

## GOVERNMENT OWNERSHIP OF THE 12 FEDERAL RESERVE BANKS

TUESDAY, APRIL 19, 1938

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

Hearings on H. R. 7230 were resumed at 10:45 a. m., Hon. T. Alan Goldsborough presiding.

Other members of the committee present: Mr. Reilly, Mr. Williams, Mr. Spence, Mr. Farley, Mr. Ford, Mr. Brown, Mr. Patman, Mr. Transue, Mr. Gifford, Mr. Luce, and Mr. Crawford.

Mr. GOLDSBOROUGH. The committee will come to order.

Mr. Ransom, I think you had not completed your statement.

I do not recall just who was questioning you at the time we adjourned when you were here last.

### STATEMENT OF HON. RONALD RANSOM, VICE CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. RANSOM. I believe, Mr. Chairman, that the questioning had been completed at the time of adjournment.

I would like, with the permission of the committee, to put into the record this morning some charts which we have been using for our own information, which show something of the banking structure of the country as it is at the present time, some of the problems of banking supervision and examination, and some charts which illustrate the organization of the Federal Reserve System. We will have them prepared so that they can be included in the record at the proper time.

My reason for making that request is that the chairman of the Board of Governors, in answering one or two of Mr. Patman's questions, referred to the fact that there were a number of problems which, in his opinion, made it impossible for the Board alone to achieve the objectives of Mr. Patman's bill. There have been some questions asked also that do refer to the organization of the Federal Reserve System, and I have some charts along that line which I think are self-explanatory, and if I may exhibit them to the committee and, with your permission, later have them prepared so that they may be inserted in the record, we would appreciate it.

Mr. GOLDSBOROUGH. Of course, we would be very happy to see the charts, and, without objection, they will be inserted in the record, as you suggest.

Mr. RANSOM. It will take but a few minutes, I think, to show them to you.

This first chart shows the total deposits of banks. It shows you first the volume of deposits in the national banks, then the State member banks, the insured member banks, and the noninsured banks. I think the chart speaks for itself.

Due to the very large concentration of deposits in New York City, we have to put the New York City circle separate and apart from New York State.

Mr. PATMAN. What percent of the uninsured banks are in New York?

Mr. RANSOM. I will ask Mr. Smead to give you that.

Mr. SMEAD. I could not give you that offhand.

Mr. PATMAN. Anyway, it is a large percent?

Mr. SMEAD. The chart shows that is true as to deposits.

Mr. PATMAN. I can get the information from the chart?

Mr. SMEAD. Yes.

Mr. RANSOM. This is exclusive of mutual savings banks [indicating]. The scale, which shows you \$100,000,000 in deposits in this circle [indicating] and \$1,000,000,000 in deposits in this circle [indicating].

Chart No. 2 shows the number of banking offices. It is helpful to show the number of banking offices in their relation to the total deposits of banks as shown on chart No. 1. You see a smaller percentage numerically of national banks and a smaller percentage of State member banks but a very large percentage of insured nonmember banks and noninsured banks in comparison with deposits as shown on the first chart. The distribution of offices, while differing in a good many States, is similar in some areas.

Mr. PATMAN. Do you mean the banking units?

Mr. RANSOM. Yes. That includes all banking offices, the total number of offices where anybody can do business with a bank. In the case of California, the large branch-bank systems there make the number comparatively large.

Next we show here in chart No. 3 the structure of commercial banking supervision; first, the 48 States, with their supervisory authorities, the Federal Government, the Treasury, the Comptroller, the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Reconstruction Finance Corporation, and the heavy dark lines represent major supervisory relationships and the smaller lines the incidental supervisory relationships and the dashed lines here [indicating] represent supervision not applicable to all banks. It may be applicable to some national banks in the case of the Reconstruction Finance Corporation, where there is preferred stock, and may be in the case of some State member banks.

Mr. PATMAN. Now, as to the State banks that are outside of the Federal Reserve System, their deposits will be only a small part of the total deposits.

Mr. RANSOM. You can get that from putting this column [indicating] on top of this one [indicating], and comparing them with this [indicating].

Mr. PATMAN. It would not be over 15 percent?

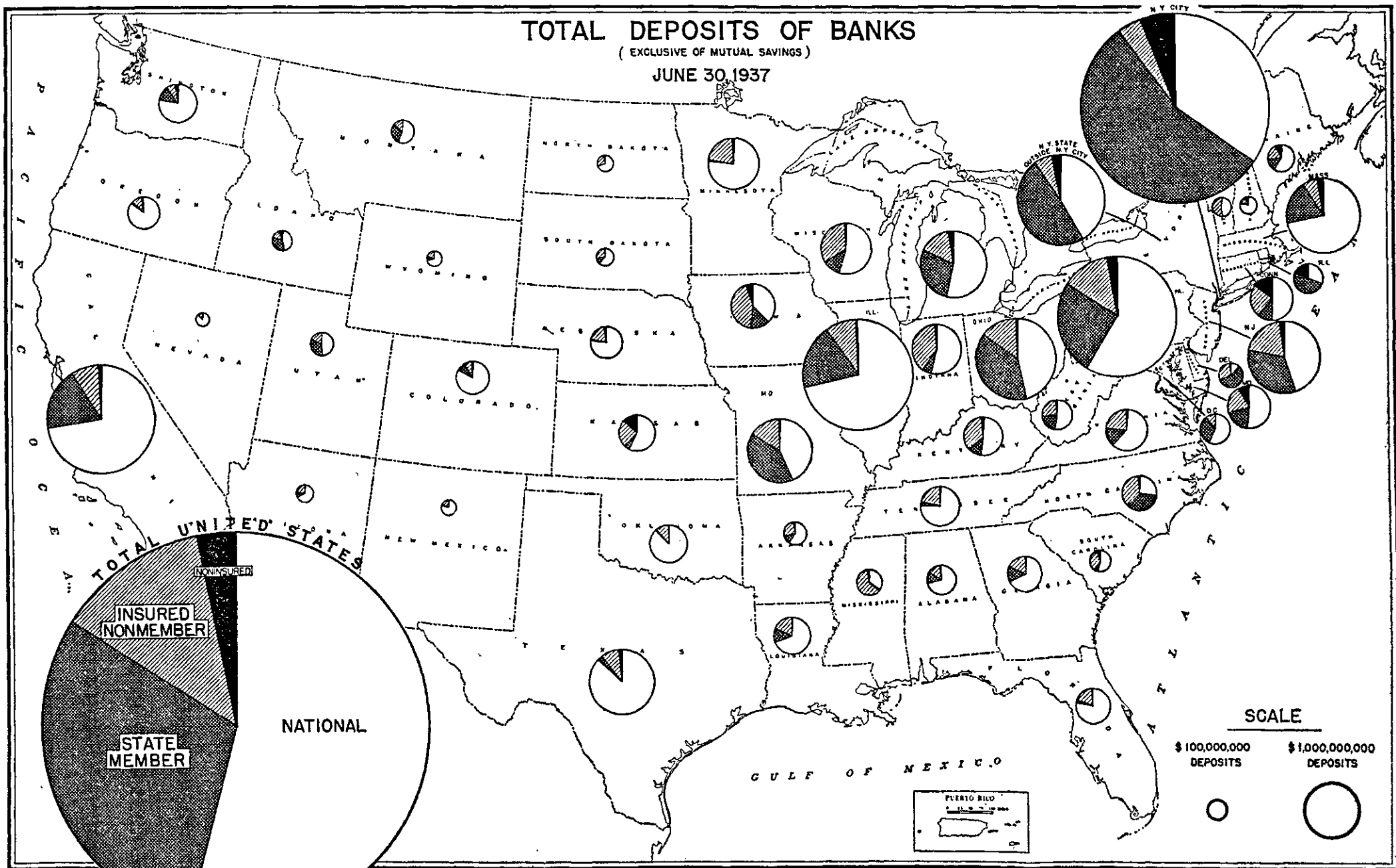
Mr. RANSOM. I do not believe I have reduced it to a percentage. It is 40 billions against 6 billions here [indicating].

Mr. PATMAN. You mean 6 billion State?

# TOTAL DEPOSITS OF BANKS

( EXCLUSIVE OF MUTUAL SAVINGS )

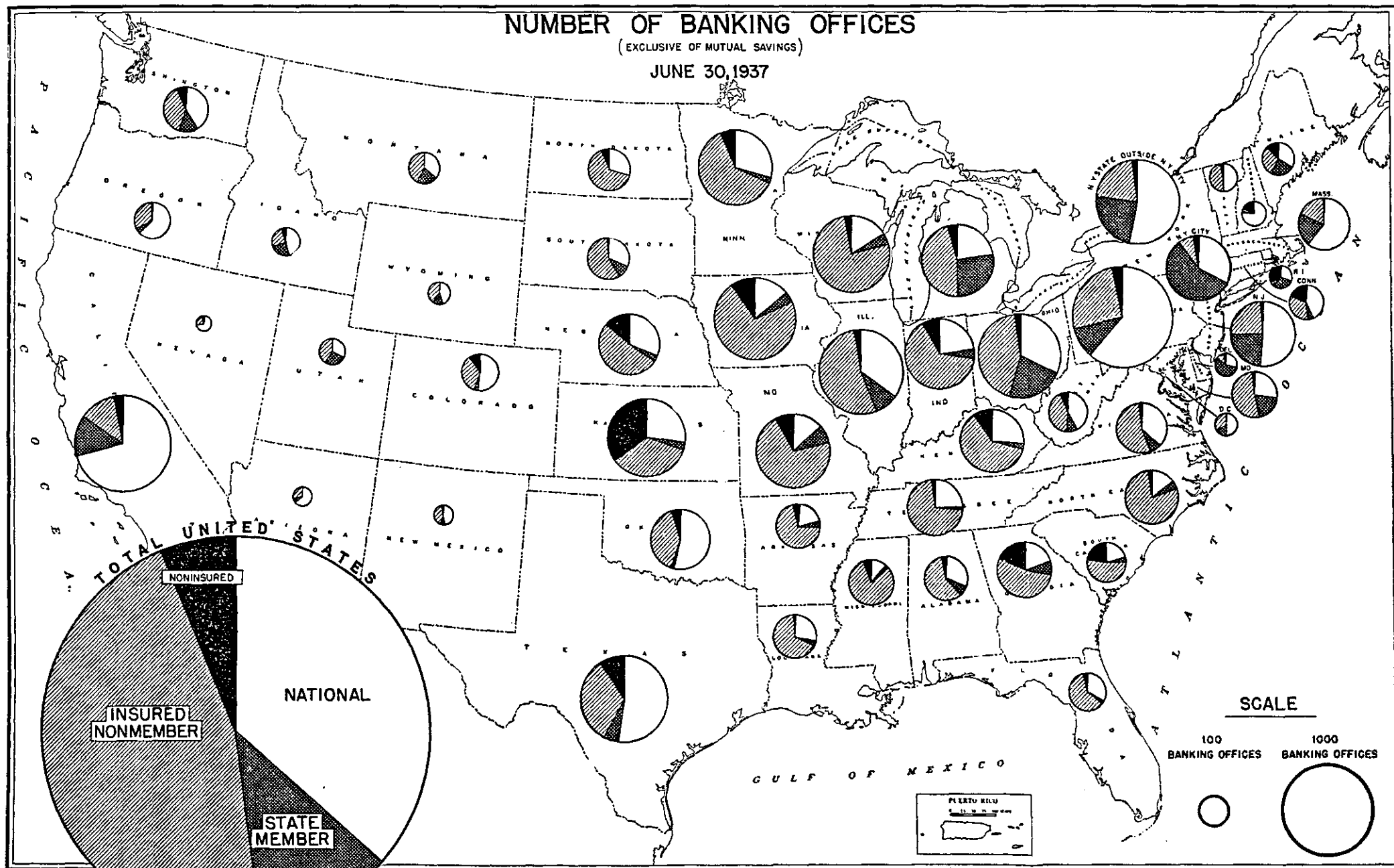
JUNE 30, 1937



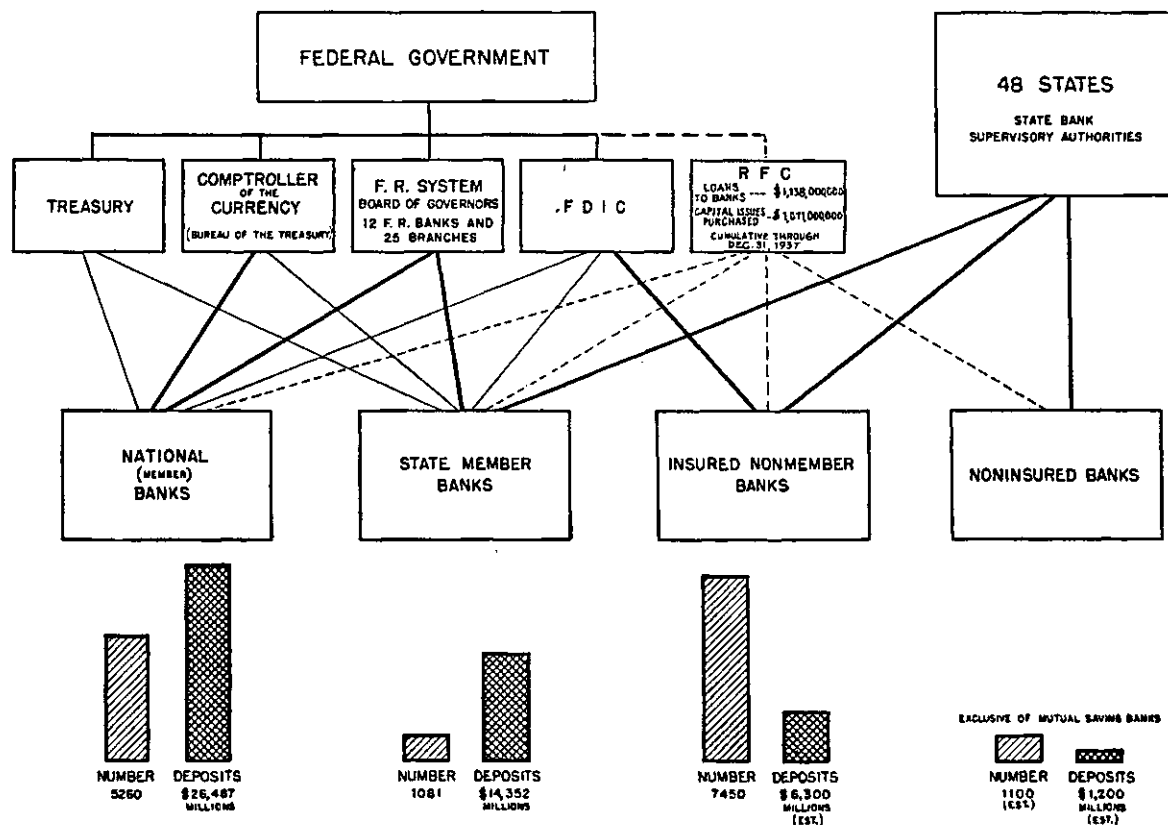
# NUMBER OF BANKING OFFICES

(EXCLUSIVE OF MUTUAL SAVINGS)

JUNE 30, 1937



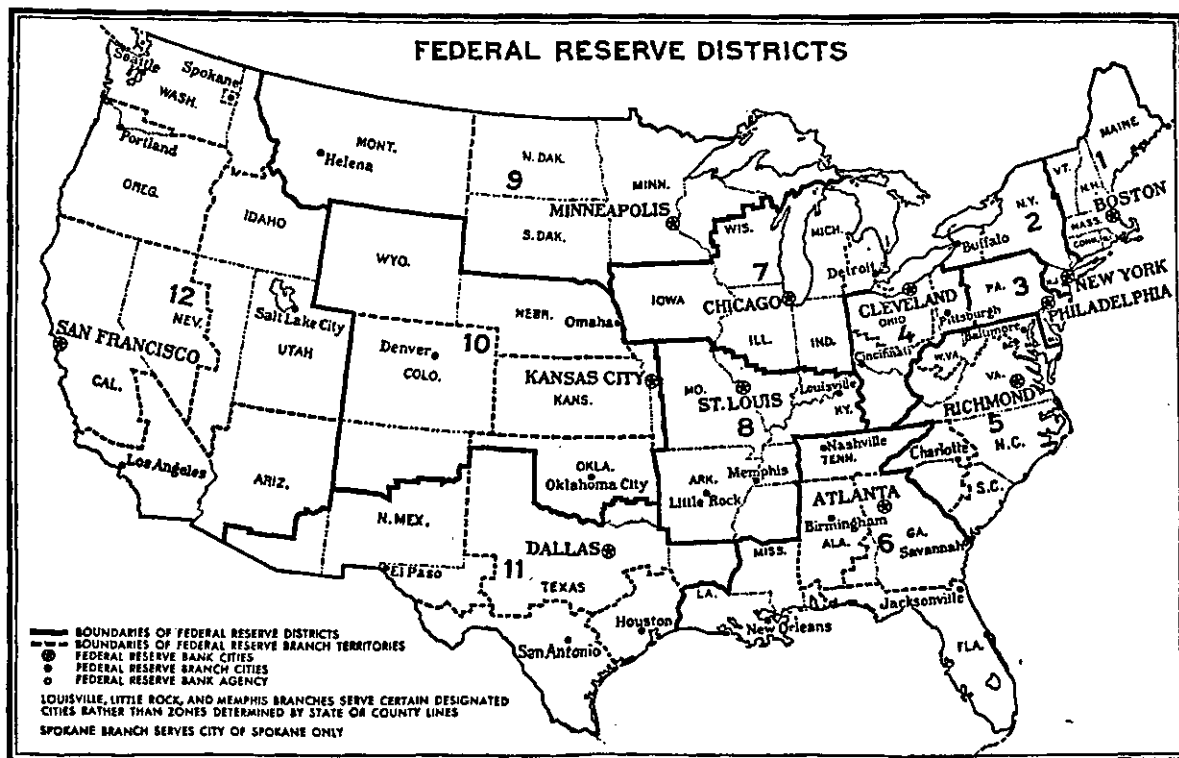
## THE STRUCTURE OF COMMERCIAL BANK SUPERVISION



— MAJOR SUPERVISORY RELATIONSHIPS  
 - - - INCIDENTAL SUPERVISORY RELATIONSHIPS  
 . . . SUPERVISION NOT APPLICABLE TO ALL BANKS

NUMBER AND DEPOSITS AS OF DEC. 31, 1937.

# FEDERAL RESERVE DISTRICTS



Mr. RANSOM. Yes; insured nonmember commercial banks, not in the Federal Reserve System.

Now, the total deposits in the noninsured banks are relatively very small, as you will see, and these figures are exclusive of the mutual savings banks.

Mr. PATMAN. Are you in favor of changing the insurance law so that all deposits would be insured, instead of a \$5,000 limitation? Have you discussed that?

Mr. RANSOM. Mr. Patman, there is a serious question involved there, and if I may defer that answer until later on, I would rather do so.

Now, this chart (No. 4 map of United States showing Federal Reserve districts) is merely for the purpose of reminding you gentlemen that the Federal Reserve System is a Nation-wide system, with 12 banks, 25 branches, and 2 agencies.

Mr. PATMAN. Where are the agencies?

Mr. RANSOM. The agencies are at Savannah, Ga., and at Habana, Cuba. The others are branch offices.

Mr. PATMAN. You have about the same number of banks and branches as the Reconstruction Finance Corporation?

Mr. RANSOM. Well, the Reconstruction Finance Corporation usually has its offices in our buildings.

Mr. PATMAN. You have about the same number?

Mr. RANSOM. I think it is about the same number, but I would not risk a statement on that, because I do not recall at the moment. But I think that is about right.

Mr. PATMAN. If the Reconstruction Finance Corporation was the rediscounting agency for the State banks, it would dovetail in pretty well with the Federal Reserve?

Mr. RANSOM. Geographically, the divisions might be about the same, but there are other considerations involved which would not lead me to answer "yes" to your question.

Mr. CRAWFORD. Will you give us a word or two with reference to the functions of those two agencies?

Mr. RANSOM. Let me ask Mr. Smead to answer that question.

Mr. SMEAD. The Savannah, Ga., agency takes care of the currency and coin requirements of the banks in Savannah, Ga.

The Habana, Cuba, agency takes care of the currency requirements of the banks in Cuba, to the extent that they are not taken care of by the Cuban currency. The agency buys and sells cable transfers on the United States, which are paid for in currency turned over to the agency, or by currency paid out by the agency.

Mr. CRAWFORD. Does Atlanta, Ga., require this additional service by reason of its distance from a Federal Reserve bank?

Mr. RANSOM. It is at Savannah and not at Atlanta. Atlanta has a Federal Reserve bank.

Mr. CRAWFORD. Did he say Savannah, Ga.?

Mr. RANSOM. Yes. As a matter of fact, I think I can answer that that agency is not necessary, and, so far as the Atlanta Bank is concerned, it is my recollection that they suggested closing the Havana agency, but there are some questions of international relationship involved there, and I think that the System would be perfectly willing to close the Savannah agency, which is not an important affair

at all. In my own opinion, I do not mind saying that it is unnecessary.

Mr. WILLIAMS. I was wondering why there should be one at Savannah necessary, when it is that near to Atlanta, and when there is none any place else.

Mr. RANSOM. I might say that if you lived in Georgia and knew the feeling between Atlanta and Savannah, you might understand why in the early days of the System Savannah acquired an agency.

Mr. WILLIAMS. That is just a local matter, then?

Mr. RANSOM. I think it is just a local matter.

Now, no organization chart that I have even seen is wholly satisfactory, for many reasons. This one (No. 5) I have tried to work out for my own guidance in thinking about some of the problems that confront us. It shows the Federal Reserve organization, and I think that it does serve the purpose as nearly as can be done on a chart.

The President appoints and the Senate confirms a board of governors, and the Board of Governors, in turn, appoints three class C directors of each Federal Reserve bank, and the member banks elect three class A and three class B directors of each bank. The class A directors are bankers, elected by three groups of member banks in each district, the larger banks in one group, the next sized banks in one group, and the smaller banks in one group, each of these groups electing one class A director, and the same group divisions of banks selecting class B directors who are representatives of commerce, industry, and agriculture, and the Board of Governors in Washington appointing the three class C directors.

These nine directors, in turn, appoint a majority of the directors of the branches, the Board of Governors in Washington appointing a minority of the directors of the branches. The boards of directors of the Federal Reserve banks elect the presidents, the first vice presidents, and the other officers. The banks select their own employees. The Board in Washington has the approval of the presidents and the first vice presidents, and the approval of the salaries of all officers and employees, and can remove any of them for cause.

The members of the Board of Governors are 7 of the 12 members of the open-market committee, the other 5 being presidents of the Federal Reserve banks. That is the composition of the open-market committee.

The Federal Reserve banks select the members of the Federal Advisory Council, one from each district.

Mr. PATMAN. What is the highest salary of any of these officers?

Mr. RANSOM. The highest paid official is Mr. Harrison, president of the Federal Reserve Board in New York, \$50,000 a year.

Mr. PATMAN. Who is next?

Mr. RANSOM. Do you mean in New York or elsewhere?

Mr. PATMAN. In New York.

Mr. RANSOM. \$30,000 for the first vice president.

Mr. PATMAN. What about Chicago?

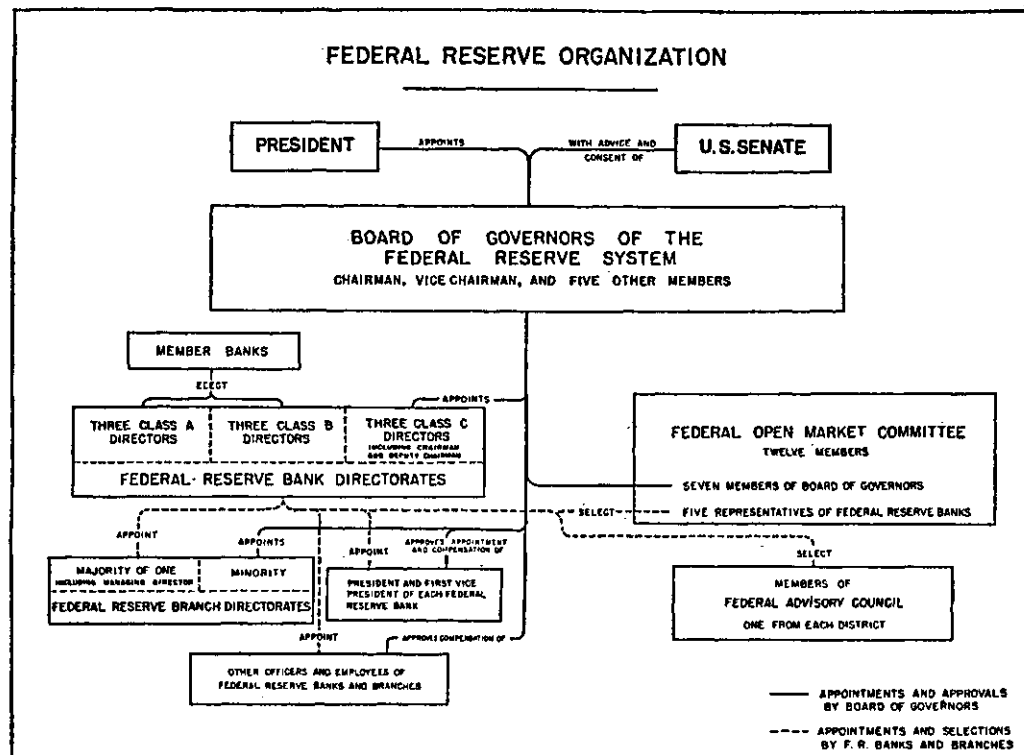
Mr. RANSOM. Mr. Schaller is the president, \$35,000.

Mr. PATMAN. Do you think that that salary compares favorably with the salary of the members of the Board of Governors?

Mr. RANSOM. That question is quite personal.

But, after all, the question of the selection of these presidents is one for the directors of the Federal Reserve banks. They have to take into consideration the question of competition from other bank-





ing institutions in their own communities. I would say, roughly speaking, that the salaries of the higher paid officials of the Federal Reserve banks are generally less than comparable salaries in the banks in the communities in which they are located.

Mr. PATMAN. Have you given consideration to what might happen if you did not hold these Government bonds? That would enable you to acquire enough revenue to pay the expenses of the System, and you could come to Congress to get an appropriation.

Mr. RANSOM. I do not see that there is any objection to Congress looking into this question of salaries at any time. I think the record discloses that it has looked into it and discussed it several times. There was once a quite lengthy investigation of that matter by some congressional committee.

Mr. PATMAN. Senator McKellar's committee?

Mr. RANSOM. I think that it was the Senate Committee on Banking and Currency. There is a very long report.

Mr. WILLIAMS. In that connection, who are these five members of the open-market committee? I do not mean their names.

Mr. RANSOM. At the present time?

Mr. WILLIAMS. Yes. They are selected, as I understand, by the Federal Reserve Board of Governors?

Mr. RANSOM. By the Federal Reserve banks. These stars within the circle [indicating chart No. 4, p. 486] represent the location of the 12 banks.

Mr. WILLIAMS. I understand the division of them, but who are the men? The presidents of those banks? In each case?

Mr. RANSOM. The directors of those banks select every officer of the—

Mr. WILLIAMS. I understand that, but the question is, Who are they? Have they invariably selected their own president, or the president of one of the banks?

Mr. RANSOM. The law was changed in 1935. At that time there were really two head executive officers. Now, under the present set-up, the directors of a Federal Reserve bank select their president, who is the executive head of the bank, and I think the law is absolutely clear and not subject to any possible doubt on the question of who can be named on the open-market committee and that Congress intended the officers of the Federal Reserve banks should be their representatives on the committee. They are selected by a system of rotation, the country being divided into districts under the law.

Mr. WILLIAMS. New York and Boston is one?

Mr. RANSOM. Yes.

Mr. WILLIAMS. Richmond, Atlanta, and Dallas another?

Mr. RANSOM. That is right.

Mr. WILLIAMS. And Kansas City, Minneapolis, and—

Mr. RANSOM. That is correct. At the present time the representatives of the 12 banks are Mr. Harrison, of the New York bank; Mr. Newton of the Atlanta bank; Mr. Schaller, of the Chicago bank; Mr. Peyton, of the Minneapolis bank; and Mr. Sinclair, of the Philadelphia bank. All of them are presidents of their respective banks.

Mr. WILLIAMS. Is it your idea that the law itself compels the selection of those presidents?

Mr. RANSOM. Do I understand your question to be that the directors of these Federal Reserve banks could select anyone other than officers of the banks?

Mr. WILLIAMS. Yes.

Mr. RANSOM. I do not think they could.

Mr. WILLIAMS. Where does the approval of the Federal Reserve Board come in, then? Isn't the selection subject to the approval of the Board?

Mr. RANSOM. Let us take Dallas, for instance:

If the directors of the Dallas bank select the president of that bank, which they do, that man is subject to the approval of the Board in Washington. Therefore, after we have approved him, he does become qualified to serve as one of the members of the open-market committee representing the 12 Federal Reserve banks.

Mr. WILLIAMS. Have you ever had any trouble about approving those presidents? Is there any question about that?

Mr. RANSOM. I would like to answer that question in this way and say that we give it the most careful consideration, and if the Board did not think that the man who was selected was qualified to serve as president of the bank, we certainly would not approve him. There have been a few changes since the new Board came into existence, and a few retirements during that period.

Mr. WILLIAMS. Is the president, so selected, allowed to be one of the members of the Board?

Mr. RANSOM. No; he is not.

Mr. WILLIAMS. Of course, he is a banker, and is engaged in the banking business, as a rule, is he not?

Mr. RANSOM. Well, they could select whomever they pleased. There is no compelling motive that I know of for one of the 12 Federal Reserve banks to select a banker. Certainly, once he becomes a president of a Federal Reserve bank, he is in a somewhat different category from the ordinary commercial banker.

Mr. WILLIAMS. What has been the practice?

Mr. RANSOM. I know that Mr. Sinclair, in Philadelphia, was a lawyer by profession. Mr. Harrison, in New York, was a lawyer by profession. I would say, so far as I can recollect, that the other 10 presidents are men who have been in the banking business, that were in the banking business for some time before they went into the Federal Reserve banks, or were men who were first in the Federal Reserve banks.

Mr. WILLIAMS. Must they divest themselves of all interest in their banks?

Mr. RANSOM. There is no legal requirement.

Mr. WILLIAMS. They cannot be a stockholder, or an officer?

Mr. RANSOM. That is not the law as to stockholdings.

Mr. WILLIAMS. Then they may continue their interest in the various commercial banks of the country? It is not like the Board?

Mr. RANSOM. It is not like the Board.

Mr. Wyatt reminds me that the Board expects them to divest themselves of that interest.

Mr. WILLIAMS. But that is not the law!

Mr. RANSOM. That is not.

Mr. WILLIAMS. It is just a matter of practice on the part of the Board?

Mr. RANSOM. It seems to me to be a matter of good faith that the job should be occupied, as a matter of fact——

Mr. WILLIAMS (interposing). Do you think there would be any conflict in the duties there?

Mr. RANSOM. With their ownership of stock in a member bank?

Mr. WILLIAMS. Yes.

Mr. RANSOM. Yes; I would think so. I should not think that a man occupying the position of president of a Federal Reserve bank ought to be a stockholder in the banks which have to do business with that institution.

Mr. WILLIAMS. Suppose that he holds stock in a nonmember bank? Would that affect him in any way, do you think?

Mr. RANSOM. No; but if I were in his place, I would prefer not to. That might be a matter of opinion again.

Mr. WILLIAMS. The reason that I am asking those questions is that there has been quite a bit made of the fact that these bankers are influencing the policy of the Board.

Mr. RANSOM. I read over the questions which were asked Mr. Eccles as he was leaving the stand the other day, and it seems to me that there was some slight confusion in questioning whether these presidents of the Federal Reserve banks or the Federal Advisory Council influenced the thought or the policy of the Board of the open-market committee.

As to influence on the policy of the Board, I would say that they would have the same influence that anyone else would have who had a good argument to present, and that would go for anybody, whether he was in the banking business or out of it, and so far as operating the open-market committee is concerned, you gentlemen know that a member of that committee, whether he is a member of the Board or the president of one of the Federal Reserve banks, has an equal vote. There is not any question about that. To the extent that he has a vote in that committee, to that extent he does have a definite influence, of course.

Mr. WILLIAMS. Have there been any serious differences of opinion between these five and the seven, the Board and the other members?

Mr. RANSOM. I think that the policy record which we report to Congress once a year shows that during the year 1937 there was a division in the vote on an important question. That question, as I recall it, was whether or not the open-market committee should, in the following week, purchase \$25,000,000 of Government securities in the open market during that particular week and at that particular time, and, as I recall it, two of the presidents and one member of the Board voted no, all other members of the committee voting in the affirmative.

That is disclosed by the policy record. I would say that there are always those difference of opinion which will occur when the same number of men are gathered together and engaged in considering any question at any time.

Mr. CRAWFORD. Going back to the observation made by Chairman Eccles before I propounded that question, as well as his partial reply to it, I got the distinct impression that Chairman Eccles feels that if those five members were not a part of the open-market committee, the open-market committee would be more inclined to act somewhat more responsively to the purchases of governments, especially in times of so-called pump priming.

Mr. RANSOM. I do not think that you could have gotten that impression from the testimony of the chairman of the Board. I think that he made the positive statement that he was on record on a number of occasions as thinking that the open-market committee should be composed of members of the Board only, but not for the reason stated.

Mr. CRAWFORD. I am glad to have you state it that way. I did not want to do that.

Mr. RANSOM. I think the record will show that.

Mr. WILLIAMS. That was his recommendation in 1935, was it not?

Mr. RANSOM. Was that the end of your question?

Mr. CRAWFORD. That is all, thank you.

Mr. RANSOM. Now, the functions of the Federal Reserve System which we mentioned the other day as rather extensive and going beyond the question of pure monetary policy, I think are fairly well illustrated by this chart on Federal Reserve Functions (No. 6) open-market operations, Federal Reserve Bank discount rates, reserve requirements, margins on security loans, interest on deposits, Federal Reserve notes, discounts of commercial, agricultural, and industrial paper, advances to member banks, and so forth.

Then we have here in this block [indicating] the machinery of enforcement and supervision, and where [indicating] the grouping of functions, such as credit policies, currency provision, credit facilities and banking supervision. The reason for putting this chart in the record is the statement I made the other day that we have a good deal to do besides those functions which are only related to monetary and credit matters.

Mr. GOLDSBOROUGH. That is one of the charts that will go in the record?

Mr. RANSOM. Yes.

Mr. CRAWFORD. Before you get away from that, may I make this observation, that in looking over the statement of the President on October 20, at the dedication of the Federal Reserve Building, he said this:

Much as they may contribute to the country's progress, monetary powers possess no peculiar magic. They are not omnipotent. To be effective in performing their function, they must be closely coordinated with the other major powers and policies of government which influence the country's economic life.

Personally, this chart will give me great light on that particular statement made by the President, especially in the light of some other observations that he made in his message to Congress the other day, under date of April 14, in which he made this observation:

The Federal Reserve System curtailed banking credit.

Do you agree that the Federal Reserve System, in the spring and summer of 1937, curtailed banking credit?

Mr. RANSOM. Could I defer that answer, with your permission, until we get to a chart here on excess reserves? I will remember it.

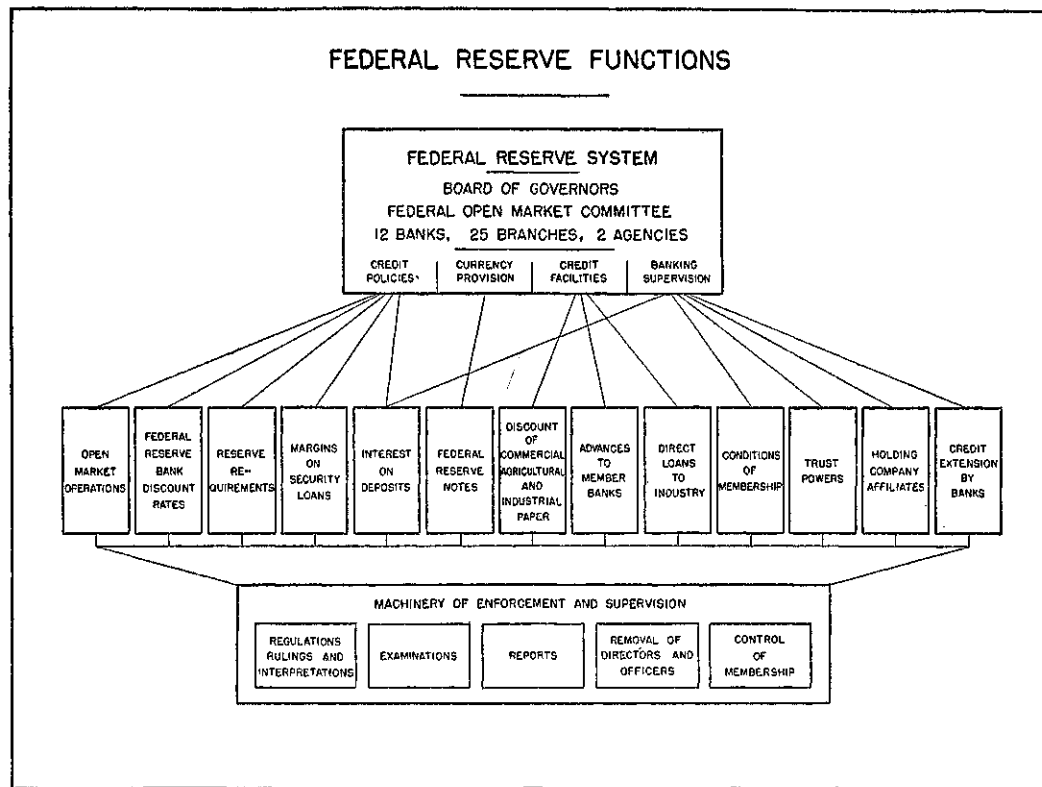
Mr. CRAWFORD. Yes, sir.

Mr. SPENCE. You do not have there the margin requirements?

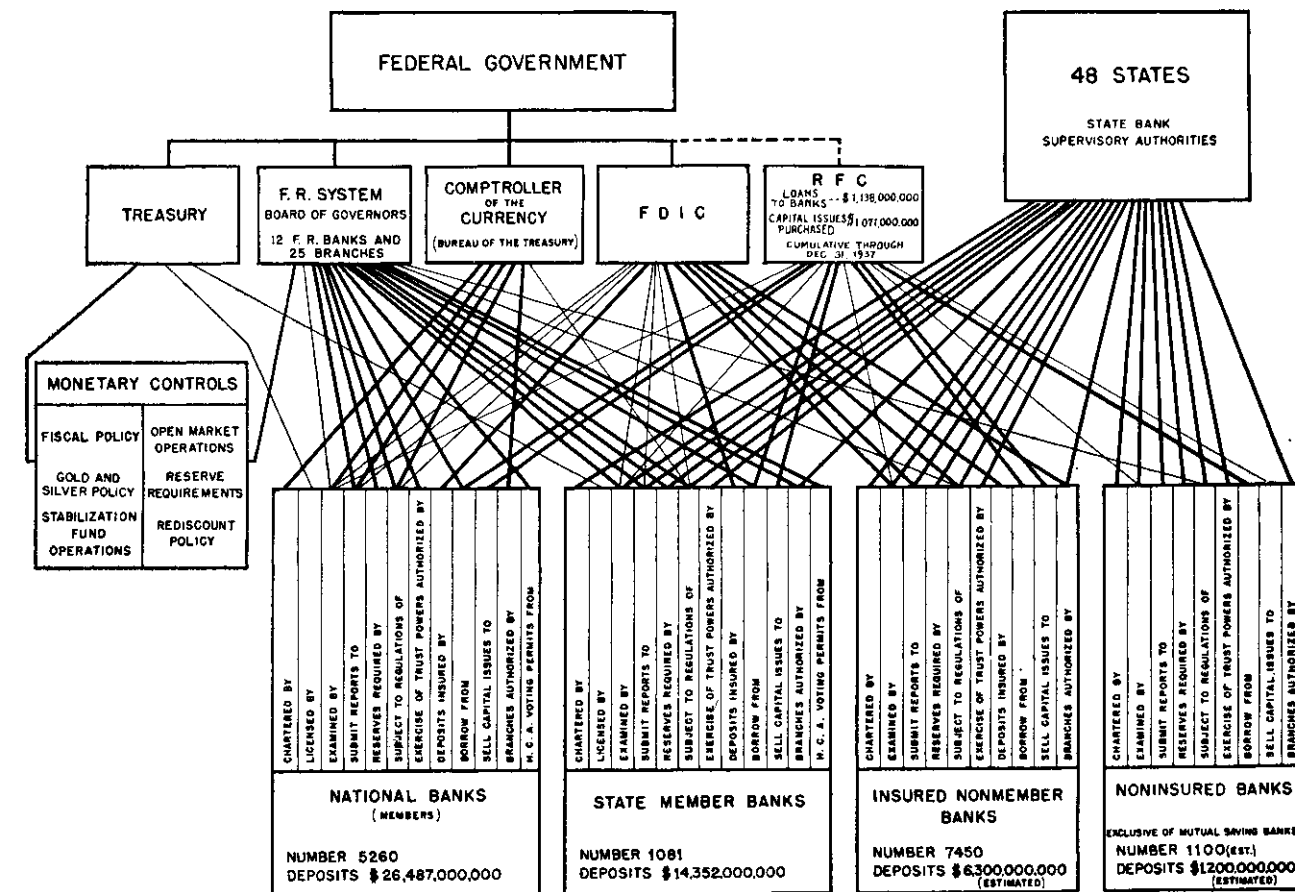
Mr. RANSOM. Yes; it is here. We will have the chart reproduced so that it can be put in the record.

Mr. Eccles spoke of the fact that we could not alone do quite as much as Mr. Patman's bill would contemplate, and among the things that I certainly had in mind when he made that statement, and I

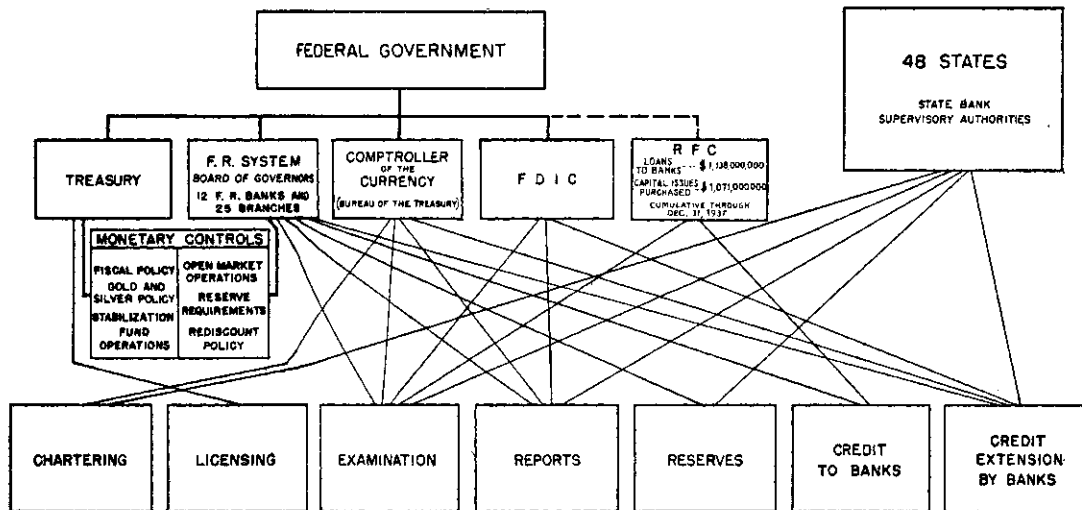
## FEDERAL RESERVE FUNCTIONS



# PRINCIPAL BANK SUPERVISORY RELATIONSHIPS



## DUPLICATIONS IN THE EXERCISE OF BANK SUPERVISION





rather suspect that he had in mind, is the question of the duplication in the exercise of banking supervision, and this chart (No. 7) is just a preliminary chart, which I will follow with another one in just a moment. It shows the existing duplications, as simply as they can be shown. I will show you on another chart how very complex the whole picture is at this time.

This chart (No. 8), on the principal bank supervisory relationships, will show you something of the problem which the Board and all the other agencies of the Federal Government face when it comes to the question of influencing banking policy as it may be related to national credit or monetary policies. These lines [indicating] are to indicate that the Treasury exercises certain monetary controls, and we exercise certain monetary controls. When you get over here [indicating on chart], to the banks, national, State member, State non-member, insured and noninsured, it is apparent that the influence of these agencies has a direct bearing on the whole problem of national policies.

Mr. PATMAN. At the same time, the Federal Reserve System has direct control over the banks representing 85 percent of the banking resources of the Nation—isn't that right?

Mr. RANSOM. May I ask what you mean by "direct" control?

Mr. PATMAN. What I mean is that they are in the Federal Reserve System.

Mr. RANSOM. We do not examine all banks. We do not charter them. Our regulations do not run as to all of them.

Mr. PATMAN. All except about 1,000 State banks.

Mr. RANSOM. Well, as I showed you on the first chart, there are a large number of banks outside the system.

Mr. PATMAN. They are in the F. D. I. C., are they not?

Mr. RANSOM. Not all of them.

Mr. PATMAN. And the F. D. I. C. has some control?

Mr. RANSOM. Yes; a very important control over its insured banks.

Mr. GOLDSBOROUGH. My recollection may be faulty, but I am under the impression that Mr. Eccles testified that within the year, insofar as assets were concerned, the banks which were not in the system represented 13 percent of the banking assets of the country.

Mr. SMEAD. Do you mean in number or in deposits?

Mr. GOLDSBOROUGH. In amount.

Mr. SMEAD. Yes; about 13 percent in insured nonmember commercial banks and about 3 percent in uninsured commercial banks.

Mr. PATMAN. I said 15 percent. I was in error, then, I presume.

Mr. WILLIAMS. I thought the figures that you gave a while ago showed 20 percent.

Mr. RANSOM. About 45 percent in number.

Mr. WILLIAMS. No; it could not have been in number of banks.

Mr. SPENCE. It is 20 percent in dollars.

Mr. RANSOM. This "slice of pie" on this chart would represent the banks wholly outside of the Federal Reserve System, but the orange color here would indicate those that are insured, so that the total deposits I would say that it is perfectly obvious to you that a very large part come within the Federal Reserve supervision at the present time.

Mr. PATMAN. About 85 percent under the Federal Reserve System?

Dr. GOLDENWEISER. Approximately.

Mr. PATMAN. And under the F. D. I. C., about what percent? About 95 or 98?

Dr. GOLDENWEISER. I think about 96 or 97.

Mr. PATMAN. It is about 96 percent?

Dr. GOLDENWEISER. Between 96 and 97 percent. That excludes the mutual-savings banks.

Mr. SPENCE. The chart indicates that in the State of New York the State banks have greater deposits than the national banks. Why is that?

Mr. RANSOM. That is due to the fact that so many large national accounts carry large balances with the New York banks, and that deposits from all of these banks flow into interbank balances with the New York banks. This chart [indicating chart No. 1] and these figures [indicating] differ from some figures which are often used because they take into consideration the fact that interbank balances are included. If you will take a small deposit in Louisiana, it may come over here to Texas, and go from there to Chicago, and from there to Philadelphia, but ultimately the final destination of interbank balances seems to be New York. The whole question of interbank balances, I think, is one of the difficult and serious questions that we have to consider.

Mr. SPENCE. But, so far as New York is concerned, my question is, Why is it going to State banks rather than to national banks? In some of those rural sections, the national bank has almost monopolized the deposits, but in New York it seems to have a very small proportion.

Mr. RANSOM. In New York City there are many large banks that are not national banks, such as the Guaranty Trust—any number of them that I could mention.

Mr. SPENCE. Under the laws of New York, do the State banks have any peculiar benefits that would cause them to get these larger deposits?

Mr. RANSOM. No; it is simply because there are a great many very large banks in New York City that are not national banks. I do not think that there is any significance in it except possibly some problems connected with their trust departments.

Mr. CRAWFORD. In that same group of deposits where you mentioned interbank deposits, you also include the balances carried in New York banks by medium size and large industries scattered back and all through the country that have credit lines with New York banks?

Mr. RANSOM. They are included.

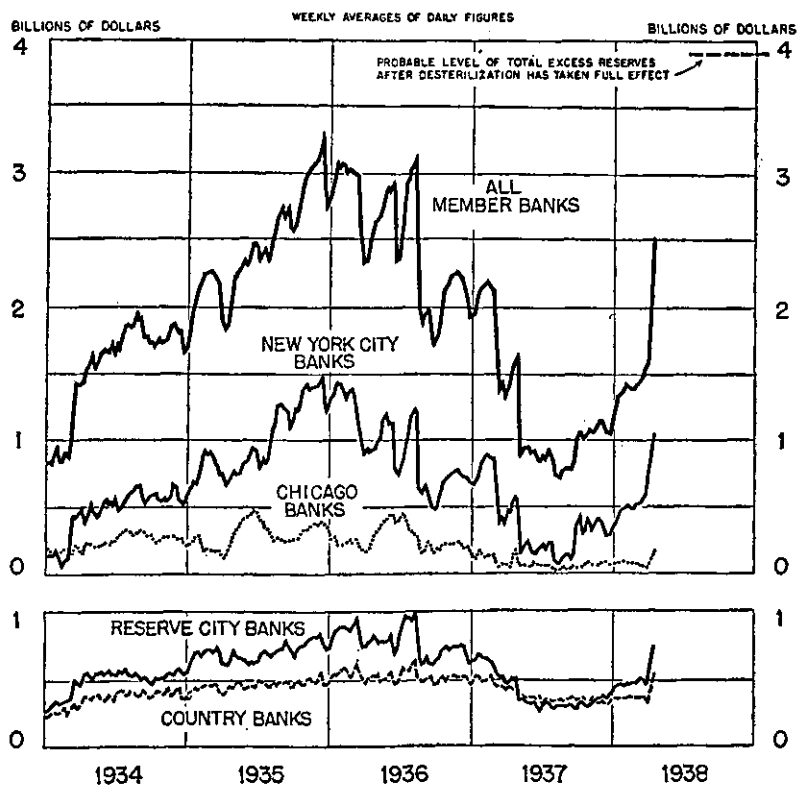
Mr. FORD. Here is a question that I have had propounded to me. I am told that in a number of small country banks, and the case that I have in mind is in Missouri, there are deposits of a number of New York banks of sums up to \$5,000, and that they are getting on them  $2\frac{1}{4}$  or  $2\frac{1}{2}$  percent as time deposits.

Does the Board look to what extent that has taken place?

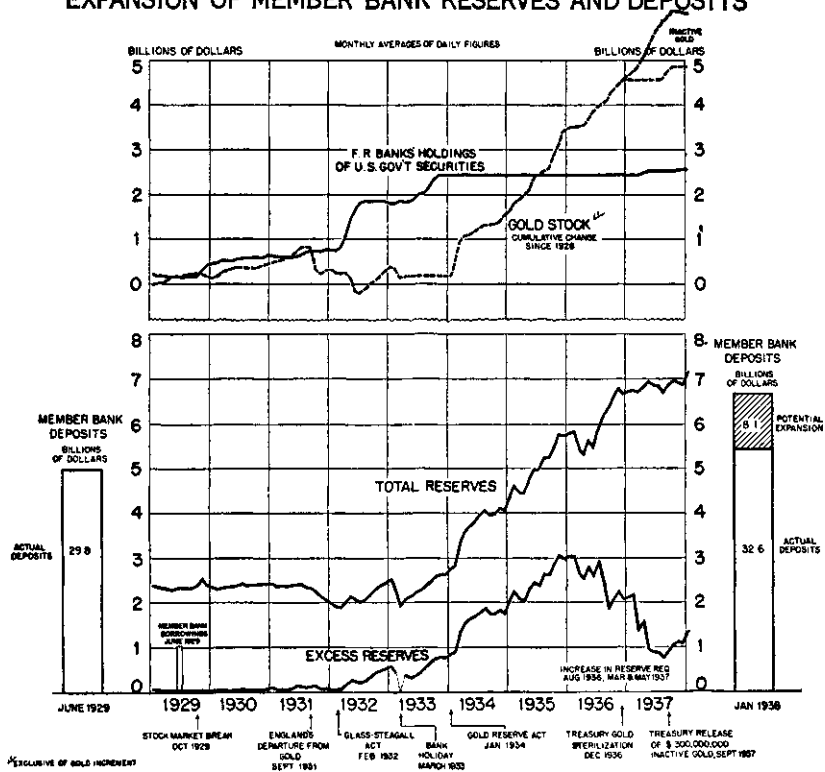
Mr. RANSOM. We are always watching the fluctuations between demand and time deposits.

Mr. FORD. They cannot get but 2 percent in a national bank, so they will take their money out to a State bank and get  $2\frac{1}{4}$  or  $2\frac{1}{2}$

## EXCESS RESERVES OF MEMBER BANKS



## EXPANSION OF MEMBER BANK RESERVES AND DEPOSITS



percent on it. Isn't that to some extent responsible for the clogging up of the flow of money?

Mr. RANSOM. I never thought of it in just those terms, but, of course, a true savings account which is kept for the mere purpose of accumulating it until it reaches a point where the owner wants to invest it is one thing, and a lot of idle money carried on time deposits is another. National banks, however, are permitted by the Board's regulations to pay up to 2½ percent on savings deposits and on time deposits payable in 6 months or more after date of deposit. On December 31, 1937, all member banks in New York City reported only \$45,000 of time balances on deposit with other domestic banks.

Mr. FORD. If we had a unified banking system, you could control that, if Congress gave you the power?

Mr. RANSOM. Yes; I think it could be controlled?

Mr. FORD. And I do not think that the banking system will ever we worth a damn until we have a unified banking system.

Mr. WILLIAMS. You will never have it.

Mr. RANSOM. Are there any other questions on these charts? I thought that they might be of interest to the committee.

Mr. GOLDSBOROUGH. They are of very great interest, I am sure.

Mr. RANSOM. Now, I will take two charts on excess reserves (Nos. 9 and 10), and try to answer the question that was asked sometime ago.

Mr. WILLIAMS. Let me ask you this question in connection with those time and demand deposits that you were just talking about: What effect has the F. D. I. C., or the insurance of deposits, had on postal savings accounts?

Mr. RANSOM. I am afraid that I do not know the answer to that question.

Dr. Goldenweiser, have we any statistic that would indicate the increase or decrease of postal savings during the period that the F. D. I. C. has been in force?

Dr. GOLDENWEISER. Yes. I can get those for you.

Mr. PATMAN. They have increased all along.

Mr. RANSOM. That has been my recollection.

Mr. PATMAN. About \$200,000,000.

Mr. RANSOM. Postal savings deposits increased from 170 millions in April 1930 to 1,160 millions in April 1933 and now amount to about 1,270 millions.

Mr. PATMAN. And the banks hold only about \$100,000,000 of that money.

Mr. RANSOM. Postal savings deposits in member banks declined from nearly 800 millions in 1933 to 95 millions at the end of 1937.

Mr. WILLIAMS. As I remember it, it was to allay the fear that people had of the banks that that was provided for.

Mr. RANSOM. It is a little difficult for anyone familiar with the banking business to understand why postal savings have accumulated as rapidly as they have, or to understand why there is so much money in circulation, because it is difficult to believe that the holders of that money in circulation could not be fully protected under the \$5,000-insurance provision of the F. D. I. C. law, but, nevertheless, that figure does stare us in the face.

Now, if I may go back to your question, Mr. Crawford, the excess reserve position of the member banks, as you will see (chart No. 9), was practically nothing at all in 1929, at a time when we had a very

great expansion of banking credit. At that time the member bank borrowings went up to this figure [indicating on chart], which is considerably larger than would appear on this chart [indicating], which is on quite a small scale. The excess reserve position ran along on a pretty even keel until 1932, at the time of the enactment of the Glass-Steagall Act in February 1932, when it started to go up. This chart shows both cause and effect, and how excess reserves were built up by open-market operations of the Federal Reserve System and the increase of the gold stock.

This is the banking holiday period here [indicating], and from that point on the increase in excess reserves is due to the increase in the gold stock, as Mr. Eccles explained the other day, and that line [indicating], as you will see, goes straight up to this point [indicating], at which we branch it off into the inactive gold account and the active gold account.

At the time the Board took its first action, this [indicating on chart] was the amount by which this three billions and some odd millions of excess reserves was restricted to that point [indicating], and "curtailed" may be the right word, but in view of the lack of bank credit extension at that time, and the relatively small use of bank credit at that time, I do not think that into that word "curtailed" you should read anything more than the objectives and effects of Board action as explained by Mr. Eccles, the other day; namely, that the Board was moving into a position where it could later influence the situation through open-market operations.

Mr. CRAWFORD. The reason that I bring up this technical question and, I think it is technical, is because of the great difficulty that all of us, even right here in this committee, have in understanding this technical language as between your organization and our members. Now, when it goes out to the country, can we expect the country to understand it when we say that the Federal Reserve System curtailed banking credit? I am not talking about a decrease of excess reserves. I am talking about curtailing credit.

If I am wrong in my conception of what constitutes banking credit, and how the Board functions with reference to curtailing banking credit, and in my conception of what constitutes excess reserves and normal reserves, with plenty being left to carry out the normal activities of business, I want to be set straight, because when I take your first eight or nine pages of the 1937 report of the Board of Governors, I am convinced that you left ample leeway there for the normal functions of certainly all the business that we were carrying on in the country then, and what we are carrying on now, as it evidenced by the fact that the excess reserves had moved from the \$700,000,000 figure right on up to \$1,700,000,000.

This may be picking the President up a little bit on that language, but it seems to me that he used the language wrong there.

Mr. GIFFORD. Did he criticize the Federal Reserve Board?

Mr. CRAWFORD. If I were reading this message as it went out to the country, away from this committee, I would construe that as a criticism of the Board by the President for having curtailed banking credit. That is the exact interpretation that I would put on it.

Mr. RANSOM. It would not be the interpretation that I would put on it, which might be due to the fact that I have been close to the picture and have watched it from day to day. I should think that

you might read into it "a curtailment of potential expansion" on the then existing credit base.

Mr. CRAWFORD. As a member of the committee, I can see—that is, with all of the tools that I have to work with—how that interpretation would be logically made, but I am thinking about the fellow out here in the country who probably wanted to get some credit and could not, and he will read this message and say that the Federal Reserve Board curtailed credit and he could not get it.

Mr. RANSOM. I think Dorothy Thompson said that we created the depression, and perhaps the same people won't read Dorothy Thompson, but nevertheless that does not happen to be my view of the matter at all. I would say that banking appears to most people as one of the most inexplicable businesses in which human beings engage. When you go out and try to explain it in simple, nontechnical language, you do run into lots of difficulty, and I want to say I have not intentionally used any technical terms, because I sometimes wonder what they mean.

Mr. GIFFORD. Did the President run headfirst into trouble?

Mr. RANSOM. In making that statement?

Mr. GIFFORD. Yes.

Mr. RANSOM. I do not so construe it.

Mr. GIFFORD. You do not regard it as a criticism of your actions?

Mr. RANSOM. I do not. That is my own interpretation of it.

Does that answer your question, Mr. Crawford?

Mr. CRAWFORD. On that particular score, but I have one other question that I want to ask you, and I am just wondering if it should be brought in at this time. It deals with this subject somewhat.

In the President's message, he also makes this interesting observation:

Let us unanimously recognize the fact that the Federal debt, whether it be 25 billion or 40 billion, can only be paid if the Nation obtains a vastly increased citizen income.

Now, when we go to the legal tender cases, and the treatment of this matter by your Dr. Currie—I believe he is still with the Board?

Mr. RANSOM. Yes.

Mr. CRAWFORD. In his presentation that was so criticized by Mr. Anderson, I got the impression that those two propositions make this statement of the President's questionable.

Now, orthodoxically speaking, I can understand why the President put that in there, but the reason I am putting stress on this is that this thing is so much before the country this very minute, the amount of our debts, monetary control, the increasing and decreasing of reserve requirements, the price situation, and the complicated functions of the Board by reason of all of these different relations, and I tie it into Dr. Currie's presentation and the legal tender cases, and I somewhat hesitate to bring those in at this particular time, but I get this on record so that we can be thinking about it.

Mr. GIFFORD. The idea is to fatten the cattle, is it not?

Mr. RANSOM. I do not believe—

Mr. GIFFORD. Those are the President's words.

Mr. RANSOM. I do not believe that that is quite a fair question to ask me what the entire administration's recovery program may be at this particular time. I think that we have a pretty wide field, as I have said before, but I would not like to get into a discussion of the

details of a program which has been presented to Congress and which is now under consideration by Congress. I will repeat what the Chairman of the Board said—that any time there is any measure before any committee of Congress where they feel that any view of any member of the Board may be desirable, all of us stand ready to come before that committee and testify to the very best of our ability.

Mr. GIFFORD. You do not think you are influenced by the policy of the Treasury or the President's policy, do you?

Mr. RANSOM. I think it is utterly impossible to conceive of a central banking agency of any government functioning wholly without regard to what is the policy of the government in power at the time.

Mr. GIFFORD. I put a question in writing the other day as to whether you are precluded from following your own bent, because you must work in harmony with the Treasury.

Mr. RANSOM. I would say that my own thought about it is this—that the Federal Reserve Board, charged with the responsibilities which Congress has put upon it, should be left as independent as possible to reach its own conclusions on all of these questions which have a relationship to the work which we have to do; that, occupying that position of independence and freedom of thought, we must at all times consider the existing state of the Nation and the public interest and try to work with the other agencies of government in bringing about a coordinated and clear program in relation to those particular functions.

Mr. GIFFORD. I agree to that.

Mr. RANSOM. And I think that the more independent we are and the further we are removed from being a bureau of some department of the Government the more valuable our opinions will be.

Mr. GIFFORD. I agree with that; and that is why I have wondered why there have been these sudden changes of policy by the Federal Reserve Board, such as announcing a particular policy and abandoning it very quickly.

Mr. RANSOM. For instance, Mr. Gifford?

Mr. GIFFORD. There are several instances. There is the spending policy that Governor Eccles recommended here months ago of a billion dollars, which suddenly subsided, and for several long months we have heard nothing more from him; and so it looked, of course, like you were not so thoroughly independent. Of course, that was freely discussed, but he was shut off from any further discussion of that from some source.

I cannot recall other instances, but we have had from your Board what looked like trial balloons that were of a nature that we could agree with, and then they were abandoned.

I asked you in a general way if that is true, and you said that it necessarily must be true because you must work in harmony with other governmental policies; and I want to be convinced that this Board is really independent of other views. Someone else may get the ear of the head of the Nation and may appeal to him, and if he says to you that a certain thing ought to be done, are you going to abandon your opinions because of some new theory?

Mr. RANSOM. Perhaps, in the light in which you state your question, I should offer some interpretation of the words "work in harmony." By that I mean that we should at all times try to ascer-



tain what is in the public interest, and where we think that the policy of the administration in power at the time is in that direction, we should work with them toward their objective.

Mr. GIFFORD. Are you working together? Did you listen to the radio address of Mr. Jones last night, or did you read it?

Mr. RANSOM. I read parts of it, but have not had time this morning to read all of it.

Mr. GIFFORD. What is the basis of his complaint that there is too much examination of banks by different groups, that there ought to be one only?

Mr. RANSOM. I would like to state with entire frankness that I think there is room for improvement along the lines of—he used the words which occur in the President's message to Congress, better coordination of the functions of bank supervision and examinations. I would be hopeful that if the present program spells itself out into a substantial extension of credit by banks, that we would see much of the burden of lending lifted from the Government agencies.

Now, if the banker is uncertain as to what may be the examining policies of the numerous agencies that I have shown you on this chart that do examine banks and do supervise them, then the banker is in a far more difficult position than I think he should be in, and I think that there is real room for improvement there.

Mr. GIFFORD. There is not very complete harmony, is there?

Mr. RANSOM. I would not say there is not harmony. There are differences of opinion, perhaps differences in concept and in statement of views.

Mr. GIFFORD. You realize that we as individuals are subjected constantly, when we go to our banks for money, to the statement that the examiner has criticized them?

Mr. RANSOM. I think it would be far simpler if the three agencies, and I will include the Reconstruction Finance Corporation and say four agencies of the Federal Government, presented a united front. I would not anticipate any more difficulty then in working out a very complete cooperation with the banking departments of the 48 States. There are some difficulties, of course, in dealing with 48 agencies, and there are some advantages in having 48 agencies.

Mr. GIFFORD. One more question. Do banks tell the borrowers, as a means of getting out of difficult situations, that the examiners have criticized them?

Mr. RANSOM. I think they sometimes do. I think they do it as an alibi.

Mr. GIFFORD. Do you recall that Mr. O'Connor made a statement when he appeared here one day that if we could furnish him with the name of an examiner who criticized a slow loan in a bank he would discharge him?

Mr. RANSOM. I do not recall that; no. I will say that I think the slow column should be omitted from bank examination reports.

Mr. GIFFORD. I am glad to have that in the record. The bankers will urge a man to reduce his slow loan because it has been criticized by the examiner.

Mr. RANSOM. I think that a banker is in a pretty bad fix if he has not the courage to run his own business without falling back on the criticism of an examiner. It is really a manifestation of human nature.

Mr. GIFFORD. They claim that it is not an alibi, but they do not dare give you the name of the examiner.

Mr. RANSOM. They would be in a much simpler position if there were no conflicting views among the three or four Federal agencies of the Government, and I would like to feel, as I do feel, that as a part of the program which the President announced, both in his message and in his radio address, that we are working toward that end, and I think it will be very helpful.

Mr. GIFFORD. I simply wish to say that we who borrow are in a position to know even better than perhaps you what the attitude of the banks is. Theoretical information may be all right, but the practical information and knowledge, to my mind, is vastly different, and some of us have that.

Mr. RANSOM. I am going to raise a question for the record, and not attempt to answer it:

Is it possible to conceive of a sound system of bank examination and supervision totally separated from the monetary and credit control machinery of the Federal Government?

Mr. PATMAN. Mr. Ransom, would you mind bringing this chart (No. 10, p. 495) up to date that you have placed in the record?

Mr. RANSOM. I should have done that, but we have not had much time.

Now, getting back to this chart on excess reserves, let us take, first, desterilization. This [pointing to chart] block is entirely excess reserves. Where will excess reserves go from this point [indicating chart No. 10, p. 495]?

Mr. PATMAN. Right there, I presume that desterilization will have this effect, that the money will be placed with the Federal Reserve banks and will be thrown out and placed in the channels of trade.

Dr. GOLDENWEISER. The reduction in the reserve requirements that the Board made effective on the 16th has increased excess reserves by \$750,000,000, so it increased them to about 2½ billions.

Mr. PATMAN. Back to '34 or '35?

Dr. GOLDENWEISER. Yes; up to around here [indicating on chart], and when the additional \$1,400,000,000 which the Treasury Department has now deposited with the Federal Reserve banks is spent, it will carry the figure up to around \$3,900,000,000.

Mr. PATMAN. Higher than it has ever been?

Mr. RANSOM. An all-time record.

Mr. PATMAN. I wish we could get some money out of this.

Mr. CRAWFORD. If we as a people accept the philosophy and adopt a program of issuing Government obligations and moving them through the banks with which to create check money to pay for public works, is not the desterilization of gold which takes place simultaneously deflationary in that it makes unnecessary that much more issuance of Government paper?

Mr. RANSOM. No, I never would have thought of it in terms of being deflationary.

Mr. CRAWFORD. That is exactly what it is, is it not?

Mr. RANSOM. Why, no.

Mr. CRAWFORD. Based on my question—I say, if we accept the philosophy of a public-works program financed by the creation of Government debt to be disposed of through the banks and create check money with which to pay for those projects, and we thus go part of the way, and then all at once we bring in the desterilization of

gold, which increases excess reserves, creating a base or another type of credit to the extent of the sterilization, isn't that deflationary, as against the other side of the move?

Mr. RANSOM. My answer would be no, because both the sale by the Treasury of Government securities to banks and the use of sterilized gold, would create bank deposits.

Mr. CRAWFORD. They are dissimilar in character.

Mr. RANSOM. The impact would be the same.

Mr. CRAWFORD. So far as creating bank deposits is concerned?

Mr. RANSOM. Yes.

Mr. CRAWFORD. What has been the effect of sterilization on the market at this time?

Mr. RANSOM. The market for Government bonds?

Mr. CRAWFORD. Yes.

Mr. RANSOM. It has run the price up considerably and the yield down, and it has created a sort of scarcity demand for the moment.

Mr. CRAWFORD. Is that tendency still continuing?

Mr. RANSOM. Well, it was slower yesterday than it was Saturday. I have no report on the market today. You see, the banks, faced with the idea that they were going to have considerable excess reserves, looked around for some investment, immediate investment.

Mr. CRAWFORD. And they put it in Government bonds?

Mr. RANSOM. They put it in Government bonds.

Mr. FORD. If they continue to do that, it won't contribute any to the increase of industry, commerce, and agriculture.

Mr. RANSOM. Only to the extent that the Government should spend it.

Mr. FORD. It is just simply a plain dollar-for-dollar move. It does not create any expansion.

Mr. RANSOM. Of course, the banks, faced with large excess reserves, may seek other avenues of investment, but it certainly is not what I would like to see develop from it, to have the banks invest the whole amount of the available excess reserves in Government bonds.

Mr. FORD. It will virtually defeat the movement?

Mr. RANSOM. Will you define "movement"?

Mr. FORD. The movement that we are trying to start, the upward cycle of commerce and industry, and the only way that that can be brought about is to bring out money to aid commerce and industry, and if the banks, instead of doing that, exercise their privilege to put their excess reserves in Government securities, it will tend to defeat the purpose that this recovery movement had in mind.

Mr. RANSOM. It is inconceivable to me that they would do that, because the yield on other loans would be so much more than the yield on Government bonds at present prices.

Mr. TRANSUE. Is there a demand for other loans?

Mr. RANSOM. That is an open question, in my mind. There is a demand for capital in a great many lines, large and small. To what extent there is an unsatisfied demand for bank loans is an open question with me.

Mr. FORD. I asked Governor Eccles, when he was leaving the other day, what effect the segregating of demand and time deposits would have and releasing the time deposits from the reserve requirements.

Mr. RANSOM. I do not know, of course, what Chairman Eccles' answer to that question might be. My own answer would be that I would not like to see that theory carried into practice, because I think

it offers an inducement to the banks to shift from demand to time deposits, and I do not think that that is a desirable thing. In other words, if the bank has too low reserve requirements on time deposits, there would be a pressure on the banks to switch from the demand classification to the time, and, after all, a time deposit is nothing more than a demand deposit, because when a bank reaches the point where it puts the 30-day requirement on the money and prevents its withdrawal, the bank is usually in a difficult position.

Mr. FORD. There are two views on that. There is the philosophy that insists that time deposits are not money, as we understand it; that they are stored-up savings against long-time obligations, and their function should be only in connection with long-time obligations, and that none of the demand deposits should be commingled with them.

Mr. RANSOM. I think that that is merely a theory, but from a practical point of view, I do not think that the theory amounts to much.

Mr. GIFFORD. Mr. Ford, I want to suggest to you that only last week an adviser to some of the largest firms said that the only thing that looked good to him at the moment, in view of the downward spiral of all securities, was the Government bond, and that he had advised all of his clients to sell other things and buy more Government bonds, and when firms are being advised that way, rather than to put their money in other lines of business, you are defeating your own purpose.

Mr. RANSOM. I think that the banks have developed something of the liquidity complex that their depositors were accustomed to develop at times before 1933.

Mr. GIFFORD. But these are not bankers but advisers, who go to banks and advise them what they ought to do for defense purposes. I was told that, with railroad bonds today, if they offered them at a discount, there would be no buyers, and that all secondary and third bonds have to take the same degree of mark-off, and that you cannot even safely invest in a first mortgage today; and with that advice being handed around at the moment, it is defeating the purposes that some are attempting to accomplish. I was amazed, frankly, that that is the attitude of so many.

Mr. FORD. I only want to make this observation in that connection, that if there is a tendency in that direction, and they continue to do it, and the banking interests of the country under the present circumstances, being given an opportunity to get their funds profitably employed with private interests, for the sake of safety, or liquidity, or whatever you want to call it, persist in the policy of investing only in Government bonds, they will be primarily and fundamentally responsible for the lack of pick-up in the industrial, economic, and commercial situation of the country.

Mr. RANSOM. They will cease to be banks, and become investment trusts, specializing in only one form of investment.

Mr. FORD. Yes.

Mr. RANSOM. And they will lose the position that they have occupied as bankers.

Mr. TRANSUE. That will put the Government in the banking business?

Mr. RANSOM. I should think it inevitably would. Somebody has to be in the banking business.

Mr. GIFFORD. One firm has 66 percent in Government bonds. How is that making any money?

Mr. TRANSUE. As I say, that will force the Government to aid those who are legitimately entitled to credit.

Mr. GIFFORD. Some banks are living off of Government securities, and that is one reason that Mr. Patman has for arguing his position, but if we are actually driving the people, for defense purposes, to buy nothing but Government bonds, you are defeating your own purpose, and that is what we are doing now, of course.

Mr. RANSOM. With the excess reserve position which will be created, I think that we can stand by and watch the result and see what the bankers do about it.

Mr. CRAWFORD. Is it not true that the actual process of banking is powerless when it comes to directly bringing about or forcing the creation of or expansion of credit, and is it not also true with reference to the desterilization of gold that the banking process can make a move, and, if it makes the move, you have to wait until Mr. A comes up to the cashier's desk and says, "Listen! I want to borrow \$10,000 for the purpose of engaging in commercial enterprise."

So, I repeat, isn't it true that the banking process is incapable of directly forcing the expansion of credit, coming back to Mr. Ford's question?

Mr. RANSOM. In a very broad and general sense, yes. In a more narrow sense, I would say from observation that there are banks that are able to go out and develop borrowers as easily as the average bank will develop a depositor, and perhaps there is some room for some new thinking on the bankers' part in that field.

Now, I agree with you, in a broad sense, that you cannot create a demand for credit by providing all the credit in the world. I would say that the excess reserve position before last week gave the banker a considerable leeway without the actions which took place last week, but again I want to say in that connection, as I said before, that I think the whole question of excess reserves has got to be constantly studied not only by the banking authorities but by you gentlemen of Congress. I think it is a wide field for exploration. I doubt myself if we have found the correct answer as yet, and I am also impressed with the fact that when you raise reserve requirements the bankers apparently create, for the lack of better words, a "psychological reserve" of their own. Apparently \$1,000,000,000 above the required reserves is what the banker has recently felt to be necessary. If he feels that way, and you put it three billion above it, then there certainly is all the elbow room possible, but that does not get away from the question of what the Board should recommend at a time when there might develop on that credit base an inflationary situation which would require reconsideration of the whole problem.

Mr. GOLDSBOROUGH. Right in that connection, and I am not saying this as a criticism at all but what seems to me to be a practical observation, the Government, by its policy, raises these reserves to three billion, which is a complete reversal of the habits of the Federal Reserve Board during the last year and a half, and how does business know that that whole thing won't be changed in the next month? It seems to me that that is one of the great difficulties that confront us now, the uncertainty that business has as to what the monetary policy of the Government will be.

Mr. RANSOM. I think that the answer I made to the previous question is in part an answer to what you say. I do not think that we have entirely solved the problem by using reserve requirements as now provided for by statute as a mechanism of monetary and credit control. I think much remains to be studied on that subject.

Mr. GOLDSBOROUGH. If business knew that those reserves were going to remain on that basis, it would be one thing, but not knowing whether they are going to be taken away and further reduced, business does not know what to do.

Mr. RANSOM. Would it not present serious difficulty if you created a wholly inflexible figure there?

Mr. GOLDSBOROUGH. Of course——

Mr. RANSOM. Are you not compelled to have some flexibility somewhere?

Mr. GOLDSBOROUGH. Of course, but when the central banking system undertakes to control not the speculation which is evident on the stock exchange, and which it could control actually and certainly psychologically by raising marginal requirements, but it undertakes to say that business is accumulating too much on its shelves, that it is producing more than can be consumed, that that must be controlled and the other business must be controlled by the central bank, it just seems to me that you are putting business in such a situation that it does not know what to do.

Mr. RANSOM. I do not like the word "control." I would much prefer the word "influence," because it is more descriptive.

Mr. PATMAN. Is it not pretty well understood, Mr. Chairman, that the members of this Board want a higher price level, and I think it is understood that the administration and the President want a higher price level, and I think that we have enough evidence to justify us in concluding, and the country in concluding, that at least the 1926 price level——

Mr. GOLDSBOROUGH. I attempted to say——

Mr. PATMAN. Is what we have in mind? I have an idea that they have reasonable assurance that nothing will be done that will stop us until we get there.

Mr. GOLDSBOROUGH. I prefaced my remarks by saying that that was not criticism. I am just looking for light, because if anybody were to ask me what I thought would be done with this money, this gold that has been desterilized, I could not tell them to save my life. Numerous newspapers called me up yesterday afternoon, and all that I could say was that I was very sorry, that I was unable to be of any service. No member of this committee now knows what is going to be done.

Mr. PATMAN. I thought that that was generally understood. I thought that each Federal Reserve bank taking part of this gold would be given credit for it, that it would go into the general fund, and that as we have to pay the rural carriers, the W. P. A. workers, and so forth, this fund will be drawn on.

Isn't that the way you understand it?

Mr. RANSOM. The question as to how it will be used is a matter of Treasury decision.

Mr. PATMAN. In other words——

Mr. GOLDSBOROUGH. Just let him answer. He says that the question as to how it will be used is a matter of Treasury decision.

Mr. PATMAN. I thought that it had already been decided.

Mr. GOLDSBOROUGH. Oh, no.

Mr. PATMAN. It goes into the general fund?

Mr. RANSOM. It goes into the general fund, and it might be used either for the retirement of public debt or for public expenditures.

Mr. PATMAN. Or for any purpose that the general fund is used for?

Mr. RANSOM. That is correct.

Mr. PATMAN. We know what the general fund is used for.

Mr. GOLDSBOROUGH. You may think you do, but if you do you know more than I do.

Mr. GIFFORD. This gold is to be turned over to the banks, and there will be issued gold certificates for it?

Mr. RANSOM. That is right.

Mr. GIFFORD. What good is a contract of that kind?

Mr. RANSOM. You have opened up a big question there.

Mr. GOLDSBOROUGH. I thought the Supreme Court had settled it.

Mr. GIFFORD. Do you think the people would believe that they could get the gold when they wanted it? Can't they make them give up those gold certificates at any time for any lawful money which may be presented to them?

Mr. RANSOM. I might say that the final answer to that rests on Congress.

Mr. GIFFORD. Does it?

Mr. RANSOM. Doesn't it? Can't you gentlemen do what you please?

Mr. GIFFORD. It has delegated its power.

Mr. RANSOM. Under the present law.

Mr. GIFFORD. No; under the present law.

Mr. GOLDSBOROUGH. The Supreme Court said that it was a joke.

Mr. PATMAN. The Government has the title and the Federal Reserve the claim, but the claim does not amount to anything.

Mr. RANSOM. We have a warehouse receipt.

Mr. GIFFORD. I want to make one more suggestion. Having come in from the field recently and having seen bankers and other people, and asked them why they won't take mortgages, I was told that if as a result of these inflationary schemes, the dollar was deflated, they did not want to be paid off in cheaper dollars.

Mr. PATMAN. Do you mean that a banking association adopted that policy?

Mr. GIFFORD. I asked one party outright that I am thinking of, an adviser, "Why don't you advise them to take mortgages?" I was told, "They do not want to be paid off in cheap dollars, in inflated dollars; for, if inflation comes, we would want to actually own something, and we are advising them to buy outright certain necessities, or stock in companies which deal in necessities only," and that that is the only defense they feel they can rely on.

Mr. RANSOM. They think they have discovered a hedge against inflation.

Mr. GIFFORD. You say you think they have?

Mr. RANSOM. No; I do not think so. You said that they were telling them what to invest in. I did not say I thought so.

Mr. GIFFORD. You think that if they bought necessities, or stocks that cover only necessities—

Mr. RANSOM (interposing). Isn't that a hedge against inflation? I may not understand your question. I understood you to say that these people who were advising banks and investors advised them to put their funds in certain types of investment, and I remarked that apparently they thought they had discovered a hedge against inflation.

Mr. GIFFORD. But you do not think they have?

Mr. RANSOM. I certainly do not know that they have.

Mr. GIFFORD. When inflation comes, and if everything goes to smash, somebody will own these necessities.

Mr. RANSOM. We are a long ways from going to smash.

Mr. GIFFORD. Other countries have, and when they emerged was the wealth of the country pretty well divided up, or did a few control it?

Mr. RANSOM. I do not know that I can answer that question.

Mr. GOLDSBOROUGH. You know, Mr. Bernard Baruch had an article in the Saturday Evening Post about a year and a half ago, in which were shown the printing presses in Germany, but is it not a fact that no runaway inflation ever took place under a stable government?

Mr. RANSOM. I would lots rather ask an economist that, rather than answer it.

Mr. GOLDSBOROUGH. I will answer that, and say "no."

Mr. RANSOM. All right; thank you.

Mr. GOLDSBOROUGH. Is it not a fact, also, that runaway inflation has only taken place in a country which was not producing? At the time of the German runaway inflation, production had practically stopped in Germany. They had no production to match the money which was being issued. Another thing that happened in Germany, which is used as an illustration to try to scare us, is this, that Germany wanted to eliminate her internal debt, and did that by depreciating the value of her currency, but it has emerged financially in good shape. So that any talk about a runaway inflation and about money which has no value, in a country which can produce as much as this country can produce, is purely and visionarily speculative, don't you think?

Mr. RANSOM. I will say that I am not at the moment in a state of alarm, and when I am I hope to come back to you gentlemen and ask what you can do about it.

Mr. SPENCE. Will there not be a natural tendency for the banks later to reverse their present policy with respect to the buying of bonds? Will there not come a time when the banks will want to get out from under, and will want to sell their bonds, when they think they can make a profit?

Mr. RANSOM. I regret to say that in some banks they handle their bond portfolio as a speculative account, and that is unfortunate. If they handled it as a purely investment account, with the idea that they were riding the investment to maturity, it would be safer to proceed, granted that there should be some fluctuation in the account from time to time, due to changing conditions, but if the bank is handling its Government bond account as a speculative medium, on which it can speculate in the interest rate, I think sooner or later it will run into trouble.

Mr. SPENCE. If the banker sees the market is about to break, would it not be natural for him to sell?



Mr. RANSOM. Perhaps the natural forces will somewhat check that rise. It reaches the point after a while where perhaps every one thinks it is too high, and then they reverse themselves.

Mr. SPENCE. What effect would that have, generally?

Mr. RANSOM. Well, it does not have, as I see it, much effect on the interest rate, because the interest rate is low and will remain low for a long time on the basis of the existing excess reserve position, even on the excess reserve position as it was before there was any desterilization or other action. I think that we are in a period of easy money. That is obvious.

Mr. PATMAN. May I suggest two ways that these bonds can be taken from the banks? One is through the Social Security reserve fund for a period of years, and the other way, if it becomes necessary, is that the Federal Reserve banks could acquire these bonds, and then by the Government owning the Federal Reserve banks they would own the bonds and save the interest on the bonds. Either way could be used, and over a period of many years the Social Security reserve fund would acquire them.

Mr. GOLDSBOROUGH. The House is in session——

Mr. RANSOM. Mr. Chairman, may I ask if there is anything else that you want from us?

Mr. TRANSUE. There is one question that I would like to ask, and that is what effect the taxing of Government securities would have.

Mr. RANSOM. I have not had a chance in the last few days to give any thought to that at all, and I would not give an answer to it, both because I do not know the answer, and, secondly, because it is a Treasury matter.

May I ask one other thing?

If this closes the hearings, at least temporarily, Mr. Eccles would like to have an opportunity, at some future time, when he is less busy than he is at the moment, to answer orally the questions which Mr. Patman and others asked him. He thinks that method of answering is more effective, and he would prefer it, so I would like to ask——

Mr. PATMAN. What about tomorrow morning?

Mr. RANSOM. Mr. Patman, I am afraid he would be a little pressed for time. We have a good deal to do, and if it could be left open——

Mr. PATMAN. But that leaves it rather uncertain. So far as I am concerned, I would like to see the hearings closed on this bill.

Mr. RANSOM. May I ask, if Mr. Eccles lets you know tomorrow what day he would be available, whether that would answer your purpose, assuming that it is within this week?

Mr. PATMAN. Is that all right with the chairman?

Mr. GOLDSBOROUGH. Yes, sir.

Mr. CRAWFORD. May I ask this question with reference to these charts? I understand that the charts or duplicates are to go into the record?

Mr. RANSOM. Yes.

Mr. CRAWFORD. In view of the fact that it may be some time before the record is printed, would it be possible for us to get proof-sheets of these charts some time in the near future?

Mr. RANSOM. I had in mind having them reproduced in sufficient quantity to give each member of the committee an advance copy before we prepared them for the record.

(Thereupon, at 12:15 p. m., the committee adjourned, subject to call of the chairman.)

STATEMENT OF HON. ALFRED F. BEITER BEFORE BANKING AND CURRENCY  
COMMITTEE ON H. R. 7230

Mr. Chairman, I am glad of this opportunity to speak in behalf of the bill, H. R. 7230, to provide for Government ownership of the 12 Federal Reserve banks. As one of the cosponsors of the bill and one of the members of the steering committee for Government ownership of the Federal Reserve banks I am anxious, of course, to see the bill favorably reported by your committee.

As my colleague Mr. Patman has stated during this hearing, amendments have been drawn up which are expected to be offered when the bill is read in the House under the 5-minute rule. These amendments are designed to meet the objections of some members of your committee.

There are many persons in my district who have written me in behalf of this bill. In fact, I might say it has wide support in my section.

Approximately 150 members of the House are members of the steering committee on this bill and are actively sponsoring its enactment. I hope that this committee will take into consideration the fact that these 150 members represent a large portion of the electorate of this country and will at least report the bill to the floor for consideration and debate.

STATEMENT OF HON. EDWARD V. IZAC, A REPRESENTATIVE IN CONGRESS FROM THE  
STATE OF CALIFORNIA

APRIL 7, 1938.

HON. HENRY B. STEAGALL,  
*Chairman, Banking and Currency Committee,  
House of Representatives.*

DEAR MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE: I believe I can safely say that an overwhelming majority of the people of my district are in favor of H. R. 7230, introduced by Mr. Patman at the behest of nearly half the membership of the House of Representatives, including myself.

If there is any one question on which I find unanimity of opinion, it is on that of monetary reform. Surely the committee must agree that it is unwise and unjust to permit the private bankers of America to control the volume of money (credit) circulating through the trade channels of our Nation. This they do by the contraction or expansion of credit, and in so doing they utterly nullify that power of Congress which has been granted by the Constitution to coin money and regulate the value thereof.

I realize it is the policy of your committee to proceed with caution on this most important question and therefore I should like to point out that the present bill does not alter the fundamental purpose of the Federal Reserve System but, rather, perpetuates the System and brings it within the scope of our Constitution--reconciling what has been, in many minds, a most unconstitutional delegation of power by Congress.

Permit me to draw the committee's attention to the fact that, with the adoption of this bill the assets of the Federal Reserve banks become the property of the United States, thereby making a truly national system owned and regulated by the United States instead of by private bankers. Surely there can be no valid objection to such a course.

And if the committee will favorably report this bill, I feel their action will receive the commendation of not only the people of my district, but of the great majority of people in all walks of life throughout the Nation.

I appeal to the committee for a favorable report of H. R. 7230.

Respectfully,

ED. V. IZAC, M. C.,  
*Twentieth District, California.*