. We have been talking deflation to every one of the men who have borrowed more than their capital and surplus that was the old basis we figured on—and you can take it from me that you may talk patriotism and conservation to a man who can make money until you are black in the face, and you have got to make it unprofitable for him to stop it, and when we had put that progressive rate in a couple of days I went through the banks of Kansas City, and when I would go in they would say, " Governor, we do not know what this is going to mean to us, but we want to tell you that our bank is in fine shape," and tell me how much automobile paper and how much wheat paper, and I do not know how much other paper, and they had discovered it within five days from the time we put this rate in. It means also that they have gone through their portfolio and made a difference between essentials and nonessentials and reduced discounts in those banks a great many million dollars to the detriment of nobody.

I am well convinced, gentlemen, that you will bring the Federal reserve bank system back to a reserve system rather than a commercial system if you will make it unprofitable for certain great banks to use the funds of other banks.

I run a country bank, with about $3,000,000 average deposits. I do not use the Federal reserve bank. I am one of the kind that George Reynolds says lives in a provincial community where they do not do anything, but we have got a pretty good community up there all the same. But I have got the fear of God in my heart, and I went out in the highways and byways and listened to the siren who brought big business to me, and I thought it was fine business when he will deposit his great volumes of money and laid this obligation of credit. I have not got him on my hands to a very large extent, but I am running on the lower reserve on the theory that I have down there $500,000 credit in the Federal reserve bank, if somebody does not use it when I want it, and if I did not have that, instead of going on 20 per cent reserve I would be running on a 50 per cent reserve, but if I should go down there some day and find out that Brother Smithy—if they were all the same kind of banks he has got we would have no trouble—but if the men who have abused that privilege, having used all the funds and taken the resources out of the bank, I am confident that I, with every other conservative banker in the tenth district would feel aggrieved, and justly so.

So I say, gentlemen, I think the real remedy is in a graduated rate. Of course, make the basis line whatever you want, and let us say you would raise the rate to 7 per cent. Now, the only complaint we have among our banks is, there ought to be a maximum rate. I do not believe that, gentlemen. I would put a danger signal here, and another there, and another up here—that is, death; and he will never go against the death signal. You have made the Federal Reserve Bank of Kansas City a broker shop, you have changed it from a reserve bank to a commercial bank, and I want to get it back, and that is the reason I am in favor of the graduated rate. [Applause.]

Governor HARDING. Mr. Burnham, of Kansas City.

Mr. BURNHAM. Mr. Chairman and gentlemen, I simply want to repeat what Governor Bailey has said representing the group 3 banks; and living in Nebraska I can probably be accused of being one of the main offenders Nebraska has in the overextension, but that, gentlemen, has been owing to the transportation conditions.

Possibly Governor Bailey's story of the banker up there who went out in the sand hills and solicited business was true at the time that that was done. He has learned a lesson and he has not been a very pronounced offender during the last year. The offenses that have come from Nebraska have been by reason of six weeks of the very worst roads that ever were thought of in the history of the State. It has been an impossibility to market any grain or to move any livestock. The northern part of the State has been inundated; railroads have been washed out; in fact at the present time the Northwestern System has got no service west of Long Pine and does not expect to be able to establish a connected service for the next two or three weeks. Tracks have been washed out for two and three miles, and the bridges over the Cheyenne and the White Rivers have been lost. On the main line, from Omaha west, we have had at one time not one bridge in 80 miles across the Elkhorn River that was passable.

Now, we have got in the neighborhood of twenty-five to thirty million bushels of corn yet to be marketed. That will not be consumed by feeders, but will actually go upon the market. We have got what is estimated to be four to five thousand cars of live stock. Now, if we can be given the privilege of marketing our stuff, Nebraska, from being an offender for having overextended, will be collected very rapidly, and we do not have any fear, if we are not restricted at the present time with regard to the live stock in the western part of the State going onto the pastures.

The very necessity under this graduated form of interest rates has restricted loans out of Omaha. We find that it is almost an impossibility to get money for the purpose of purchasing cattle to go in onto the pastures and ranges. If we could have some assurance at the present time for that essential purpose I am confident that we would go by in a very short time; in fact, with decent road conditions 30 to 60 days will see us, as far as we are concerned, in a very much healthier and more satisfactory condition.

I thank you. [Applause.]

Governor HARDING. May I say right here that at the recent conference of governors of Federal reserve banks in outlining the financial requirements for the present season they all expressed the opinion that come what may the reserves of the Federal reserve banks ought to be kept approximately equal, that they should go up and down together. Now the Federal Reserve Board is not particularly concerned as to the source of the reserve so long as the situation is properly and wisely handled, and it seems to me that in this live-stock situation, which is a very serious situation from all we have been able to hear, and it is an important matter, it ought to be taken care of; that those banks which are most familiar with the industry, the districts in which that industry is domiciled, should be expected to do everything reasonable to take care of it, and that if by reason of a Federal reserve bank in a particular district taking care of the banks which are discounting for live stock men, their own reserves are depleted, why then they should be expected to rediscount with some other Federal reserve banks who are going to get the benefit of the live-stock product later on, and then those banks in turn may have to rediscount with others, just as we have seen the situation shift—there are only two banks in this system which have never rediscounted. We have had all other banks, including New York and Boston, as heavy rediscounters with the South and West; then we have the present situation when New York, Boston, and Cleveland are rediscounting for the other seven reserve banks.

There is one thing, though, I want to get out of your heads. We have observed situations here pretty closely; we have heard what the Secretary of the Treasury has said and there is not any prospect whatever of any Treasury funds being deposited in the cattle districts. The Secretary has very strong reasons for that and I think they would be convincing to most people. The Government itself is a borrower now at 5½ per cent; it has no funds, and he takes the view that the Federal reserve banks of cattle districts should take care of the live-stock situation in that district out of its own resources as far as possible, that if it needs any assistance, should rediscount with some other district.

Before we hear from Dallas and San Francisco, and in order to save time, I understand that there is a resolution to be introduced. It is very evident from what has been said here to-day that the tie-up in transportation facilities is a very important factor in the present financial situation, and I understand that a resolution is going to be introduced relating to that subject. You might consider that resolution, or those resolutions and then go on and hear from Dallas and San Francisco. Does anyone present wish to offer a resolution regarding, or submit a memorandum regarding anything?

Mr. PUELICHER. Governor Harding, I desire to offer a resolution, but not on the subject suggested.

Governor HARDING. Suppose we dispose of the transportation situation first.

Mr. FORGAN. Mr. Chairman, I move you should appoint a committee of five to prepare a resolution in regard to the effect that the present transportation situation is having on the expanded condition of credit in the country, with a view to placing such a resolution before the Interstate Commerce Commission, requesting them to do what in their power they can to relieve the situation by increased freight rates, or otherwise; also, that it should be put before the Shipping Board, so that they can provide, as far as they can, vessels at the principal shipping ports to relieve the congestion there. I move that such a committee be appointed by the Chair, and that they be requested to retire and prepare their resolution, and when they have it ready, offer it.

(The motion was duly seconded and agreed to.)

There were appointed by the chairman the following members of said committee: F. O. Watts, chairman; W. J. Bailey, George M. Reynolds, R. H. Treman, and E. W. Decker.

The CHAIRMAN. Is there anything else on that?

Mr. PUELICHER. I was going to hold this resolution until all districts had been heard from, but inasmuch as there has been a general approval of the spirit of your address, Mr. Chairman, I should like to offer it now.

Resolved, That the bankers here assembled in their capacity as members of the Federal Advisory Council, in their capacity as directors of the Federal reserve banks of the country, in their capacity as members of the orderly deflation committee of the American Bankers' Asociation, and in their capacity as officers and directors of banks doing business in the various cities of the country, approve the sentiments expressed in the very able address of Governor Harding as representing the views of the Federal Reserve Board, and

Resolved, further, That they believe that the widest publicity should be given the address, and, further, that they hereby agree to abide by the spirit of the address in their own affairs, and that they will encourage its general adoption by bankers and people of our country.

I move the adoption of the resolution.

(The motion was duly seconded.)

The motion was put by Mr. Puelicher and unanimously agreed to.

Governor HARDING. Gentlemen, I am gratified that our views meet with your approval.

Are there any other resolutions? If not, we will hear from district No. 11, Federal Reserve Bank of Dallas.

Mr. SCOTT. Governor Harding and gentlemen, the hour is growing late and I will detain you only a moment. The situation has already been very fully covered, it seems to me, Governor, by some able addresses here, your own, for instance, and others following.

I wish to say for the Federal Reserve Bank of Dallas, eleventh district, as the board knows and as perhaps the members of other banks here also know, that that district is in a very large live-stock and agricultural country. The district furnishes approximately 30 per cent of the cotton that is raised in this country and exported, 85 per cent of which is sent abroad; that forms a very material part of the credit balances that we get from the other side. Naturally, there are times in the year when our bank must borrow from the system. It is also true that when our crops begin to move that we can pay back our borrowed money and then assist financing in other districts. Perhaps six months in the past year we not only were not borrowers, but we were assisting in lending money in other districts.

We have recently begun to borrow again by reason of the fact that our farmers are needing money with which to make the crops; also a great deal of our cotton has not yet moved out, approximately a million bales of cotton being carried in Texas to-day, one half of which is for sale, but there seems to be no immediate market for it; we simply have to wait until the market abroad will absorb it. A great deal of cotton has been sold for future deliveries, and within the next 90 days a considerable portion if it will move out.

I do not believe that it will be necessary for us to borrow unduly in the eleventh district. It will be necessary to rely upon the Federal

Reserve Board, and through it upon some of the other banks to assist us in the next four months.

Speaking of the increased rates proposed by some of the districts, I can not find myself in agreement on that proposition. We have already increased the rate, and the mere increasing of the rate is not going to correct the evil unless the member banks all cooperate. We might increase the rate to seven, and then to eight, nine, and ten, and the situation would still be uncorrected.

I believe we ought to continue our efforts with our member banks throughout the country and induce them to curtail their loans as far as possible to only the legitimate needs of legitimate business, and by that means we can bring about in a normal way deflation of credits. We must remember that this inflation has not taken place overnight; it has been going on for three or four years and it is going to take some time to correct it. We can not hope to correct this situation in a day or a month or six months; we have got to go at it in a sensible way to bring it about in a gradual way, rather than to attempt to correct it within a short period of time. The Federal reserve banks have been charged with profiteering by reason of the rates they are now charging. We are making in the neighborhood of 100 per cent on our capital. We know that any increase in the rates is passed on to the consumer and has a great deal to do with adding to the burdens of the high cost of living, so that I say a great deal more good can be accomplished by educating the business man and the people than by simply putting in higher rates.

The Federal Reserve Bank of Dallas has already adopted the progressive rate proposition to be put in whenever the executive committee finds it necessary to do so, even pending or before our next meeting. We have a few banks in our district that are borrowing unduly, but if their situation should be examined into you will find that they are carrying a great many of the country banks, small banks who have not the proper eligible paper to offer the reserve banks, a great many nonmember banks, and they are in a measure extending the help to the communities which would come ordinarily through the Federal Reserve Bank of Dallas, but those cases are very few. We have a great many banks in our district that are not borrowing at all, and perhaps will not find it necessary to borrow this year. They had good crops in their districts last year and were able to take care of their customers out of their own funds.

I think our situation is sound and we are all cooperating. We have sent out two letters within the last three months to the member banks; the last one was sent out at our last directors' meeting, under the order of the board of directors to be sent under personal cover to the president of each member bank and by registered mail, so that the letter would receive attention, and they were requested to read these letters at the next meetings of their board.

We find that our member banks have fully awakened to the situation and they are going about this thing in a sensible way and we look for early relief in that direction. [Applause.]

Governor Harding. Mr. McKinney.

Mr. McKinney. I would only stress Mr. Scott's reference to the fact that by reason of cotton being our chief crop that our business ebbs and flows once in 12 months. So it was in last August, as he referred, we were rediscounting with other Federal reserve banks to the extent of $30,000,000, perhaps $35,000,000. In three months from that date we paid all that back by reason of liquidations that ensued from sales of cotton, principally, and then got on the other side of the proposition, and I think perhaps we have rediscounted to other Federal reserve banks about $20,000,000.

It has been my honor to represent the Group 3 banks from the Dallas district ever since the organization of the Federal reserve banks, and from a study of the condition of those banks I can say that throughout all the district they are in stronger condition to-day than they were a year ago. Of course those banks are in communities that have nothing but stock raising and crops; there are no manufacturing industries of any consequence, and the one point that I would like to make with reference to those communities is the extent to which labor is being drawn from the farms to come to town to engage in carpenter work and other labor of that character. In our communities down in northern Texas and southern Oklahoma it is one of the most serious problems that confronts us. I was talking to the cashier of a bank in a county seat town in northern Texas the other day, who told me it was his sincere judgment that one-sixth of the tillable land of his county would lie out this year by reason of the lack of farm hands. It is a wheat-growing county, and he went on to explain that they failed by reason of wet weather to get their wheat crops in, but that same situation has happened in times when labor was more plentiful and the fields that were reserved for wheat were put into other crops.

I thank you. [Applause.]

Governor Harding. The Federal Reserve Bank of San Francisco, district 12.

Mr. McIntosh. Mr. Chairman and gentlemen, we are not so far removed as to be immune from the same conditions developing in other situations. We are thoroughly in accord with the resolution adopted and with the speech of Governor Harding outlining the methods that are desirable for us to proceed upon. We can see the problem and we know fairly well some of the causes. We know that there is a demand that exceeds the supply of credit; we know there must be discrimination, and we are ready to join in any proposition.

We can not quite agree to the theory that the question of rate is the most essential one, although we are not unmindful that in former times, under all normal conditions, when production is normal, that that is an effective method, but while the statement of taxes, which are levied upon profits which are upon the books and not in the books is a factor, and while transportation is a very important factor, with one of those we can do nothing, with the other we can assist by the stimulation of production, which would tend to obviate or to relieve the situation which causes us to be in the position that it takes $2 and $3 and $4 of credit to do the former dollar's unit of merchandise traffic; that we can do, and that is part of our job to help.

We can stimulate our assistance to production. We can do that by the discriminatory extension of credits, yes, but inasmuch as the credit shortage is inevitable and is there, if we have good credit without regard to the character of the enterprise we would find it impossible for us to stimulate production or to use the means at our disposal in the most intelligent way.

I can hardly conceive that it is wise in the endeavor to keep out the undesirable feature to permit it to be rocked, even though the rocker is willing to pay 7 per cent for the privilege. I find it hard to convince myself that it is the most intelligent restraint to wield a club on the heads of friends and foe alike. A rate which applies beyond a certain arbitrary and calculated line has its effect, yes, but without regard to what the man on the other side of the line is doing. It may well be that my neighbor is bearing his share of the load, struggling under his attempt to bear his share of the community burden, and I am sitting pointing smugly to a large reserve and not doing my share. My neighbor will be punished if he carries out his full share of the line and goes above that line.

It is something like running into a mêlée with a club in one's hand to assist in quelling it, and making up your mind you are going to strike every fellow on the other side of the fence whether he has his coat off helping you reduce the mêlée or whether he is one of the main instigators. It seems to me the character and not the amount of opposition should be the prevailing factor in penalties.

I realize the difficulty of the Federal reserve banks going into the minute detail of inquiry in every case, but the work must be done, it seems to me, by ourselves as bankers with our clients and with our bank connections in the smaller centers—that we can do. We can pass on our own transactions with inevitableness, reasonably so; we can not compile a list of essentials and nonessentials, it would not be wise to do so, but we can tell, as Mr. Scott has said a moment ago, and the necessity of loans that are asked for us, and we can restrain, as far as may be, those things which are not a necessity, but there is one other factor which must be a corollary to that, and that is that in our help and in our aid and protection of the essential and quickly assimilable products we must have the assurance, or should have the assurance that we may have the unqualified support of the Federal reserve banks in our district, because that is their job also; the reserves are not sacrosanct. They are not to be framed and hung on the wall, that given the purpose, given the fact that the real purpose is being served by the advance of the Federal reserve bank must help us, must help those who are doing that thing, and must decline when discrimination is practiced against those not doing that thing. The fact that it is sent to the larger center means nothing, and the fact that New York—I use that as an illustration and not in any other way—is bearing a large burden, does not disabuse our minds of the knowledge that a large portion of that work is ours that they are bearing.

That is a misfortune in one way, but it is our burden and our duty too, and that is so of the banks and larger centers as compared with those in smaller centers, and if we can go to our people with the assurance that there is credit available for the protection of essential and quickly assimilable things, and that as compensation for that use we must ask them to refrain from the demand for credit for those things not essential, or for those which in our minds are not essential, we shall have gone a long way toward solving the difficulty as far as it is within our power to do so. [Applause.]

The CHAIRMAN. Is there any other director from San Francisco to be heard?

Mr. PERRIN. Mr. Chairman and gentlemen, there are just two points I should like to touch on very briefly. It seems to me it is not clearly enough expressed by a number of those who have spoken that the Federal reserve banks are really reserve banks. Penalties are referred to for our loans made at high rates by Federal reserve banks. When the vault reserves were formally invaded, it was not expected that that condition would be free from penalty. Governor Bailey, I think it was, who referred to making Federal reserve banks commercial banks, and I think it should be clearly borne in mind that they will not be classed in the same category as commercial banks, but that their organization has brought into existence a large new supply of currently loanable funds, that when we do invade the reserve held by Federal reserve banks it is only for meeting peak loads.

You all know, doubtless, that the total of vault cash and the deposits in Federal reserve banks combined represent a less percentage of deposits than the vault cash alone did in October, 1914.

If a definite program is outlined, it is always easier to work to that than to an indefinite one. Mr. Jacobson was good enough to make some studies for me yesterday of the changes in loans of national banks. There is not much light to be obtained taking the low point, the midsummer point of the five years before the war, and the peak point in the fall. Beginning with 1915 and running through the successive years, this may not be uninteresting, that from June, the peak in June, 1915, there was an increase in loans of $697,000,000 of national banks in 1916; that increase was $666,000,000 from June to the peak time, with an additional amount of funds delivered from rediscounting amounting to $48,000,000, making something over $700,000,000 in 1917, $247,00,000 from discounts in 1918, $476,000,000 with $629,000,000 from rediscounts, that is 1919, and $211,000,000 with $973,000,000 of discounts. That makes something over $2,000,000,000 difference between the low point last year, that is the midsummer point last year, and the peak in the fall, and at the peak there were $11,700,000,000 of loans, that represents an increase of considerably more than 10 per cent. Mr. Reynolds spoke of not letting George do it, but each one to do his own share, 8, 10, or 12 per cent.

It would seem to me the concrete problem now is to determine whether our present condition is approximately the extent of expansion that we would like to have this fall rather than a more or less acute condition. If so, the way to meet that problem is to bring about in the next three or four months a definite amount of contraction, which would permit us to expand correspondingly in the fall. If it were possible for every bank in the country to reduce its loans during the next three or four months to the extent, say, of 10 per cent, there would be a total expansion in the fall possibly of approximately $2,000,000,000. In other words, if, without disturbance, we could prevail upon each bank, or upon the average have the banks reduce their loans 10 per cent within the next three or four months, and that is what we have spoken of in the Federal reserve system as orderly liquidation, we could then make all reasonable expansion that would be required to meet the situation in the fall, which is bound to come, and yet not create any greater stringency than we now have.

If transportation difficulties are rectified somewhat obviously there will be a good deal of liquidation from that source, which would make possible a considerable reduction of loans. It occurs to me if a definite program of that sort were undertaken, and I do not suggest 10 per cent, but whatever per cent might be thought adequate, that the smaller as well as the larger bank does not need to go into the analysis of economic aspects and the economic relations of all those things, but they simply have one definite problem to work to and are more apt to do something than if they are left to try to digest and to try to understand the larger aspects of the thing.

Recurring for a moment to the matter of reserve banks being reserve holding institutions, I agree with what Mr. McIntosh has so well said in regard to this whole situation. I do not find myself, however, in agreement with the idea of not advancing the rate. I find my own inclination toward establishing a 7 per cent rate for commercial business. [Applause.]

Governor HARDING. We have a committee here from the American Bankers' Association and would like to hear from any representative of that committee.

Mr. FORGAN. I am chairman of that committee, Mr. Chairman. I would like an opportunity to say, Governor and gentlemen of the Reserve Board and delegates of this convention, that the convention has stirred up a good deal of sentiment through the country, and there has been some thought, I think, of a misapprehension of what we were going to do when we got here. The fear got out that we were going to meet here and in some way were going to classify loans into essentials and nonessentials, and with that even send an order through the country that there were to be no loans made on what we would term nonessentials. In your speech, sir, you have covered that already, and there is no use saying anything more about it.

I have several documents that have been sent to me here, I do not know in what capacity, whether as chairman of the American Bankers' committee or whether as chairman of the Federal Advisory Council; at any rate I have been getting these, and I should like to read them to you, because I feel in duty bound that you should know what the borrowers are thinking.

The National Implement & Vehicle Association had a convention in Chicago last week, and they appointed a committee to interview me so that I would come posted to this convention as to what they thought about it, and I said "Put it in writing," and the committee got busy and wrote me this letter:

NATIONAL IMPLEMENT & VEHICLE ASSOCIATION,
Chicago, Ill., May 14, 1920.

Hon. J. B. FORGAN, *Chicago, Ill.*

DEAR SIR: Reports that have reached this association within the last few days regarding the difficulty experienced by farm implement dealers in financing the movement of agricultural machinery from the manufacturer to the farmer led to the calling of a meeting of the executive committee yesterday, May 13, and the appointment of an emergency committee, specially charged with the duty of directing attention to the seriousness of the situation thus created with respect to the country's food supply in the immediate future.

The difficulty appears to be that in many rural communities bankers are failing to extend adequate credit to implement dealers to enable them to secure the prompt delivery of machinery which is essential to the production of our crops. This action on the part of the bankers is perhaps due to a recent rumor that Federal reserve banks would not rediscount paper given either by farmers or dealers for farm machinery. In one or two Federal reserve districts, we are informed, this erroneous impression has been officially corrected. We are not advised as to the extent to which it prevails in other districts.

It is scarcely necessary to point out that anything which interrupts the supplying of agricultural implements to the farmers is a menace to the Nation's food supply. The situation to-day is particularly acute because of the abnormal shortage of farm labor and the present extraordinary congestion of freight traffic. Further, there has been extreme difficulty in obtaining the materials needed for the manufacture of farm machinery and all manufacturers are working on so close a schedule that if there is any delay in financing delivery of machines they will reach the farmers too late for use this season.

Most manufacturers are at this time so heavily burdened by the large investment resulting from the high cost of material and labor that they find themselves unable to extend to customers the credits that have heretofore prevailed. Both manufacturer and dealer must, therefore, depend upon the banks—and particularly local banks—to a greater extent than ever for aid in marketing farm machinery.

The shortage of farm labor has reached a point this year where the farmers' need of labor-saving machinery is imperative. Only by adding to their mechanical equipment, and particularly their power machinery, can the farmers of the country maintain production in the face of a falling supply of man power.

Without an adequate supply of farm machinery, there can not be an adequate supply of food. Farm implements and food products should receive equal consideration. This committee feels it would be most helpful in the present situation if the banks of the country would give to the movement of farm machinery the same consideration which is given to the movement of farm products.

If it should now or later become necessary to establish any order of preference among industries, we respectfully call your attention to the fact that during the war the United States War Industries Board placed farm machinery in one of its most essential classifications, at one time even placing it on a parity with food supplies and ahead of railroad transportation.

We earnestly request that this subject may receive your special attention, and hope that we may have your cooperation in our effort to secure adequate financing for the distribution of these essential machines.

The members of the emergency committee are: H. M. Wallis, Racine, Wis., president of J. I. Case Plow Works; George A. Ranney, Chicago, secretary and treasurer, International Harvester Co.; F. R. Todd, Moline, Ill., vice president, Deere & Co.; G. N. Peek, Moline, Ill., president Moline Plow Co.; C. S. Brantingham, Rockford, Ill., president, Emerson-Brantingham Co.; W. H. Stackhouse, Springfield, Ohio, French & Hecht Co.

Very respectfully yours,

H. M. WALLIS, *Chairman.*

The next is from the National Federation of Constructive Industry. They write a letter and they give the following reasons for the high cost of commodities: Underproduction, particularly of necessities; overproduction, particularly of luxuries; inefficiency of labor while on duty; part time work by labor; strikes; greed; profiteering in some lines of business; excess profits taxes as such.

Then, I have here from the Studebaker Corporation and from the General Motors Corporation statements indicating that what they produce, namely, automobiles, have been mentioned as luxuries, and they say they are not luxuries, but are necessities.

I then received this telegram since coming here, from Indianapolis, Ind. This is addressed to me as chairman of the advisory council of the Federal reserve system:

In considering restrictions of extensions of credit to nonessential industries, please remember the manufacture of tires for cars already in operation would appear highly essential industry because old tires can only be replaced by new ones.

That is signed by the Majestic Tire & Rubber Co., of Indianapolis, Ind.

Mr. Scott. There are no letters from consumers there, but all from manufacturers?

Mr. Forgan. All from manufacturers; yes.

Governor Harding. I will place in the record at this point the following telegrams:

Chicago, Ill., *May 17, 1920.*

Governor Harding,
Federal Reserve Bank, Washington, D. C.

Credit situation as affecting live stock is critical. Movement of wool is slow from car shortage and bear tactics of buyers, and steers can not be marketed until next fall. Last year Governor Calkins, twelfth district, wisely advocated by circular letter July 15 that banks extend credits to breeders of live stock that production may be sustained and increased. Cattle and sheep paper is necessarily, especially on breeding stock, long term, as sale periods of products only occur yearly and expense accounts accumulate and must be carried for long periods. Merchants and certain manufacturers can curtail stocks or operations, but live-stock breeder can not, without disaster, market his product until conditions are right. We bespeak from you and your associates of Federal reserve banks unusual consideration at this time.

F. J. Hagenbeeth

Phoenix, Ariz., *May 18, 1920.*

Hon. David F. Houston,
Secretary of the Treasury, Washington, D. C.:

The prevailing financial stringency has resulted in stopping movement of our young steers from these breeding grounds to pastures where they are matured for beef. These cattle were contracted early by Texas, Colorado, and northern pasture men and advance payments made. Now they are being forced to sacrifice advance payments owing to their inability to secure funds regardless of collateral rate of interest or amount of margin in steers, the Federal reserve board having stopped loans on cattle security. This spring movement of young steers is not speculative but occurs every year, and heretofore has been financed without difficulty. To stop it will not only throw many in Arizona out of business but will certainly bring about eventually an upheaval in beef conditions generally. It is just as important to the Nation as the movement of any crop. Our breeding ranges are stocked to capacity and the breeders can not finance this, but on the contrary need money badly for operating expenses. Can not this disaster be forestalled by some provision allowing member banks to accept enough well-secured cattle paper to permit this normal movement of steers to pastures from whence they go to market one or two years hence? Your interest and assistance greatly needed and will be deeply appreciated.

Arizona Cattle Growers' Association,
Chas. P. Mullen, *President.*

Chicago, *May 17, 1920.*

Mr. W. P. G. Harding,
Governor of the Federal Reserve Board, Washington, D. C.:

Firmly believing that the Federal Reserve Board has more power than any other commercial element to correct the evil of high prices and stabilize necessities, we respectfully suggest that if all loans to profiteers and speculators in the essentials of living made on warehouse receipts were called it would without doubt force an emptying of the cold-storage houses and amply meet the necessities of the consumer at reasonable prices without injury to any legitimate industry. This was recently done with the lumber speculators on the Pacific coast and resulted in a decline of from ten to thirty dollars per thousand feet in the price of lumber within 60 days. Speculators find it all too easy to borrow money at low rates on warehouse receipts and hoard the necessities of life at a profit of one to three hundred per cent and if this borrowing were made impossible by you commodities would immediately begin to tumble and conditions rapidly head toward normal.

FRANK J. SHEAD,
President Shead Lumber Association.

Gentlemen, are you ready to hear the report of the committee on the transportation situation?

Mr. WATTS. The unanimous report of your committee is as follows:

The whole country is suffering from inflation of prices with the consequent inflation of credit. From reports made by the members of this conference representing every section of the country it is obvious that great sums are tied up in products which, if marketed, would relieve necessity, tend to reduce the price level and relieve the strain on our credit system.

The congestion of freight is found in practically all of the large railroad centers and shipping ports. It arises chiefly from inadequate transportation facilities available at this time and is seriously crippling business. We are informed that the per ton mile of freight increased in three years—1916, 1917, and 1918—47 per cent, while the freight cars in service during the same period increased 1.9 per cent.

A striking necessity exists which can only be relieved through the upbuilding of the credit of the railroads. This must come through adequate and prompt increase in freight rates. Any delay means the paying of greater cost directly and indirectly and places a burden on the credit system which in the approaching time for seasonal expansion may cause abnormal strain. Even under the load of war inflation, high price level, and extravagances the bank reserves would probably be sufficient if quick transportation could be assured during the time of the greatest strain: Therefore

Be it resolved, That this conference urge as the most important remedies that the Interstate Commerce Commission and the United States Shipping Board give increased rates and adequate facilities such immediate effect as may be warranted under their authority, and that a committee of five be appointed by the chair to present this resolution to the Interstate Commerce Commission and the United States Shipping Board with such verbal presentation as may seem appropriate to the committee.

Mr. SCOTT. Just for my information, who is going to pay us for all these goods moved to market?

Mr. WATTS. Some of the commodities there is no market for. There is some short-staple cotton and colored cotton, but nevertheless there is a great quantity of goods that is held which requires bank credit. That would be a subject that would take a great deal of time to cover, Mr. Scott.

Mr. SCOTT. Are our neighbors on the other side prepared to pay us for it?

Mr. WATTS. Well, I should say they are not, but they are not the only customers for those commodities. We can get just as near our own circle, I presume, as we want, for that. For instance, I know a wholesale grocery man who is accustomed at this season of the year to not be in the bank at all, except for small sums, and he practically has his entire line of credit, which is due entirely to domestic business and is not foreign business at all. It is due to the fact that he has paid for those goods and that the goods are somewhere between the point of production and his warehouse. He has orders for those goods and requires bank credit.

Mr. Scott. I am sure that would tend to relieve the situation, but I doubt whether it would go all the way and bring the relief that perhaps is called for.

Mr. Watts. My judgment is that in the St. Louis district, to use that as an example—St. Louis is a point which produces much more than it consumes. I am not talking about the city of St. Louis, but I am speaking of the Federal reserve district, and I refer to the manufacture of shoes and different products of every kind. Now, there has been such a congestion in the transportation facilities in that district that it has caused the St. Louis district to-day to be the largest, or rather to have the lowest adjusted reserve of any of the Federal reserve districts, which is not a natural condition. Take the cotton, tobacco, and rice, or any of the products of that district. It is quite true that of this cotton there is probably 80 per cent that is short staple or colored cotton and the remaining 20 per cent probably has been sold, but can not find its way to the purchaser and therefore must be carried by the banks. Probably a part of the short cotton has been sold now. The St. Louis banks in the district and the reserve banks must carry that credit pending restoration of transportation facilities. That is true of the wheat section. Mr. Decker referred to the fact that in the Northwest there was possibly $200,000,000 in grain products tied up for lack of transportation.

Governor Harding. Is there a second to the adoption of the resolution?

(The resolution, being duly seconded, was unanimously adopted.)

Governor Harding. Does the conference wish to do anything with the suggestion offered by Mr. Perrin, which, as I understood it, was that there be a program laid down that every bank be requested to have its loans reduced by a certain percentage?

Mr. Scott. I think there is a different problem in each district, Governor Harding.

Governor Harding. There is no motion before the meeting. I was just wondering if Mr. Perrin wanted to make a motion. He has come a long way to attend this meeting, and I merely want to call attention to the fact that he has made the suggestion.

Is there any other business that any member of the conference wants to bring up?

Mr. Wayne. The question of graduated rates on borrowings or rediscounts has been touched on, and I would like to know whether in the districts that have adopted this procedure they have eliminated the question of borrowing on Government securities from calculations as to the line of credit granted to a bank.

Governor Harding. In the Kansas City district, and the Dallas district, in their tentative plans, they have eliminated entirely borrowing on Treasury certificates of indebtedness and on Liberty bonds actually owned on the 1st of April, 1920.

Mr. Wayne. Owned by the bank or by the customer?

Governor Harding. As I understand it, by the bank.

Mr. Wayne. Have they made any reference to collateral notes of customers that have been discounted by the banks as a result of Liberty loan subscriptions?

Mr. Bailey. They have to belong to the bank on the 1st day of April. We have made that rule.

Mr. Scott. It is the same way in the Atlanta district.

Mr. WELLS. He wants to know if customers' notes secured by Liberty bonds are exempt from the application of it.

Mr. BAILEY. They are not.

Mr. WELLS. They come the same as commercial paper?

Mr. BAILEY. Yes.

Governor HARDING. If there is nothing else to bring up, I presume the advisory council will finish its session this afternoon. I am informed by Mr. Forgan that the council has finished its work.

Mr. FORGAN. Unless the board desires to consult with the council.

Mr. WILLIAMS. Mr. Chairman, it is a little past lunch time and I suggest we take an adjournment of an hour and a half and meet again at half past 3. We have had some very interesting talks from bankers from all over the country. It has been very instructive, and I think if we come back after lunch, after we have had an opportunity to think over what has been said, that some additional ideas may be suggested of a constructive character. This is an exceedingly important conference and I would dislike to see it adjourn sine die at this moment. These gentlemen have come from all over the country, and I move you that we adjourn at this time and have another session this afternoon for the purpose of taking up any new matters that any member may desire to bring up after he has an opportunity to think over what has been brought out at the conference this morning.

(The motion, having been duly seconded, was carried and the conference adjourned at 2 o'clock p. m. until 3 o'clock p. m. of the same day.)

AFTER RECESS.

The conference reassembled at 3.15 o'clock p. m. pursuant to recess.

Governor HARDING. Yesterday, in the Senate, Senator McCormick, of Illinois, moved that the Senate take up Resolution 363, which reads as follows:

> *Resolved,* That the Federal Reserve Board be directed to advise the Senate what steps it purposes to take or to recommend to the member banks of the Federal reserve system to meet the existing inflation of currency and credits and consequent high prices, and what further steps it purposes to take or recommend to mobilize credits in order to move the 1920 crop.

The discussion is rather brief and I will take the liberty of reading it from the Record.

(The discussion on the Senate floor was thereupon read by Governor Harding.)

I presume in answering that resolution the board can take as a basis remarks made here this morning, and with reference to the transportation it can incorporate the resolutions which were adopted about the tie-up of the railroads. I think it would be well to have a committee of three appointed to wait on the Interstate Commerce Commission and formally present those resolutions to-morrow, and as I have been given the names of some of the gentlemen that will remain over to-morrow in any event, if the conference wishes I suggest that they authorize me to appoint a committee of three to present this matter.

Mr. WATTS. A committee of five has been authorized by resolution. We might change that to three.

The CHAIRMAN. Five would be more impressive. I had in mind asking Mr. Decker to serve as the chairman of that committee, and Governor Bailey of Kansas and Mr. Ball of Texas, Mr. McNider, Mr. Rieman, and Mr. Perrin to compose that committee.

I would also suggest that a committee of three be appointed from this conference to prepare some kind of a statement or memorandum to be submitted back to the conference, which we can use as a basis of a press statement, and which you can all use as a basis of a statement of your own banks when you get back home touching the situation as you see it, and forstalling any more remarks such as were made in the Senate yesterday as to all kinds of trouble coming, yet being careful not to stir up another bomb.

Doctor Miller suggests a committee of five, with definitive powers, to draft a memorandum and resolution and transmit it to the board, then we can make them public and send each Federal reserve bank a copy.

Mr. DECKER. I should like to amend that by suggesting that the Governor of the Federal Reserve Board be an ex-officio member of that committee. I think it is conferring rather broad powers to put into the hands of the committee a commitment of this whole conference on perhaps the most important matter of all.

(The proposed amendment was accepted.)

Governor HARDING. I would be very glad to sit with the committee.

Mr. PUELICHER. Governor Harding, do you want to be chairman of that committee?

Governor HARDING. No; I do not want to be a member.

Mr. PUELICHER. I move you that we appoint a committee of five, and that the governor of the board be asked to sit on the committee in an ex-officio capacity.

Governor HARDING. Had you not better ask one of the other members of the board to sit with that committee?

Mr. DECKER. All of them, for that matter.

Governor HARDING. The chair would like to have some suggestions as to the membership of that committee. I think it would be well if nominations for that committee be made from the floor.

(The following named members were selected as members of said committee: Mr. Joseph Wayne, Jr., Philadelphia; Mr. Beale, Boston; Mr. Perrin of San Francisco; Mr. Forgan of Chicago, and Mr. Treman, New York.)

Governor HARDING. It has been suggested by Doctor Miller that before the committee retire we would better have them have the benefit of the general discussion here for a few minutes so they may have the advantage of various views that may be expressed. The conference is now open for informal discussion. We would like to hear from anybody who wishes to talk.

Mr. WATTS. We have heard discussion from members, and now perhaps other members of the board would like to say something following the discussion by the delegates from the various districts. I think we would like to hear from Doctor Miller.

Doctor MILLER. I think the morning's conference has pretty well developed the things that bulk largely in our estimation of the general situation, and anything that any of us could say beyond that would be little more than repetition, or perhaps give only added emphasis by a personal word.

I think it is clear what is wrong in the situation, but it is not quite so clear as to what is going to be the most effective method of addressing the united power of the board and the reserve banks and the member banks of the country toward any improvement of the situation.

A good deal has been said about rates, and New York has rather taken the position that that has got to be the main reliance in bringing about both a reduction in the rate of growth of credit—I do not say a reduction in the total volume, I do not expect that, but at any rate the diminished rate of increase, and also they seem to think that that will prove to be if not in itself, at any rate the first step toward the exercise of greater discrimination by member banks either in opening new credits or in the renewal of existing credits. The latter seems to me to be the more important problem and the more difficult one, and the one upon which bankers throughout the country need to get all the light and leading that they can from this conference, and that also is the question I think upon which the borrowing public of the country will be most eager to get information.

I was left at the close of our conference this morning with the impression that the majority of the men that spoke were inclined to take a more optimistic view of the problem with which we are confronted than I think conditions actually warrant. I was also led to the impression that we were in danger of going away feeling that having discussed the situation and interchanged views, and having enlightened ourselves, we had done our duty and for the rest we could safely trust in God. I think the problem is one that requires not only understanding of what we are going to do, but delicacy of discrimination in undertaking to apply a test to the legitimacy of credit demands, energy in developing and carrying out a policy, but patience in awaiting fruition of results.

Credit is the most delicate institution in the world—"opinion," as Alexander Hamilton put it in one of his great reports, "is the soul of credit"; you can very easily injure it; on the other hand, by proper treatment, you can very easily support and maintain a good condition of mind.

I think the analogies of other countries and other times do not furnish us very much guidance for the present. This is a very unique situation. As was said three or four times here this morning it is really a condition of mind we have got to address ourselves to in this country. Our morale, economic, psychological, and political, is pretty low. We do not want to run it still lower by any intemperate attacks or any assault upon either the business or the credit of the country; on the other hand, we want to maintain a very serious attitude of mind as to what we may expect unless we address ourselves pretty seriously to the immediate improvement of the situation.

Sometimes on occasions of this kind you want a word or a phrase upon which to hang things, and I was struck in the course of deliberations this morning with the frequent occurrence of the word "discrimination." I think the country will accept that as on the whole indicating a temperate and responsible attitude on the part of the Federal reserve system and member banks of the country in dealing with this problem, and on the whole that is the one thing that would seem to me worth specifying as a general objective in any report a committee of this conference might make in the way of a recommendation to the Federal Reserve Board as to what in its opinion must be done to handle conditions successfully in this country so as not to dampen the ardor of enterprise, not to throw any chill over industry, but also with the constant suggestion that banks are to use such influence as they have to restrain the unproductive use of credit, applying the test of unproductiveness under existing conditions and not under normal conditions, and to restrain the reign of extravagance.

I have no hesitation in saying for myself that I do not feel at all optimistic about the outlook. I do not for a moment expect that we are going to deflate in this country, and I think we are only deceiving ourselves if we talk about deflation. We must, however, arrest the rate of growth of credit and we must expect that with the swell in the productive activities of the country that come with the approaching crop season there will be a natural swell in the volume of credit, which need not alarm us. I am not at all worried if our Federal reserve bank liabilities run up and our nominal reserve position appears to be weakened, provided we have the assurance and the right to feel the assurance that such credit as is being extended by the member banks and immediately supplied to them by the reserve banks is credit that rightly functions in industry in the production of things that in a reasonable view are wanted at the present time, and in a minimum degree in supplying extensions in industries which, at the present time, are contributing nothing toward the essential processes of economic recuperation.

As I see it, beyond that the problem is to present this in such a way to the bankers of the country as will secure their cooperation, and with their aid also to present it to the user of credit. After all, credit is given only as somebody wants credit, and to a certain extent our problem is to restrict the appetite for credit, and it is not the banker that borrows credit, or if he borrows it from the reserve banks he borrows it only as the first step in the process of lending credit to somebody else. Eventually, it is the user of credit that has got to be brought into a more or less responsive and acquiescent attitude in this policy of control. There is no use attempting to evade the fact that control, if it is anything more than a process of self-deception means actual control; that somebody has got to go without the credit he thinks he is entitled to or the credit he would like to get. But it would, I think, be a mistake to treat this simply as a quantitative problem instead of, as I think it is primarily a qualitative one. I would not be at all alarmed at the growth of credit in this country if we had the assurance that credit was only going to the users of credit contributing to the production of those things the country badly needs at the present juncture.

I come back, therefore, to the word "discrimination" in the extension of credit, as on the whole pointing the way toward the road that we have got to travel, and perhaps in some parts of the country even blaze, in order to get back to the situation that the governor very happily described this morning as the restoring of a more normal relationship between the total volume of credit in existence and the total volume of production. I would amend it only in one particular, the production of those things that people who care for the country, who are sensitive to the requirements of the times and who are willing to cooperate in a great national endeavor will not quarrel with, the production of things that immediately are more important, and the postponement of things that for the moment are less important. [Applause.]

Governor HARDING. Mr. Comptroller.

Mr. WILLIAMS. Mr. Chairman and gentlemen, I do not know that I have anything special to add to the very excellent presentation of the whole subject which you gave this morning, which was supplemented by the various speakers who have preceded me.

There are one or two aspects of the situation, however, to which I think I would like to direct your attention especially. You have been speaking of extravagance and the production of nonessentials and luxuries. It seems to me it would be very helpful if every bank in the country should constitute itself a missionary for thrift and saving and try to urge upon the workers, upon the laboring people, and upon those whose incomes have been swollen, the importance of laying up for the rainy day and for old age. It seems to me that with the large wages that are being paid now in industrial establishments that it offers a splendid opportunity for you to increase and build up the savings deposits in your banks. I was very much disgusted the other day to hear of my chauffeur buying about three silk shirts at $10 a piece. I made that the text of a little lecture.

Governor HARDING. He must have got a cut price.

Mr. WILLIAMS. That is going on on all sides. I think that if when these individual cases of extravagance and luxury come to our attention, if we would call the attention of the spendthrifts to the importance of starting a savings account, that it would be helpful. It seems to me that the banks could very well afford to do some little additional advertising in behalf of thrift and saving, and appeal to the laborers, who are getting more now in their daily wages than they ever dreamed of in the years gone by.

One difficulty of the present situation is that the conditions of which we complain in this country are world wide. We have not simply to remedy things within our four borders, but they are overlapping in all the civilized and uncivilized countries. I was reading an extract from a Japanese paper the other day that the cost of living on the Yantze Kiang River in China had gone up about 300 per cent in four or five years; I also noted recently, as illustrating the extravagance of impoverished France, that there was one store in Paris which last year sold 1,100,000 pair of silk stockings at an average of 30 francs per pair. They seem to be returning to sanity over in Paris, though, to some extent; there are beginnings of it, as perhaps a reflex of the overall campaign, I see they have started the cotton stocking association in Paris to remedy the extravagant use of silk. I think it would be very well if we should adopt that over here.

As illustrating the embarrassments against which we have been working, I would call your attention to the enormous cost in this country at the ports. I have a national-bank examiner who is in Europe at the present time, and in a letter received from him within the past few days he calls my attention to the very sharp comparison between the cost of transferring cargo in New York, or some of our other ports, as compared with Antwerp. At Antwerp they have a wonderful harbor; about 6 miles of piers, and a railroad track lying between the great warehouses which line the harbor and the pier itself, and the cost of transferring freight in New York, I understand, is more than 1,000 per cent above the cost of transferring freight per ton in Antwerp. Those are symptoms of commercial extravagance which we have got to correct when we get down again, as we will in the course of time, to hardpan and begin to strictly compete with the other countries.

Some one asked me the other day what I thought of the outlook, and I told him that I could best express it in the language used by Cato in his soliloquy, in which he said, "The wide, unbounded prospect lies before me, but shadows, doubts, and darkness rest upon it." Now, unquestionably, there are shadows, doubts, and darkness that rest upon the prospect, but those shadows, doubts, and darkness can be blown away, and they should be blown away; they should be remedied.

I do not think myself that there is any ground for expecting a commercial cataclysm or crisis such as some people are predicting; particularly a very well-informed and responsible man expressed the opinion not long ago that we may have such a crisis between now and election, or if we did not have it before the election we would have it worse afterwards. I do not think those fears are justified. I see nothing in the situation to justify the fear of such a commercial crisis or financial catastrophe as we had either in 1873 or in 1890, or in 1907. If anything of that sort comes, it will be our fault, the fault of those who are in charge of the banking and commercial interests of the country, and I do not believe they are going to bungle it.

I do think it is tremendously important that every individual bank, besides being a missionary for thrift, should each admonish and warn and hold the strings of their moneybags with a very discriminating hand, and should bring about a proper and reasonable degree of contraction. I think my friend, Doctor Miller, expressed the view of the meeting yesterday, that he was not very hopeful of our ability to bring about much contraction—about as far as he went was to desire and hope that we would not inflate any further. I think, though, that we should go further; I think we should, and must, bring about a reasonable degree of deflation or contraction.

I do not think that the inflation is as grave as some experienced people think it is. I will give you now some figures, which I think are rather reassuring, at least for the time. Speaking of the elasticity of bank credit, it is a fact, whether you have noticed it or not, that in the first 50 years of the National banking system the maximum play, as expressed by notes, rediscount and bills payable of the national banks, the borrowings from other banks, was only about $100,000,000. That represented the largest amount, or practically the largest amount that the National banks of the country ever borrowed at any time on their bills payable or rediscounts up to the panic of 1907. There was no elasticity; we were in a strait-jacket.

That perhaps represented an expansion of 1 per cent of our total resources.

In 1914 the notes rediscounted in the national banks and their bills payable increased in the emergency created by the European war to about $150,000,000, which was the maximum up to the opening of the Federal reserve system. Since the beginning of the Federal reserve system the maximum of notes, rediscounts, and bills payable of all the national banks has amounted to about $2,000,000,000, or about 20 times as much as their total borrowings up to 1907, and I believe that the amount at the present time stands at about $2,000,000,000. But a very significant feature of that situation is that, that if we should deduct from the—or if the national banks should be reimbursed the money which they have invested in Victory bonds and Liberty bonds and loaned on Liberty and Victory notes they would be able to pay off their entire indebtedness to the Federal reserve banks, and to all other banks.

To my mind those are very hopeful figures and indicative of a pretty solid situation. In other words, if the banks should be reimbursed the money that they now have in the war issues they could pay off every dollar they owe to the reserve banks or to any member banks. Of course we are not expecting them to be reimbursed for those bonds and loans immediately, but in the course of time they will be liquidated; the Liberty bonds and Liberty notes will find their way to investors and the banks will have got back their capital in liquid shape.

I personally have no doubt in my own mind that the next two or three years will probably find our Liberty bonds and Victory notes at a premium. You all remember very well that it was not more than 20 years ago when your Government 4 per cent bond sold above 140; while they carried circulation privileges they had no Federal reserve system where they could be used as collateral either.

My parting words is to urge that the member banks keep themselves in solid condition and lean as little as possible upon the Federal reserve banks, and that the member banks do not undertake to make their loans year in and year out, or month in and month out, except on unusual calls and in emergency cases, from the Federal reserve system. I am reminded, in conclusion, of the hopeful and reassuring lines of the old hymn:

> Ye fearful saints fresh courage take;
> The clouds ye so much dread
> Are rich in mercies and shall fall
> In blessings on your head.

I think the time will come, and soon, when these clouds will pass away and we will get down to the solid foundation we desire.

Governor Harding. Following our comptroller's suggestion that the banks of the country are making an intensive campaign to keep up their savings department especially, I wish to call attention of the members of the conference to the fact that the Federal reserve note issues outstanding are nearly $3,100,000,000, and that in endeavoring to locate the whereabouts of those notes we failed to see where there can be more than about $1,750,000,000 of them held in the vaults of the banks of the country, so that leaves about $2,300,000,000 in the pockets of the people, or in circulation somewhere. We all know the habit that has grown up in the last two or three years on the part of people carrying large amounts of notes upon their persons, and it gives you a very good idea of the possibilities of a campaign to increase your deposits if you can induce people who carry money around with them, or who have it stuck around the house somewhere, to come around and deposit it with the banks. It will increase your deposits and will be a very large reduction in the amount——

Mr. WILLIAMS. A small bank in Michigan recently reported to my office about $4,000,000 in the vicinity of this small town which was carried in old stockings or in safety deposit boxes; that there was being hoarded $4,000,000 in the vicinity of that one small place.

Governor HARDING. Mr. Mohlenpah, will you make some remarks?

Mr. MOHLENPAH. Mr. Chairman and gentlemen, I am sure no man in this conference would expect anything from the newest member of the board. I think it would be right to say that there is no member of the board at this time that has been related to your problem so directly as perhaps I have been, because I have just come from the desk and I have, during the past six months, visualized the proposition you were up against, and I want to say right here, gentlemen, that I refuse to be a pessimist. I quite agree with the comptroller. That does not mean that I am an expansionist or an inflationist, but I do believe in the broad, general proposition that we have just as much right to take stock of our assets and of our privileges and of our opportunities as we have of the darker phases of the question. [Applause.]

Now, gentlemen, I believe out of this situation will come a stronger, higher morale on the part of the bankers themselves. We saw our people at the highest point during the war. We have a right to expect the business men, particularly the bankers, will come to their highest point now in this financial war. I believe the bankers will clean house; I believe in this trial or strain or stress they will become better, safer custodians of the people's money.

May I illustrate just what came to me from one of your men yesterday? He said, "I believe that our bank will be a better bank; that our men will be better bankers in handling the people's money." He said, "For years in our bank we carried a loan of $30,000 for one very wealthy person in our city. When this strain came on I called her in. She was a very wealthy real estate owner, and I told her frankly our problem. She said, 'I'm very glad you told me this; I will gladly and willingly make a mortgage upon my property so that your needs over the counter will be more liquid and that you will be relieved of that much.'"

I am only indicating that as just a suggestion of what will happen over the counters one way or another during the next six months of 30,000 banks and bankers relating themselves to their business. That is to be desired. I believe the bankers, if this educational propaganda you are talking about is put out, will become something better than bankers; you will become community leaders and not just community advisers, but you will become community directors. The very nature of your business in discriminating upon your loans will make you that, and that is a good thing. It is just exactly, to my mind, what this situation needs; not a contraction that is going to hurt; it needs the steady nerve of the bankers just as they faced their problems in 1903 and 1907.

May I remind you gentlemen again that we have reason to be thankful for our position as a Nation at this time as over against any other period in the history of the world? And I would not want to see the bankers as a fraternity, privileged to lead the people as you are, to go out and take a backward step to hurt our people as they try to relate themselves to their business in this most wonderful country of ours.

And right here, as we think of this community program and community interest; as we see the banks of the industrial centers like Boston and New York and Cleveland at this time; as the great agricultural districts of our country are now about to go at a new season, the seed going in the ground, that you are in a position now to help—if I would say one thing above another it would be this: That we lay stress upon the first prime importance of seeing to it that we produce all those things related to food and clothing, the fundamental need not only of our own country and every other economic interest of our country, manufacturing and everything else so intimately related to that of the program of the agriculturist, but because of the need of the world. And I appreciate, gentlemen, the suggestions that I have heard and the things you have said here to-day, and it would be my privilege and pleasure and in any way I can, in any small way I am able, to assist. Let us be optimistic and not altogether pessimistic. [Applause.]

Governor HARDING. I wish to convey to the gentlemen of the conference the greeting of our absent member, Governor Hamlin. He left about three weeks ago to go to a hospital near Boston, where he underwent quite a painful operation. I am glad to say it was entirely successful and he is now out of danger. He will be convalescing several weeks, perhaps, before he will be back with us, but he assures me when he does come back he will come entirely restored to health. I am sure that all miss him to-day, and I am sure all will be glad to hear he is past the danger point and will be restored to us for many years of usefulness.

Mr. JOHNSON. May I ask a question? The comptroller spoke in regard to this matter. Upon this last page of the chart it would show that the borrowing for commercial purposes by the Federal reserve banks through all the member banks from July to about September ran along about $250,000,000, and from that point on there was a steady expansion until now the borrowing for commercial purposes is about $1,000,000,000, and this chart does not indicate there is to be any diminution of that increase. Now, as a practical question, where is that going to lead us? I would like to ask the comptroller what he thinks about it.

Governor HARDING. That means there must be some liquidation of commodities held up.

Mr. JOHNSON. As a country banker my observation is that the mass of borrowers in the country banks do not have much to do with commodity product.

Mr. WILLIAMS. The figures I gave referred more to the national banks and did not refer to the other member banks. Of the total borrowings of national banks of $2,000,000,000, bills rediscounted and bills payable of all kinds, if there should be a conversion of a thousand millions in Liberty bonds, or if they should sell them to savings banks and to investors, that would pay off one billion. If the borrowers with the banks should pay off the billion which they are borrowing on war issues, that would pay off the other billion.

Mr. JOHNSON. That is not quite the point. The expansion for commercial purposes, as shown by this chart, from last summer until now, is from two hundred and fifty million to one thousand million dollars for commercial purposes.

Mr. WILLIAMS. To which chart do you refer?

Mr. JOHNSON. That expansion is still continuing, so far as this chart shows, and if it continues during the summer as it has been continuing during the spring it seems to me it will put us in quite an extended position.

Mr. WILLIAMS. Which of the charts are you looking at, Mr. Johnson?

Mr. JOHNSON. The last one, the bottom chart on the last page, showing the condition of all the Federal reserve banks.

Governor HARDING. You mean the total discounted paper on hand?

Mr. JOHNSON. The bottom chart on the last page, showing all the Federal reserve banks together.

Mr. WILLIAMS. The total discounted paper on hand.

Mr. JOHNSON. The total discounted paper on hand is $2,500,000,000, of which $1,500,000,000 represents Government securities and $1,000,000,000 represents commercial paper apparently, as I read the chart.

Governor HARDING. Last September it was about $1,560,000,000.

Mr. JOHNSON. The difference between the two top lines on the bottom of the chart is what I am getting at. Last September it was $260,000,000 difference, but now the difference is $1,000,000,000.

Governor HARDING. Has anyone any suggestions to make to the committee which is going to draft a report?

Mr. OTTLEY. There was one point that was taken up this morning and discussed by several of the directors. As I understand it, when we get back from this conference the vital question is going to be what action if any this conference is going to take on the question of rates under the graduated scale. I would like to ask at this juncture whether or not this committee is going to make a report to the conference touching that point?

Governor HARDING. I should not think so. The rate making power in its initiative rests with the directors of each of the reserve banks independent of any other Federal reserve bank. The amendment which authorizes a normal credit line and a progressive rate distinctly says that each bank for itself may determine this without reference to any other Federal reserve bank. I do not believe that any Federal reserve bank would care to lose its autonomy to the extent of putting its policies in the hands of a committee representing all of the Federal reserve banks, but I think they would prefer to stand on their own basis and carry out the intent of the act, solving their own problems on their own responsibility.

Mr. WILLIAMS. In answering Mr. Scott's question as to the increase of seven or eight millions in the loans and discounts of the banks, there was a suggestion made this morning by some one that the banks might be asked to reduce their loans and discounts by 10 per cent. That would come pretty nearly wiping out the whole business; 15 per cent would almost wipe it out. I would suppose that the loans and discounts resources of all the banks, national and State, are about $45,000,000,000. I suppose that the loans and discounts are somewhere between thirty and forty billion, so that an 8 or 10 per cent reduction in loans or 5 per cent would cause the payment of an immense amount of paper.

Mr. SCOTT. How many banks have established a progressive rate thus far?

Governor HARDING. Kansas City established it and has it in effect, and Dallas has paved the way for the establishment of it.

Mr. SCOTT. Those are the only two?

Governor HARDING. Yes; those are the only two. They have not put it into effect, but all preliminaries have been carried out. I understand the Federal Reserve Bank of Atlanta has the matter under consideration. Is that right, Mr. Ottley?

Mr. OTTLEY. Yes. At the last meeting of the board, it was the consensus of opinion of the board that a progressive rate was correct in principle. I feel sure that it would have been put into effect at the last meeting of our board in New Orleans, except for this conference here. It was postponed because of this conference. But it is proposed to put it in in order to be in line with the various Federal reserve banks, particularly with the St. Louis bank and the Dallas bank.

Governor HARDING. Would you object to saying, after you have heard this discussion here to-day, what your attitude, as a director of your bank, will be toward the establishment of the progressive rate? What will your advice be when you go back?

Mr. OTTLEY. I would not hesitate to say that my recommendation will be to put in the progressive rate. On the question outlined by Mr. Alexander—that is, a 7 per cent rate as a flat rate—I do not believe that would be in the interest of the system. From the information we have in the sixth district, and I believe this applies in the other districts, the overborrowing by banks, regardless of any basic lines, is confined to a small number of banks and I think it would be in the interest of the system to put in a schedule of progressive rates as applying to those particular banks but not to raise the rate and just make it a flat rate. As I said before I believe, as a result of this conference, so far as I am concerned, that my opinion would be that it would be good business at this time to do that, so far as the Atlanta bank is concerned.

Mr. SCOTT. You would not favor leaving your rate at 7 per cent for the normal line and then penalizing excessive borrowings——

Mr. OTTLEY. Absolutely not.

Mr. SCOTT. I am in favor of the present rate.

Mr. WAYNE. I would like to say a word on this progressive discount rate. It does not appeal to me as a director of the Federal reserve bank at all, at least for operation in our district. I am afraid it will do just the opposite for which the Federal reserve act was enacted. In other words, the act was proposed to enable the banks to cater to commercial business. I know in the operation of our own bank we were very often called upon to borrow quite heavily and we cut it down as fast as we could, but if we are going to accumulate a batch of commercial paper, either by direct transactions for customers or by purchase on the market, because our borrowings at the Federal reserve banks happen to go beyond a certain limit, we are going to be heavily penalized, we are going to stop buying the paper, and we are going to invest our money in call loans on Wall Street, which is exactly what the Federal Reserve Board does not want the member banks to do. We are not going to be penalized, but we are going to put our so-called surplus moneys in investments that we can readily realize on without being penalized. I think the situation can be handled, at least in our district, without recourse to the imposition of the penalties that have been proposed. I think when a member bank over borrows that it is up to the officers of the Federal reserve bank to find out the reason for it, and I think in 9 cases out of 10 it can be corrected. I think that you are going to defeat the very purpose of the act, which was to enable commercial banks of the country to do a safe commercial business. We will simply be driven into call loans on Wall Street for our surplus money if they are going to penalize us.

Governor HARDING. There is another important question, gentlemen, and that is the question of bankers' acceptances. It might be of value to have a brief discussion of that here this afternoon; that is as to whether or not there should be a differential in the rate in favor of acceptances in consideration of the fact that commissions are charged for the acceptances. Then the question as to whether or not acceptances purchased are taken over by a Federal reserve bank from a member bank should be charged as a part of the discount loan of the accepting bank, or whether it should be kept entirely separate. The directors of the Federal reserve banks of New York and Boston I think are particularly interested in that question and it may be of advantage to have the discussion opened by Mr. Treman.

Mr. TREMAN. I think the sentiment in New York is not in favor of having acceptances charged against the individual bank. I think it is quite a unanimous sentiment there that that would be a mistake.

Mr. FORGAN. Do you mean charge against the accepting bank?

Governor HARDING. Charged against the selling bank.

Mr. FORGAN. The indorsing bank.

Governor HARDING. Yes.

Mr. FORGAN. The accepting bank has nothing to do with it.

Governor HARDING. I meant the indorsing bank.

Mr. TREMAN. With regard to the development of acceptances we have always favored in New York the encouragement of the acceptance market on the theory that it was a right and proper development of a credit line; and while it has been abused in certain cases we do not think it has been abused to such an extent that it should be discriminated against.

The acceptance market is growing very rapidly. We have found that whereas only a few of the banks in the New York district are buying acceptances as means of investing their funds for short periods that the country banks are coming in in quite large numbers. We have now I should think something like a hundred banks out of 740 banks in the New York district that are buying acceptances as a means of investing their short-time funds. There are also coming into the New York market a great many acceptances that are initiated in other districts and they gradually find their way to the New

York market because it is practically the only open market at the present time. I am sure that our directors feel that we should encourage, within a reasonable degree the development of the acceptance business in this country.

Mr. BEAL. In the matter of acceptances I think I quote our directors correctly in saying that they should not be counted against any line of discounted paper allowed to member banks and that a preferential rate of discount for acceptances should not be allowed.

Governor HARDING. I think you have a preferential rate, but it has not been availed of to any great extent.

Mr. BEAL. Very little.

Mr. FORGAN. In Chicago we are developing some market for acceptances. Our country banks are buying them and learning to rely upon them in that way. They think they are the best secondary reserve that they can have in their portfolio and the reason for that is that they can be readily disposed of. The same of course applies to commercial paper. There was supposed to be some difference, but they were found to be more convertible, and should be more readily convertible, than commercial paper. An acceptance is more strictly a document that represents a transaction that is to be liquidated at its own maturity, much more so than even our commercial paper. We know that the operators in commercial paper put their paper in a broker's hands and raise money to meet that paper as it matures; but an acceptance is more along the line of a special transaction representing goods that are to be either exported or moved from one part of the country to another, and that the goods will be sold and the acceptances will be paid promptly at maturity.

I say this because it is a good argument why the acceptance, if it is to be considered the best kind of secondary reserve, should have no restrictions of any kind put around the ability to get rid of it, especially if you adopt this plan of graduating the rates above a specified line of discount. When a bank gets up to its nominal line it might have quite a line of acceptances and it might have to convert at a rate as high as they were paying out in Kansas City.

Governor HARDING. What is your view of the rate at which Federal reserve banks should buy acceptances?

Mr. FORGAN. I think just at the current rates.

Governor HARDING. You mean the current rates for commercial paper?

Mr. FORGAN. For commercial paper; yes.

Governor HARDING. What is your view of that, Mr. Treman?

Mr. TREMAN. I would say the same.

Governor HARDING. Mr. Bailey, is that your view of it?

Mr. BAILEY. Yes.

Governor HARDING. We sent out a questionnaire two or three weeks ago to some of the acceptance houses, dealers in acceptances, asking a good many leading questions on the whole subject, not only as to rates but as to whether the acceptance was really what it purported to be, whether it was actually a self-liquidating instrument. We want to find out particularly whether an acceptance against export, for example, was really paid by the importer on the other side, actually liquidated, or whether at the end of the life of the acceptance, at its maturity, the form of the credit was changed, that it became a fixed loan in the hands of some member bank in this country. The replies are coming in. They are going to be tabulated in the next day or two and we will have some further information on it.

The domestic acceptance particularly seems to have been abused in some cases. It is being used as a method of granting credit in excess of the limitations of section 5200. Acceptances have been made against warehouse receipts where there was no intention of sale or no prospect of sale.

I have here, gentlemen, a rather severe arraignment of the progressive rate plan if you would like to hear it. It is written by the governor of one of the banks which was opposed to putting the idea in.

That amendment was drawn in order to meet that objection and counsel says that it does meet it. If a bank agreed to make a rule that any bank should be exempt at one and the same time from the operation of the progressive rate that they could make that exemption, that all banks in their district must be treated alike. That is the only requirement. It does not seem practicable to give the member bank the option of picking out what time of the year it desired to be exempt, but if the Federal reserve bank wished to put in a normal credit line with a progressive rate and the rate put in, say, during the month of September or October or November, the normal line would be extended to a larger amount, or the whole plan should be held in abeyance during those three months, it would be entirely competent for the directors to do so.

Mr. Scott. We find that about 80 per cent of our members are small country banks with a small capital and small deposits and that therefore, figuring on the Kansas City plan, their normal line would be almost negligible. A great many banks having $100,000 capital would have a normal line of only $12,000 or $15,000 under the Kansas City plan. They are the ones that we really need to help out, in the farming communities. We had a complete list made up of every borrowing bank, showing what its rates would be if they were under the Kansas City plan, and we found that some of them ran up as high as 18 and 19 per cent. If that plan were applied it would mean the ruination of the agricultural districts.

Governor Harding. Governor Wellborn, of Atlanta, told me that he had reached the same conclusion.

Mr. Scott. We find our plan works to the detriment of the larger banks because the larger banks, which are about 15 per cent in number, could get a larger line under the Kansas City plan than they could under the plan we finally adopted, but the line that we adopted was for the benefit of the largest number of banks, and we consequently adopted it.

Mr. Utterback. What is your plan, capital and surplus?

Mr. Scott. Capital and surplus. That would be the normal credit line and every 25 per cent over that 1½ per cent.

Mr. Mohlenpah. I would like to ask Governor Bailey if in his judgment the banks that are not using the Kansas City plan at all for rediscount have, because of this progressive rate, anticipated at this time their full needs? Do they do that in any way?

Mr. Bailey. I think they will. We have discovered since this rate was put in that the bank—in the first place, the Kansas City bank people have gone out through the country and said to him—they have had this long time relation with them and have taken their rediscount paper. The Kansas City banker calls at a meeting of these country bankers and says to them, "Just forget that, we will take care of you; bring your paper down here." They have done that and now the Kansas City bank finds itself loaded up with it. Then the country bankers come to town and they say to him, "John, you have not used your rate at the Federal reserve bank," and he will say "no," and they will say, "You will confer a great favor on us if you will just do that and relieve us this time."

Now, we have figured in Kansas City that the member bank was entitled to take from the Kansas City bank just the proportion that it had contributed to the Kansas City bank. That Kansas City bank has to keep 35 per cent of that as dead money. That is its reserve. They take the reserve that each member bank carries there and add to that the capital stock and take 35 per cent of that as reserve. It seems to us that it is a fair proposition that the member bank should be entitled to its just proportion of what it had contributed to the Federal reserve bank in Kansas City and that if it took any more and used it that they ought to pay a penalty for it. I have been forced to that conclusion, gentlemen. Perhaps our conditions are different than they are in the East. Perhaps they are not any different from those in St. Louis and Dallas, but my goodness alive, those fellows out in Kansas, Oklahoma, and around there would pass the buck in a minute and we would never get any deflation or any contraction. You have to put up the danger signal big enough so that it means danger if you keep going and won't slow down. I have been around to these various bankers' conventions and meetings and have talked to them personally, and every one of them will take the attitude, when we tell them that we must not expand, of "letting George do it," and would go on making money just as long as we would let him. But as soon as he discovers that it is going to become unprofitable for him to do it, he finds right away that he can get along without making so many loans. At a meeting not long ago I was asked the question, "Do you think we are loaning this money for providence?" and I said, "I don't know how to answer that question as to what you are doing now, but consciously and unconsciously you have been doing it for the last two or three years while you have had this opportunity to do it."

Now, when these fellows come in to make big deposits and you accept them, every time you accept a big deposit there is with it an obligation to make a loan. I happen to know of one bank in Kansas City that accepted a $500,000 deposit of the General Motors Co. and they thought it was fine business. They carried it for six months at a low rate of interest, and right during the time of stress the $500,000 was called for and they asked for a $500,000 loan. It was just that kind of condition that was brought about there, and they bring the stuff over to us to rediscount.

Mr. Decker. I think this is a matter that differs in different sections. In Minneapolis I have found no sentiment whatever in favor of the graduated interest rate, for the reason that our big strain comes almost at once, during the crop-moving season. For instance, a year ago last fall the rediscounts of the Federal Reserve Bank of

Minneapolis for its member banks were $97,000,000 in the middle of September and they were down to $3,000,000 by the middle of December.

Now, we think it would be a very great mistake to say to the member banks, who are financing these crops and against whom any charges made will naturally sooner or later go back and then to the producer of the crops, to say to the bank for nine months of the year they shall pay a certain rate and then when they come in to move the grain of the country and borrow a large amount of money that we will stick them 12 per cent. It would not work in our district at all. It would work just exactly the other way. I agree entirely with what Mr. Reynolds said this morning. I do not think that a bank that is located in a district where they never have to borrow any money is entitled to any more credit than a bank that is located in a district where they have at times to borrow their heads off. One is just as much a necessary part of the commerce of this country as the other. Therefore, I do not think we should say to some little bank in the State of Minnesota, for instance, where they have no demand for money at all, but just enough to take care of their own deposits, that because they have never been a borrower and possibly never will be, that we must forever leave the reserve there for them because they are entitled to it, when a bank in Minneapolis or St. Paul, at certain seasons of the year has to extend its loans tremendously in order to furnish food for the people of the world. We must look after those things, it seems to me, and care for the conditions in the district. In the Minneapolis district I find no sentiment in favor of it at all. We may reach a point where it may be necessary; and if that point should be reached, I would not hesitate for a moment to put it into effect.

If you want to restrict the borrower of a certain sort, do not penalize the seasonal borrower who has need of a large line for a small time. For instance, assume a bank with a normal line of $50,000. If that bank borrows nothing for, say, 10 months in the year, then for 2 months in the year it borrows $250,000, you could establish a rule where the penalty rate did not apply to that $250,000 of seasonal two months borrowing. If, on the other hand, you had a bank whose normal line was $50,000 and carried $125,000 or $150,000 all of the year through, it would apply to that bank. In other words, you give the benefit of the exemptions you see of the freedom from loans to the peak of the load.

Mr. FORGAN. I should like to suggest just one question. I put the question to the Dallas representative. My recollection is that some time during the winter, when the Dallas district got to the height of its season on cotton and was carrying cotton, it practically used up every dollar of reserves it had. If it had not borrowed from other banks in other districts it would not have had any reserve at all, which means, of course, it could not have done what it did do, take care of the cotton situation. Was it general? Were all the banks in the district borrowing to create the need, or were there only a few of the larger banks in the centers, in Dallas?

Governor HARDING. Comparatively few of the larger banks are responsible for that.

Mr. SCOTT. Yet a great number of interior banks were borrowing too. I suppose one-fourth of the banks were borrowing at that time.

Mr. FORGAN. But a few large banks that went under that load.

Mr. SCOTT. Yes.

Mr. FORGAN. Now, then, do you contemplate taking advantage of what Governor Harding has drawn attention to? When that situation arises again, are you going to let these large banks do the same thing again and waive your regulation in regard to the progressive rate, or how are you going to get through? If the big banks are not allowed to get this big rediscount, how are you going to carry that cotton? You can not expect them to do it at 7 per cent and pay you 15.

Mr. SCOTT. We are going to let the larger banks pay the progressive rate.

Mr. FORGAN. How can they do it?

Mr. SCOTT. That is not such a grave penalty.

Mr. FORGAN. The progressive rate?

Mr. SCOTT. No.

Mr. FORGAN. They are paying 15 per cent in Kansas, though.

Mr. SCOTT. Under the Kansas City rate they would, but not under ours.

Mr. FORGAN. Where do you get the limit?

Mr. WATTS. You reduce the lines to your big bank?

Mr. SCOTT. Here we take a bank that under the Kansas City plan might have three and a half million normal line, but using the capital and surplus have got a line of two and a half million, if the present rate continues, that is, at 6 per cent. Now, on every 25 per cent increase the rate goes up one-half of 1 per cent, so that by the time that bank has $5,000,000 borrowed money it is paying 8 per cent on the last 25 per cent, or an average of 7 per cent on the five million. I do not contemplate any bank in our district, whose normal line is two and a half million, that is going to borrow to exceed five million. We have never had, and I do not presume we will have, so that our progressive rate after all would not be any higher than the basic rate that Mr. Alexander proposed this morning to put it for the New York district, the 7 per cent rate.

Mr. MOHLENPAH. Might not this be true, that the little banks would be borrowing through the central bank, getting their lines there at a higher rate of interest, and the city banks rediscounting at the Federal reserve bank at a lower rate of interest, would that not be true in a large number of small banks in the Texas district?

Mr. SCOTT. In the Texas district, under the plan we propose to put in, the country banker might be borrowing money cheaper than the city banker; in other words, he has got a line of $75,000 in his capital and surplus, and he is getting that at the current rate, which is 6 per cent. Of course, if a city banker is borrowing double his amount he is paying 8 per cent on some of his money, so it will tend to encourage the country banker by the persuasive method that was suggested coming from the city banker to borrow as much as possible direct from the bank and to leave the city bank's line open for local business.

Mr. MOHLENPAH. I had had the complaint from several country banks in different districts that the city banker was raising his rate up on them. For instance, the commercial rate made at the Federal reserve bank to Kansas City, Chicago, and St. Louis, that raised the rate to 6½ to 7 per cent on the country banker; that is, it is rather an automatic proceeding.

Mr. SCOTT. We have not got a bank loan in our portfolio giving over 6 per cent.

Mr. MOHLENPAH. I am not talking about the city banker.

Mr. SCOTT. Ours is the city banker.

Mr. WATTS. That is absolutely true, the city banker is raising the rate.

Mr. MOHLENPAH. I had one man tell me he put up $500,000 Liberty bonds and charged 6½ at the city bank, as security, and the excuse he said was given to him, the reason, rather, was they had to pay a higher rate for the Federal reserve bank. The point I would like to make, is it absolutely necessary in every transaction made in a Federal reserve bank that it has got to be made on the basis of profit to the Federal reserve bank, or is it not time that these reserve banks will have to forego their profit in this overplus of borrowing when the country banks have to move crops or other commodities?

Mr. SCOTT. I said a moment ago we did not have a loan on our portfolio—I meant of the banks. Of course, individuals are getting a little higher rate, 6½ per cent instead of 7 per cent.

Mr. BAILEY. Is it good business to raise the rate in New York to 7 per cent? The fellows doing the mischief are the fellows that are extending the credit all over the country. If you do not raise the rate of interest to him, how are you going to get this effect of slowing down?

Mr. MOHLENPAH. I am not contending against it. I am trying to show up the modus operandi, how this thing increases there as it is related to the country banker who is taking care of the man who is raising the crop.

Mr. BAILEY. I want to give a concrete illustration. I had a merchant, a good man; he had been getting a rate of 6 per cent as long as I remember, and he came in and we said "We are going to charge you 7 per cent; we have raised on all of them." He said, "My God, are you going to charge 7 per cent? I won't pay it. I can stand 6 per cent. I can get along with less money." And he just up and paid his note, all in good nature.

Governor HARDING. Gentlemen, is there anything more the conference wishes to discuss?

Mr. UTTERBACK. I should like to ask one question in regard to rates. If New York should put on a 7 per cent rate, do not all rates have to finally be approved by the Federal Reserve Board?

Governor HARDING. Oh, yes.

Mr. UTTERBACK. Is it not the policy of the Federal Reserve Board to make all rates uniform in the district?

Governor HARDING. Not necessarily. All in a district?

Mr. UTTERBACK. I mean over the system?

Governor HARDING. Not necessarily. There is no obligation on the part of any district to have uniform rates.

Mr. BAILEY. Would not this obtain? Suppose I carry a balance in New York City and expect to rediscount on it and they put the rate to 7 per cent and Philadelphia is kept at 6, would I not probably transfer my balance to Philadelphia?

Mr. SCOTT. They would not raise them to 7, would they?

Mr. BAILEY. I do not know.

Mr. SCOTT. If they did raise it, they would reduce it quite shortly.

Governor HARDING. I would suggest, gentlemen, that you be careful not to give out anything about any discussion of discount rates. That is one thing there ought not to be any previous discussion about, because it disturbs everybody, and if people think rates are going to be advanced, there will be an immediate rush to get into the banks before the rates are put up, and the policy of the Reserve Board is that that is one thing we never discuss with the newspaper man. If he comes in and wants to know if the board has considered any rates, or is likely to do anything about any rates, some remark is made about the weather, or something else, and we tell him we can not discuss rates at all, and I think we are all agreed it would be very ill-advised to give out any impression that any general overruling of rates was discussed at this conference.

We have discussed the general credit situation, and your committee, which has been appointed with plenary powers, will prepare a statement which will be given out to the press to-morrow morning, and we will all see what it is. You can go back to your banks and of course tell your fellow directors as frankly as you choose what happened here to-day, but caution them to avoid any premature discussion of rates as such.

We have had an exceedingly interesting day, gentlemen. The suggestions which have been made have been valuable and we have profited by your visit here. I wish to express on behalf of the board our appreciation of your coming here and to thank you for the unselfish and loyal interest you have taken in the Federal reserve bank situation throughout the country in giving this matter the careful thought and consideration that you have, and I am sure that the spirit which has manifested itself at this meeting here to-day will spread throughout all the country to the member and nonmember banks, and if it does, we can look the future in the face with courage and confidence.

(Thereupon, at 5.03 p. m., the conference adjourned.)

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