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HOUSE OF REPRESENTATIVES.

Committee on Banking and Currency,

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March 5, 1935.

The Committee met at 10:30 o'clock a. m., Hon. Henry B. Steagall, Chairman, presiding.

The Chairman: Gentlemen, we will come to order. Governor Eccles, the Committee will be glad to have you resume your discussion of Title II of the bill. You may proceed as far as you desire, without interruption.

STATEMENT OF HON. MERRIMER S. ECCLES,
GOVERNOR, FEDERAL RESERVE BOARD, RESUMED.

Mr. Eccles: I made a general statement yesterday, and it occurred to me that it might be helpful to the members of the committee if I discussed, more or less informally, and possibly in more detail, some of the features of the bill.

It is proposed to combine the office of the Chairman of the Board of Directors and the Governor of the Federal Reserve Bank. At the present time,each of the twelve Reserve Banks have nine directors. Six of those directors are elected by the stockholders of the banks, which are member banks; three of them are appointed by the Federal Reserve Board.

The term of office of those directors is this: They are appointed for three-year terms. Of the six directors appointed or elected by the member banks, three of those directors are bankers, known as "A" directors; three must be selected from commerce, agriculture or industry. One of the three directors appointed by the Federal Reserve Board, known as a Class C director, is selected or appointed as Chairman of the Board of

Directors of each Federal Reserve Bank. They are also Federal Reserve agents. They are full-time, highly paid officials; and originally it was conceived that they would be the executive head of each Federal Reserve Bank.

The Governors are not designated in the Federal Reserve Act. The Act provides that the directors of the bank shall select such officers and employees as are necessary to conduct the affairs of the bank.

The office of Governor was a creation given to the person selected by the nine directors as the operating head of the bank. In practice, the position of the Governor has become an outstanding and important position, and in nearly every instance he has become the head of the bank. He is not a director of the bank; he is elected by the board of directors, the nine members of the board of directors.

The Federal Reserve Board has no legal relationship with the Governor of the bank, has no responsibility in his selection. That relationship with the bank is through the Chairman and the Federal Reserve Agent.

It is proposed, in this legislation, as a matter of efficiency and coordination and good organization, to do away with this dual relationship and combine the office of Governor with that of Chairman, making the Governor and Chairman a Class C director. The local board, or the board of each Reserve Bank, will select the Governor and the Chairman; provided, however, that he they must be subject to the approval of the Federal Reserve Board.

You will observe that the Board, the Federal Reserve Board, will then not have the power of appointment of the Chairman, but have given to the local board this power of appointment of the chairman, combining it with that of the Governor, subject only to their approval.

This will make for better coordination, make for economy, will do away with the possibility of cleavage, by reason of the dual organization of the Chairman, appointed by the Board in Washington, and the Governor, selected by the local board.

Although the directors of the banks are appointed for a period of three years only, in practice a great many of the directors have served since the beginning of the Federal Reserve System. It is thought advisable to limit the term of office of all of the directors to two consecutive terms, totalling a period of six years. This is proposed to avoid the crystallization of control or authority in any one group or combination.

It is felt that, in each Federal Reserve District, there are many able men to represent the bank members and also commerce and industry, as well as the Board, at Washington, who appoint the three Class C directors; and that the public nature of the Reserve System is such that it would be to the interest of the System to have a limit upon the terms of the directors officers.

It is recognized that there may be some loss of some very able men as the result of this restriction, but it is believed that there will be more gained as a result of this policy than will be lost.

It is interesting to note that two, and I believe three of the Federal Reserve Banks have adopted as a policy, without it being a legal req, a requirement to limit the term of their Class A directors, that is, the bank directors, to three years. The New York bank, the Dallas bank and I think the Atlanta bank rotate ~~the officers of~~ their Class A directors. They find that in the interest of harmony among their member banks; and it is

policy

felt that, if it is in the public interest to do that in the case of those banks, it would be well to do that in the case of all banks and to recognize that as a provision of law as to the limitation of six years.

Since this proposal was made, there has been considerable discussion, and I find that, almost universally, it is looked upon with a great deal of favor by the banks throughout the country. I find that there is considerable feeling among many of them that there has been a certain amount of crystallization of control in small groups.

I met with a group of bankers on Friday, and without exception, they were all very favorable to that restriction.

Admission of insured non-member banks: I am discussing this, briefly, in the order in which they appear in the bill -- and the admission of insured non-member banks is in Section 202, and it is recognized that many of the non-member banks could not readily qualify as members of the Reserve System, and that a very great hardship and injustice would be imposed upon them, if they were required to become members of the Federal Reserve System under the present legislation, and under the rules and regulations for membership; and it is, therefore, proposed that the Federal Reserve Board can waive the capital requirements.

And I suggested yesterday, in connection with this particular feature of the bill, that the authority for the Federal Reserve Board to waive the capital requirements for admission in insured banks into the system, prior to July 1, 1937, when State banks, in order to be insured, are required to be members of the Reserve System, it is suggested that this might be broadened, so as to authorize the Board to waive not only the capital requirements, but all requirements, and to permit existing banks to continue permanently with their present capital, provided it is adequate in relation to their liabilities.

I think it is desirable to have unification of the banking system, and I recognize that possibly the most likely way of getting it is, through all banks being members of the Federal Reserve System.

In many instances, the capital of banks, non-member banks, is less than the amount required of $50,000, and their volume of business is such that they do not require and can not possibly use and support a capital of $50,000 with an adequate surplus, which is also desirable.

It is also recognized that certain of the rules and regulations for membership would make it very difficult for many banks to qualify under those rules and regulations; and it is, therefore, the desire of the Federal Reserve Board to so modify the law and its rules and regulations as to make it possible, under reasonable circumstances, for non-member banks to get the benefits of membership. I believe those benefits are very real. Particularly would that be true if the present law is amended in some of the particulars as provided for in the proposed bill. I refer to the change in the present eligibility features; also the recognition of the desirability of using the savings and time funds in longer term lending, or in the real estate loan field. These provisions would give to many of the non-member State banks the support that othemise would not be available to them, if it were possible for them to remain as non-member banks.

In Section 203, it is recognized that it would be desirable to change the present language with reference to the qualifications for membership on the Board, and this is due to the recognition that the functions and duties of the Federal Reserve Board are such as to make it a body representing the nation, rather than the representatives of any group of combination of groups; and in recognition of that, it is provided that future appointive members of the Board should be men who are qualified by education or experience to participate in the formation of the economic monetary policies, which seems to me to be the central and most important functions of the Federal Reserve Board.

It is recognized that membership on the Federal Reserve Board is one of the most important, responsible and powerful positions of the nation. It is, therefore, believed that the position should attract, by reason of the importance and responsibility of it, the best qualified men in the nation to deal with these monetary and economic problems. It is felt that the men on the Board should be independent and, therefore, it is recognized that their compensation should be such as to enable them, without having to have an independent, private income, to live in Washington in the manner that their position would require. It is proposed that the compensation for future appointive members be increased to $15,000 per year, and after that, that they be pensioned, that there be a pension or retirement provision, so that members of the Board who have severed their connections and served in this position, will not feel a dependency that otherwise they may feel.

The pension provision provided for in the bill, I do not believe fully and adequately meets the situation; it provides that any of the present members may retire at the age of seventy, and that future appointive members must retire at the age of seventy. It also provides that, upon retirement, they will receive a pension of $12,000 per year, when they have served the full period of twelve years, or more, and a proportionate amount when they have served not less than five years. It would seem to me, in order to attract and induce the ablest men obtainable for this position, make them willing to accept theposition on this Board as a career, sever all connections, make them thus independent, that a pension should be provided, irrespective of the age period, for future appointive members.

It seems to me that this would have the effect of calling on these men to accept a position of this sort during the most active and remunerative periods of their lives; otherwise, they might not be willing to accept.

For a person to accept a position and serve for twelve years term, we will say from theages of 48 to 60, at the end of the period of twelve years, if he is not reappointed, he has then got to go out and undertake to make connections which he severed, when he has been free for a period of twelve years.

It would seem to me that, in the public interest, it would be well to provide that, if he is not reappointed, he would receive the full pension, if he has served a full term of longer; or if he is offered a reappointment and prefers not to serve, then of course he should not be given a pension. I believe that would make for greater independence on the part of the members of the Board.

As to the term of the office of Governor of the Board, there has been a good deal said about the provision in the proposed legislation, that is, that the term of the Governor as a member of the Board expires when he is no longer designated as the Governor by the President. The law provides that the Governor shall be appointdd by the President to serve at his pleasure, appointed from one of the Federal Reserve Board members. As a practical matter, when the Governor is no longer designated as Governor by the President, it is because the President is desirous of having someone else serve as Governor. The changes usually come about with changes in administration.

Mr. Goldsborough: As I understand it, you approve of that provision?

Mr. Eccles: What is that?

Mr. Goldsborough: You approve the provision allowing the President to remove the Governor, whenever he sees fit?

Mr. Eccles: Well, I have no objection to it. I think that, as a practical matter, it is necessary and desirable. In some of the other central banks, there are similar provisions with reference to the executive heads of the banks.

It seems to me that an administration is charged, when it goes into power, with the economical and social problems. Politics are nothing more or less than dealing with the economical and social problems. To be able to succeed and intelligently deal with them, it seems to me that it would be extremely difficult for any administration to do so entirely free and apart from the money system; there must be a liaison between the administration and the money system, or a responsive relationship. That does not necessarily mean political control in the sense that it is often thought of.

Does that answer your question, Mr. Goldsborough?

Mr. Goldsborough: Yes; from that standpoint, I think it does.

Mr. Eccles: Referring again to the term of office ---

The Chairman: Suppose you let me ask a question right there: Is not the practical situation such that the administration has that power and may exercise it, but under this bill there will be a technical recognition of that power and a definite fixing of responsibility, at least within limitations?

Mr. Eccles: Well, the only change -- I do not think it will be material, but the only change in this bill over the present legislation is that, when the Governor is no longer designated as Governor by the President, his term as director expires. At the present, when he is no longer designated as director, it does not provide that his term as director expires, which would mean that, if he is no longer designated -- I should have said Governor, and not director -- when he is no longer designated as Governor and he did not resign as director, there would be no vacancy on the Board for the President to designate a Governor, unless he designated an existing member of the Board as Governor; and in practice, it has been true, in the past history of the bank, that when a Governor is no longer designated as Governor, he resigns as director as well. There is this disadvantage, however, that when he is no longer designated as governor and he resigns as director, which is the only thing that a Governor could do and a person that would not do that would certainly not be a proper person to act as Governor -- he is precluded for a period of two years from entering the banking field. That is a deterent in the present law in inducing men to take that office, for the reason that they are required, if they are taken from the banking field, to sever all connections with the banking business for an indefinite term, that is, for the period of as long as they are designated as Governor, and that may be for two or three or four years, we will say; and when they are no longer Governor, designated as Governor, they resign as director, so they have not fulfilled their terms as directors and they are precluded for a term of two years afterwards, because they have not finished the term, of entering the banking field again. If they have fulfilled their term as directors, they can immediately enter the private field.

Now, what I should like to propose here is, that their terms as directors do not expire; that is, leave the law as it is with reference to their term as director, and provide that, when they are no longer designated as Governor, if they choose to resign as directors, that their terms as directors will be considered to have been fulfilled.

Mr. Hollister: That is not what this new statute says, is it?

Mr. Eccles: No; I am making this as a suggestion, as a change, such as this: That whereas now they automatically cease to be members of the Board when they are no longer designated as Governor, and what I am suggesting or proposing is what I stated, and there is no change in that feature, but this addition: That if they do not choose to continue to serve as directors, in other words, it is their option; and that, when they are no longer designated as Governor, they would then be free to enter the banking field, without taking a two-year vacation, we will say.

Mr. Goldsborough: Your view is, that they should resign voluntarily, and the two-year application should apply, but if they are removed as Governor and they see fit ---

Mr. Eccles: It should not apply.

Mr. Goldsborough: It should not apply?

Mr. Eccles: That is right.

Mr. Goldsborough: That seems to me to be sound.

Mr. Eccles: It seems to be fair and will remove a deterrent; and it seems to me that it will accomplish the object of making it a more attractive position in the future than it has been in the past.

Mr. Hollister: Would it not also attract something else, or accomplish something else: This is drafted to give the President the opportunity, if he cares to do so, to make a clean sweep, to completely clean up the whole Federal Reserve Board in a few days, does it not?

Mr. Eccles: Well, of course, I think that, if we are going to conceive of a President that would resort to what would be considered sharp practice, he would possibly have more direct ways of cleaning it up than that. I think a President that would resort to that sort of thing would possibly have other ways of meeting the situation.

Mr. Hollister: Presidents have, in the past, unfortunately, done things that some of us would not back up, but as a matter of fact, as the bill is drafted, it permits the President, if he cares to, to remove successively every member of the Federal Reserve Board, appoint him as Governor and undesignate him; whereupon, he immediately retires from the Board?

Mr. Eccles: Yes; that is correct.

Mr. Hollister: So the suggestion you make would at least eliminate the possibility of that happening, when we had a man in the White House that might adopt such sharp practices?

Mr. Eccles: Yes.

Mr. Cross: Mr. Chairman, may I make a suggestion as a member of the Committee?

The Chairman: Certainly.

Mr. Cross: I would like to make this suggestion: That

Mr. Eccles be permitted to go ahead and finish his statement; and then that he submit the amendments that he would suggest; and that when he gets through with his statement, just as Mr. Goldsborough suggested the other day, each member of the Committee be given a chance to ask questions, because every member has many questions, or a number of questions, on this section that they would like to ask. I am afraid that, if we start like this, we will never finish or get anywhere. That is my suggestion.

The Chairman: Well, I certainly expect that every member of the Committee will have an opportunity as you refer to, and I will recognize the members in an orderly way, so that every member will be given an opportunity to ask questions.

Mr. Cross: The point is, we will not have a coordinated idea of this by going in and out, and I think it is much better to let him finish, and then later on let him bring his proposed amendments to the bill, and then we can take up those amendments and let him discuss those amendments in a much more uniform way, and every member will get a grasp of the bill. That seems to me to be the best way to proceed.

The Chairman: All right, Mr. Eccles, you may proceed.

Mr. Eccles: Assignment of duties: There is no controversy over that question, and it is just a practical way of the Board being able to meet the problems of increased responsibility that are placed upon them, by being able to delegate to others many of the routine duties, so long as they do not involve the question of determining policies.

Open market operations: Inasmuch as this was covered quite fully in my statement yesterday, I do not believe that I can add very much to it. There will likely be a good many questions that will develop in connection with that, because, under that heading, the whole question of monetary control heads up.

I explained yesterday the way the open market operation is now organized, and the bill provides for it to be operated, and the amendments suggest additions to the proposals in the bill.

Eligibility for discount: The eligibility requirements of the present bill do not seem to me to meet the changed conditions that we now have in the nation, compared with the conditions that existed at the time the Federal Reserve was established. The amount of eligible paper available, not held by banks, is a very small part of the total resources of the banks. Even in 1929, it was slightly over 12 per cent of the resources, and today I understand it is less than 8 per cent. Approximately $2,000,000,000 is the total amount of the paper which would be considered eligible by the banks themselves. It was found, when the depression commenced and as it continued, that the banks did not have eligible paper to meet their shrinking deposits, brought about by the general liquidation of the bank loans and hoarding; that then, of course, in order to avoid closing, they were forced to sell such bonds as they had upon the market. These bonds were considered, at one time, to be secondary reserves, because they were listed. They also brought pressure upon all loans which came due during the period, and were forced to refuse new credit, feeling of course that they had to have as large cash reserves as possible and be as liquid as possible. They were ultimately bringing pressure to collect loans that came due, and to sell the securities that they had wherever they could do so, without taking too large a loss, until finally that attitude on the part of the banks throughout the nation -- the attitude which was largely due, it seems to me, to the very great extent, the fact that they did not have eligible paper in sufficient quantity to meet the demand -- they could not get help at the Federal Reserve Banks, except if the paper was eligible.

Therefore, in an effort and under pressure to get liquidity, they froze themselves so completely that they finally closed the entire banking structure. So it was found out that, in the final analysis, in the depression deflation, there was no liquidity, except that liquidity which can be created by the Federal Reserve or the central bank through its power of issue.

This was finally recognized when great damage had been done, when thousands of banks had been closed, unnecessarily, when thousands of individuals and institutions had been forced to the wall through the lack of available credit, or through pressure to pay existing debts. Millions of depositors lost hundred of millions of dollars, as the result of those closings.

We finally recognized that we did not have to have eligible paper, we did not have to back our currency with gold, we did not even have to back it with Government bonds. We finally recognized that, in order to get the banks open, that we could take any sound asset into the Reserve Bank and issue Federal Reserve bank notes. When that happened, nobody wanted that money, the runs stopped and liquidation stopped to a very great extent. Certainly, the pressure was very greatly relieved.

Now, it seems to me that it is only being a realist to recognize that the reserve banks, as a result of the rules and regulations made by the Reserve Board, should have the power to meet the emergencies, should have the power to loan to member banks upon sound assets, rather than see the banks close, or rather than see unnecessarily drastic liquidation forced upon the community.

This provision does not mean inflation. Before the banks today, as a whole, would have any occasion to use the reserve system, they would have to extend billions and billions and billions of dollars of credit, because of the excess reserve position that they now occupy; but if the provision is there, it will make the banks feel altogether different about extending credit today; it will make them recognize that they do not have to have ninety-day or six-month paper, in order to make loans, when that type of demand for credit does not exist to more than a very limited extent.

This, to my mind, is one of the most important features of the legislation at the present time; it will tend to do more towards inducing recovery through credit expansion than any other feature of the bill. The banking system must be made, if it is going to justify its existence, to provide the money and credit required. At the present time, that is largely provided by the Government. The banking system, the commercial banking system ---

Mr. Goldsborough: You say it is being provided by the Government?

Mr. Eccles: To a very large extent.

Mr. Goldsborough: We were under the impression that the Government borrowed the money that it is now providing from the banks; is that not correct?

Mr. Eccles: That is very true. The banks are providing -- they are willing to extend credit on government bonds.

Mr. Goldsborough: We provided the banks with thirteen billion dollars, about, have we not?

Mr. Eccles: Well, I do not know the exact amount, but --

Mr. Goldsborough: That is an approximation.

Mr. Eccles: But whatever figure the Government bonds that the banks have purchased -- it is not thirteen billion dollars, but including what the Federal Reserve System has, I think it is around thirteen billion dollars -- is the total investment in Governments, but the Government is doing the lending to the various Government lending agencies, the home owners, the Farm Credit Administration, the Reconstruction Finance Corporation. Those are the three most important agencies and, of course, we know they have put out billions and billions of dollars, and the banks have largely taken Government bonds and bonds guaranteed by the Government, and the Government, in substitution, has taken the loan of the individuals and the corporations. So that it has been a process of the banks liquidating their private loans, and the Government taking them over, and the banks providing the funds to take Government bonds or bonds guaranteed by the Government. And, of course, if continued, it seems to me that the banks are going to have very great difficulty in justifying their existence.

Mr. Goldsborough: When they can only live by the Government furnishing nearly one billion dollars a year in interest, which they do not earn, it seems to me your statement is worthy of very serious consideration.

Mr. Eccles: I recognize that, and I have also told many of the banks that the provisions of this legislation with reference to this eligibility feature, and with reference to this real estate loan feature, is to give them an opportunity to utilize their funds in the direct field of lending and get the Government out. Otherwise they will find that the Government will have taken over the banking business, not because the Government wanted to, but because the banks forced it to.

Purchase of United States guaranteed obligations: It is provided that obligations, guaranteed obligations, should be put on the same basis as direct obligations. There seems to me to be no justification for this discrimination; that they should be eligible for purchase by the Reserve Banks, without regard to their maturity, in the same manner that direct obligations of the Government are eligible for purchase by the Federal Reserve Banks.

Collateral for Federal Reserve notes: It is provided that the Federal Reserve Agent shall be eliminated in the Federal Reserve, and the chairmanship shall be combined with that of the Governor. The Federal Reserve Agent acts as trustee for the holding of collateral against which Federal Reserve notes are issued. The gold certificates, the requirement of which is 40 per cent of the notes outstanding, and the balance is to be secured by negotiable paper, or Government bonds, or both, and it was thought, originally, that the amount of currency outstanding at any time was influenced or regulated by the amount of commercial paper, which represents the activity of the volume of trade in business. It is found that there is very little relationship to the volume of Federal Reserve notes to the activity of business in trade and to borrowing from the Federal Reserve Banks. Of course, that is due to the fact that the currency, as such, plays too small a part in our money system; that the private bank credit or deposit currency plays a major role. The amount of currency or Federal Reserve notes outstanding will depend upon the demand for currency by member banks. The member banks discount or borrow from the Reserve

Banks in order to maintain their reserves, required reserves with the Reserve Banks. Member banks draw currency to meet the demands of their customers. It is not felt that the collateral put up back of the Reserve notes in any way restricts the use of currency. It is not felt that collateral adds anything to their security. They are now guaranteed by the United States Government; they are a first lien or obligation of the Reserve Banks, and whenever notes are issued by the Reserve Banks, they have assets to offset the liabilities of each of the Reserve Banks, consisting of notes which they issue, and the deposits of their member banks.

There would seem to be no more reason to secure notes which they issue than to secure deposits with that of their member banks. Their notes are required to be -- the banks are required to hold gold equal to not less than 40 per cent of the notes outstanding, not less than 35 per cent of the deposit liability and ---

Mr. Wolcott: Gold is 50 per cent.

Mr. Eccles: Well, of course, they have no gold. There is no proposal to change that. The assets of the banks,on the other side, consist of gold certificates and-or money that they may hold, and their investments in Government bonds and bills or rediscounts.

Mr. Hancock: Could you properly call those notes"asset currency"?

Mr. Eccles: What is that?

Mr. Hancock: Could you properly call those notes "asset currency"?

Mr. Eccles: I do not just understand what you mean.

Mr. Hancock: I do not want to begin questioning you, but right on that point you made the statement that it was not necessary that notes have any particular value.

Mr. Eccles: Yes.

Mr. Hancock: In that they constitute a lien against all of the assets of the banks.

Mr. Eccles: That is right.

Mr. Hancock: Now, would you consider such notes as asset currency?

Mr. Eccles: Well, they are the unsecured obligation of the bank that issues them, which is guaranteed by the United States Government. They are not asset currency, in that they are backed specifically by that particular asset or assets, except to the extent that there is at least 40 per cent of gold certificates held, and there would be other certificates back of them; otherwise, they might not be issued. The liabilities of the bank would be offset by its assets. So to that extent they are assets in the form of gold certificates, Government bonds, or loans and discounts, back of all the notes issued, just as they are back of all of the deposits of the bank. The value back of the Federal Reserve notes is determined by the assets of the Reserve Banks; and to restrict the issue of these notes as they were restricted, it was found that, in 1932, when gold was leaving the country very rapidly and when the banks held very limited amounts of commercial paper, that the requirements of the law had to be suspended in 1932, and Government bonds had to be accepted as substitution for commercial paper as the basis for issuing notes, in order to release the excess amount of gold that had to be held in the absence of commercial paper. So it was found that the restriction imposed at the time,- and the only time when the law, the provisions of the law were tested, at all,- they had to be suspended.

The Chairman: It might be well to remember definitely the date of that action.

Mr. Eccles: Well, you probably remember it. It was in 1932, February 27, 1932.

Reserve requirements: The emergency banking act provides that, with the consent of the President, an emergency is declared to exist, and the Federal Reserve Board has power to change the reserve requirements of the member banks. It is proposed to recognize this emergency provision as a permanent provision and give to the Board the power to change the reserve requirements, without declaring that an emergency exists and without the approval of the President. This is a function of monetary control almost equal in importance to the open market operations, and it is felt to be necessary that the Board have this power, in order to control particularly an inflationary condition, should one develop.

It is conceivable that the reserves of the member banks may be greatly in excess of the amount of Government bonds and paper held by the Reserve Banks. The sale of those securities in the market would not be sufficient to absorb the excess reserves; and, therefore, the use and need of this method of increasing the reserve requirements would come into use as inflationary control, that is, credit inflationary control. It would be expected to be used only secondary to that of the open market operations; it would be a primary method of meeting the situation; that the reserve requirements, the change of the reserve requirements would be used in such time as the open market operations failed to meet the situation.

Mr. Cross: I might suggest that I remember the conditions that existed in the world, the speculation on the Stock Exchange; do you think it would be wise to have a provision so that you could designate certain particular banks, where they had increased their reserve, rather than apply to all banks, everywhere, at any time?

Mr. Eccles: I do not believe so. I think money is too much like water; it seeks a place where it can ---

Mr. Ford: Seeks its own level?

Mr. Eccles: Yes; it seeks a level, and of course that level is based upon the return it can get.

We have proposed here that the reserve requirements might be or could be applied to two classes of cities: The central reserve cities, or the reserve cities in one class, and the country banking areas in the other. It is conceivable that different reserve requirements could be applied to the reserve cities, if that is where the speculation was going on and where the excess of reserves were, which is usually the case; and there is an element of time in money seeking its level. Just what it is, I do not know that anybody can say. But the excess reserves may be applied first to the reserve cities, and then later to the other areas, if it seems to be necessary, rather than apply the increased reserve requirements universally. I do not believe that you could consider it beyond that. I do not believe it would be practicable to apply it to individual banks. The Federal Reserve has the power now to regulate the marginal requirements on collaterals and brokers' loans, which is one of the most effective instruments or speculation control I think now available, and I believe, had it been available in 1928 and 1929, it would have possibly been helpful in controlling or restricting the speculation orgy that we went through.

The Chairman. Governor Eccles, the House has been in session for a little while, and there are matters that require the attendance of members, and I am sure you will be glad to desist until tomorrow, anyway. Therefore we will adjourn until 10:30 o'clock tomorrow morning, and we expect to have the pleasure of having you back again with us.

(Whereupon, the committee recessed until 10:30 o'clock a. m., tomorrow, Wednesday, March 6, 1935.)
