INQUIRY ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM

JOINT HEARINGS

BEFORE THE

COMMITTEES ON BANKING AND CURRENCY CONGRESS OF THE UNITED STATES

SIXTY-EIGHTH CONGRESS

PURSUANT TO

PUBLIC ACT No. 503

AN ACT TO PROVIDE ADDITIONAL CREDIT FACILITIES FOR THE AGRICULTURAL AND LIVESTOCK INDUSTRIES OF THE UNITED STATES; TO AMEND THE FEDERAL FARM LOAN ACT; TO AMEND THE FEDERAL RESERVE ACT; AND FOR OTHER PURPOSES, APPROVED MARCH 4, 1923

OCTOBER 2, 3, 4, 5, 9, 10, 11, AND 12, 1923

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CONGRESS OF THE UNITED STATES

JOINT COMMITTEE OF INQUIRY ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM

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HENRY B. STEAGALL, Alabama.	

P. G. THOMPSON, *Secretary*

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INQUIRY ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM

TUESDAY, OCTOBER 2, 1923

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON INQUIRY
ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM,
Washington, D. C.

The joint committee met at 10.30 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. This is a meeting of the Joint Committee of Inquiry on Membership in the Federal Reserve System. The authority for the creation of this joint committee is found in public law No. 503, Sixty-seventh Congress—that is, the agricultural credits act—passed in the closing days of the last session of Congress:

The joint committee is authorized to inquire into the effect of the present limited membership of State banks and trust companies in the Federal reserve system upon financial conditions in the agricultural sections of the United States; the reasons which actuate eligible State banks and trust companies in failing to become members of the Federal reserve system; what administrative measures have been taken and are being taken to increase such membership; and whether or not any change should be made in existing law, or in rules and regulations of the Federal Reserve Board, or in methods of administration to bring about in the agricultural districts a larger membership of such banks or trust companies in the Federal reserve system.

The committee is authorized to sit at any time during the sessions or recesses of the Congress; to conduct its hearings at Washington or at any other place in the United States; to send for persons, books, and papers; to take testimony; to administer oaths. * * *

The committee has a tentative list of people who are to be heard. For the purposes of the record I will put this list in at this point. I might also say that the present schedule of hearings runs up to and including October 12; and there is no definite time for the closing of the hearings. It may develop that at the end of this tentative schedule the committee will consider the matters that have been presented of sufficient importance to warrant later hearings either here in Washington or elsewhere.

(The schedule of hearings referred to is as follows:)

Tuesday, October 2: Governor of Federal Reserve Board, 10.30 a. m.

Wednesday, October 5: Comptroller of the Currency, 10.30 a. m.; Secretary of Agriculture, 2.30 p. m.

Thursday, October 4: War Finance Corporation.

Friday, October 5: Chairman Advisory Council, Federal Reserve Board, 10.30 a. m.; Farm Loan Board (Cory and Landis), 2.30 p. m.

Tuesday, October 9: C. B. Hazlewood, Association of Reserve City Bankers, 10.30 a. m.; American aBnkers' Association, 2.30 p. m.; New England Federal Reserve Banks. 2.30 p. m.

Wednesday, October 10: Frederic A. Delano, 10.30 a. m.; United States Chamber of Commerce, 2.30 p. m.; Country Bankers' Association of Georgia, 3.30 p. m.

Thursday, October 11: National Credit Men's Association, 10.30 a. m.; Frank P. Bennett, United States Invester, 11.30 a. m.; A. T. Richard, 2.30 p. m.; Richard Charles, 3.30 p. m.

Friday, October 12: Gray Silver, American Farm Bureau Federation, 10.30 a. m.; T. H. Atkeson, National Grange, 2.30 p. m.; Benjamin C. Marsh, Farmers' National Council, 3.30 p. m.

The CHAIRMAN. In connection with the duties which devolve upon this committee, we will be glad at this time to hear Mr. D. R. Crissinger, governor of the Federal Reserve Board; and when he has completed his statement other members of the board who are present may be heard.

Governor, you may proceed in your own way. You are familiar with the purposes of this committee, and I will suggest that you proceed as to you seems best, and if you do not care to be interrupted as you go along the committee, I know, will be very glad to accede to your wishes.

STATEMENT OF HON. D. R. CRISSINGER, GOVERNOR FEDERAL RESERVE BOARD, WASHINGTON, D. C.

Governor CRISSINGER. The first thing that I notice in your program is the effect of the present limited membership of State banks and trust companies in the Federal reserve system. I would say, in general, the limited membership has not particularly affected the Federal reserve system as a system. It does affect the system in this way: The nonmember bonds have to rely on credit facilities that are distributed through correspondent banks; nonmember banks must secure credit facilities through the larger member banks. Limited membership has the effect of piling up the credits in member banks, and greatly over extending them, as shown in the last crisis in the case of many of the national banks and quite a few of the State banks. I think the State banks have all had ample credits as well as the national banks.

In discussing the matter, it would seem that you would have to take into consideration and remember that one-third of the member banks neither borrowed nor discounted paper during this stringency and inflation and deflation period; about one-third of them rediscounted or borrowed to what I would say was a reasonable amount, probably up to the amount of their capital; and one-third of them became greatly overextended. The one-third of the banks that did not borrow or rediscount carried very large amounts in cash and bank balances running as high as, I think, 40 per cent. So you can readily see what condition that would bring about in a community where one bank carried all of the reserves, and another bank was rediscounting and borrowing to accommodate the community. That resulted, as I say, in a great many overextended banks.

If there was an increased membership there would be a broader market for credit; there would be more avenues, and it would not, to my mind, accumulate and pile up in the central reserve cities and in the big banks. There has been much criticism, of course, about some of the banks having an overline of credits, but that has been largely due to the fact that they have been accommodating in a great many cases the nonmember banks that have refused to become members, or neglected for various reasons to become members, of the Federal reserve system.

I think that if all of the eligible banks were to become members under the law now, it might have some results that we probably do not think about; it probably would cause, as the bank operations department shows, the borrowing probably of $346,000,000 from some source, ultimately from the Federal reserve bank, in order to pay their capital and provide their reserve for the system.

At the suggestion of the chairman, I had the bank operations department look up the effect it would have upon the reserve ratio, and if the committee is interested in the figures I have them here.

The CHAIRMAN. We would be very glad to have that in the record at this time.

Governor CRISSINGER. Would you want it read, or did you just want it handed in?

The CHAIRMAN. We would like to have you read it.

Governor CRISSINGER (reading):

The present reserve deposits of member banks amount to $1,872,733,000. If all banks in the country eligible for membership were admitted, total reserve deposits with the Federal reserve banks would amount to $2,292,773,000.

The total reserves of the Federal reserve system at the present time amount to $3,187,665,000 and their ratio to the deposit and note liabilities combined is 75.9 per cent. If the deposit liability of the reserve banks was increased to $2,292,773,000 as the result of the admission of all eligible nonmember banks, and no change was had in the Federal reserve note liability, the ratio of the present reserves of the Federal reserve banks to deposit and note liabilities combined would amount to about 70 per cent. If, however, the system should lose say, $1,000,000,000 of reserve gold through exports, the ratio of reserves to deposit and note liabilities combined would be reduced to about 47 per cent.

Mr. WINGO. If I may ask you right there, Governor, so I may follow you: I have been looking into that question. You have the total amount of deposits to capital stock and surplus of the member banks. Does that show in the statement—the total amount of the deposits, the capital stock and surplus of member banks?

Governor CRISSINGER. It does not show in this statement, but I can get it for you.

Mr. WINGO. Will you please at the proper place insert that in the hearing?

Governor CRISSINGER. Yes.

In response to this request there is given below a statement showing (1) number, capital, surplus, and total deposits of all member banks in the United States as of June 30, 1923; (2) number, capital, and estimated surplus and deposits of nonmember banks eligible for membership on the basis of the present capital stock requirements of the Federal Reserve Act as of June 30, 1922, the latest date for which such information is available.

	Number of banks	Capital	Surplus	Total deposits
(1) Member banks, June 30, 1923:				
National banks	8,236	$1,328,141,000	$1,070,026,000	$16,890,406,000
State banks and trust companies	1,620	670,154,000	561,676,000	10,162,796,000
Total	9,856	1,998,295,000	1,631,702,000	27,053,202,000
(2) Eligible nonmember banks June 30, 1922:				
Banks eligible prior to March 3, 1923	9,678	760,395,000	448,420,000	[1] 7,252,000
Banks made eligible by Agricultural Credits Act	4,203	96,418,000	[1] 46,113,000	[1] 867,000
Total	13,881	857,113,000	494,533,000	[1] 8,119,000

[1] Estimated.

Mr. WINGO. Now, then, the total capital stock and surplus and deposits of nonmember but eligible banks—have you ever compared that?

Governor CRISSINGER. I think we have something right here maybe that will answer that.

Mr. WINGO. Do the statistical tables that you have show, then, what would be required in the way of reserves if all nonmember eligible banks came in?

Governor CRISSINGER. Yes, sir; it does.

Mr. WINGO. Does it show where you are going to get that reserve?

Governor CRISSINGER. It does not show where we are going to get that reserve. I do not know where we would get it.

Mr. WINGO. You do not have any idea yourself, do you?

Governor CRISSINGER. I beg your pardon.

Mr. WINGO. Just assume, for the sake of argument, that every eligible nonmember bank to-morrow joined the system. Where would you figure out that you would get the reserve?

Governor CRISSINGER. We would have enough reserve now, provided we do not lose a billion dollars.

The CHAIRMAN. You are speaking of gold reserve?

Governor CRISSINGER. Yes; I am speaking of gold reserve.

Mr. WINGO. I am talking about total reserves required.

Governor CRISSINGER. Probably then you would have to borrow. I think the statement here shows we would have to borrow $340,000,000.

Mr. WINGO. You see what I am driving at? I am figuring out the logical conclusion of the theory that every eligible nonmember bank ought to be in.

Governor CRISSINGER. Yes; I see.

Mr. WINGO. And if it did get them in, I would want to know about total reserves required.

Governor CRISSINGER. I think we have some figures here that will show that. This is the effect on Federal reserve banks of admission to membership of all eligible nonmember banks. Do you want it read?

The CHAIRMAN. Yes.

Governor CRISSINGER. This is from Mr. Smead, of the bank operations department. It has occurred to us that it might be of some interest, in connection with the congressional inquiry on membership in the Federal reserve system, to have figures showing the effect upon each Federal reserve bank if all nonmember banks eligible for membership were admitted to the system. Accordingly we have prepared the following table, on the basis of data already available, which shows what the approximate increase would be in the paid-in capital and reserve deposits of each Federal reserve bank in case all nonmember banks eligible for membership on the basis of capital requirements joined the system.

(The statement submitted by Governor Crissinger is as follows:)

Federal reserve district	Estimated increase in paid-in capital stock of Federal reserve bank	Estimated increase in reserve deposits	Federal reserve district	Estimated increase in paid-in capital stock of Federal reserve bank	Estimated increase in reserve deposits
Boston	$1,500,000	$15,200,000	St. Louis	$3,200,000	$33,000,000
New York	4,300,000	54,200,000	Minneapolis	2,000,000	21,100,000
Philadelphia	4,500,000	37,900,000	Kansas City	2,700,000	29,900,000
Cleveland	4,100,000	40,200,000	Dallas	1,300,000	11,200,000
Richmond	4,100,000	36,900,000	San Francisco	2,900,000	43,400,000
Atlanta	2,300,000	18,900,000			
Chicago	7,600,000	80,100,000	Total	40,500,000	422,000,000

In arriving at the above figures we used (1) reports received from the Federal reserve banks showing the capital, surplus, and total resources of nonmember banks which were eligible for membership on June 30, 1922, and (2) reports received from the Federal reserve banks showing the number and capital of additional nonmember banks which became eligible for membership as a result of the reduced capital requirements approved in the agricultural credits act. It was necessary to estimate the net deposits of these banks, as these figures were not reported. This was done by first determining the ratio of capital and surplus to deposits for national banks of similar size, and then applying the same ratio to the capital and surplus of eligible nonmember banks, except in the case of the large banks where the estimates of deposits are based on a percentage of total resources.

It will be noted that for the system as a whole the paid-in capital of the Federal reserve banks would be increased by about $40,000,000, and reserve deposits by about $420,000,000, if all nonmember banks eligible for membership on the basis of capital-stock requirements were admitted to membership.

In order to determine the effect upon the system, if all eligible nonmember banks were to join, it is necessary to know the character of funds the newly admitted banks would use to build up required reserve balances, and to pay for their capital-stock subscription. These payments apparently could be made with checks on other banks, in cash, or by borrowing from the Federal reserve banks. If payment were made by checks on other banks, the banks on which drawn could likewise make payment with a check on some other bank, but ultimately payment would have to be made in cash or by borrowing from the Federal reserve banks. If the payments were made by borrowing from the Federal reserve banks, earning assets would be increased by about $460,000,000, which at 4½ per cent would produce an annual income of about $20,000,000.

As bearing on the question as to whether nonmember banks would be able to make their payments in cash and if so to what extent, we have prepared the following figures showing demand and time deposits and cash holdings, and the percentage of cash holdings to demand and time deposits for the various classes of banks, as of June 30, 1922:

	Demand and time deposits	Cash in vault	Per cent of cash in vault to demand and time deposits
National banks	$13,264,366,000	$326,181,000	2.5
State banks, stock savings banks, and loan and trust companies:			
Members	8,166,992,000	138,466,000	1.7
Nonmembers	9,838,275,000	316,198,000	3.2
Mutual savings banks	5,779,506,000	44,883,000	.8
Private banks	145,179,000	4,164,000	2.9
All banks	37,194,318,000	829,892,000	2.2

From this it will be noted that all nonmember State banks, including stock savings banks and loan and trust companies, carried $316,000,000 cash in vault, which was 3.2 per cent of their total demand and time deposits. If this total were to be reduced to 2½ per cent, which was the percentage carried by national banks, it would be possible to release seven-tenths per cent of $9,838,000,000, or $70,000,000 of cash.

The low percentage of cash in vaults shown for State bank and trust-company members is due to the fact that the greater number of them are large institutions located in Federal reserve bank and branch cities, and consequently they are able to get along with a lower percentage of cash than are smaller banks located in rural sections. If the smaller banks were to join the system they might find it possible to accumulate a certain amount of cash from current operations and to use it in payment of their capital stock and reserve balance requirements at the Federal reserve banks. The total amount of cash to be withdrawn from circulation, however, would be relatively small, probably not in excess of $50,000,000, and this amount added to the $70,000,000 which could possibly be spared from their vaults would make available about $120,000,000 in cash, which could be used in making payments to the reserve banks. This amount deducted from the total payment on account of capital stock and reserve balance requirements, estimated at $460,000,000, would still leave approximately $340,000,000 to be borrowed from the Federal reserve banks.

The CHAIRMAN. Governor, in connection with taking in these nonmember banks and trust companies, the plan you have outlined there would necessitate a close scrutiny of the reserves other than cash now on deposit?

Governor CRISSINGER. Yes.

The CHAIRMAN. In other words, the same situation exists as regards State banks and trust companies as existed before the establishment of the Federal reserve system in that reserves are pyramided?

Governor CRISSINGER. Yes.

The CHAIRMAN. And that if they came into the Federal reserve system, what is now counted as legal reserves to State banks and trust companies would not be accepted as legal reserves in the Federal reserve system?

Governor CRISSINGER. Yes. It is correct; they would not.

The CHAIRMAN. In other words, I understand that correspondent reserve banks accept from member banks checks and other items and give them immediate credit. So there would be an ironing out of reserves there to some extent, would there not?

Governor CRISSINGER. I think there would be. I think you can not get at any real accurate estimate.

The CHAIRMAN. And, in addition to the cash you refer to that is already in the vaults of the member banks they would probably extract from the reserve banks a portion of the cash to go into the Federal reserve system?

Governor CRISSINGER. I think that is true.

The CHAIRMAN. Have you any thought on the question of reserves of nonmember banks? The general effect it has, for instance, in direct opposition to the plan of Federal resrve system. They do carry as a reserve what is called "float." They also carry in their reserve Federal reserve notes and national bank currency. Have you any thought as to what effect that might have on our general situation?

Governor CRISSINGER. Well, my opinion about that would be if they were all to come in that would iron itself out. I do not think that would materially affect the situation.

The CHAIRMAN. But, under its present operation, do you think it has any effect on our general credit situation?

Governor CRISSINGER. They have a large reserve in the Federal reserve banks.

The CHAIRMAN. Does the fact that State banks and trust companies carry Federal reserve notes and national bank currency as a reserve affect the retirement of Federal reserve notes?

Governor CRISSINGER. It would to a certain extent, I would think. If they may keep them and stack them up as reserves.

Mr. WINGO. Governor, the statistics you just put in the record, covering the question of reserves of these nonmember banks that are eligible—those statistics are based upon what they carry as their present reserves regardless of whether it is gold or lawful money, or pyramided banks deposits with their correspondents, does it not?

Governor CRISSINGER. It is based upon the records as they are returned by the various State departments, I presume.

Mr. WINGO. That is the point. I do not know whether I am making myself clear. In other words, where a nonmember bank claims to have certain reserves, both in its vault and in the hands of a correspondent reserve agent, you count that as reserve, whether it is gold or lawful money, or whether it be pyramided items of of gold and lawful money, or whether it includes bank credits?

Governor CRISSINGER. Yes. I am not familiar with how these statistics are made up in the bank operations department, but I would think that we would have no way of telling just how they do make up their reserves.

Mr. WINGO. That is the point I want to get at.

Governor CRISSINGER. Mr. Smead is here. He might know about that.

Mr. WINGO. I presume that he has treated the reserve on the basis that it is proper reserve?

Governor CRISSINGER. I would think so. You would treat as proper reserve whatever you have shown?

Mr. SMEAD. So far as this paper you have read, Governor, is concerned it has no bearing upon reserves nonmember banks carry with correspondents or in vaults. The reserves nonmember banks carry, of course, made up of cash in vault, float, and amounts due from banks.

Mr. WINGO (interposing). As I understand this statistical paper, then, it is an estimate based upon its present deposits and based upon their meeting their requirements as they come in and having reserve of gold and lawful money.

Mr. SMEAD. Reserve balance in the Federal reserve banks.

The CHAIRMAN. What would be considered as reserve in the bank vault? Would that include all kinds of money?

Mr. SMEAD. This statement Governor Crissinger read purports to show what amount the nonmember banks would have to deposit with the Federal reserve banks to make up capital and reserve requirements, and then it purports to show how they would get funds to build up reserve balances. Undoubtedly some banks would draw checks on their city correspondents. Those checks would be deposited in Federal reserve banks and would build

up the reserves of country banks joining the system. But in order to pay those checks the city banks would undoubtedly have to borrow from the Federal reserve banks, unless they could turn over cash, which they probably could not do.

Mr. WINGO. As a matter of fact, even on the figures you put in, those reserves would not necessarily in actual practice ever be gold or lawful money, would they?

Mr. SMEAD. No; because there is not sufficient gold and lawful money in circulation to transfer.

Mr. WINGO. As a matter of fact, it would not consist of gold and lawful money, but it would consist of balances with the Federal reserve bank. That has the same legal affect under your present operations and would meet the reserve requirements?

Mr. SMEAD. That is right. The cash held by nonmember banks which could be transferred is relatively small, because they do not hold a much larger percentage in their vaults than member banks do.

Mr. WINGO. What do you regard as lawful money, Governor?

Governor CRISSINGER. Gold, Federal reserve notes, and Government greenbacks—they are all lawful money.

Mr. WINGO. You say Federal reserve notes? They are lawful money, are they, secured by gold or redeemable by gold?

The CHAIRMAN. You do not mean Federal reserve notes are lawful reserves in member banks?

Governor CRISSINGER. Oh, no.

The CHAIRMAN. In nonmember banks, but not in member banks.

Mr. WINGO. I am speaking about the standpoint of the Federal reserve system or national bank act. What do you include in the legal phrase lawful money?

Governor CRISSINGER. Lawful money really is gold, I would presume, when you get down to the essence of it. Of course, you can take all the rest of it and get gold for it; that is all.

Mr. WINGO. A mighty good authority on February 15, 1917, ruled that United States notes, Treasury notes of 1890, silver dollars and silver certificates, fractional silver coins, gold coins and gold certificates, gold certificates payable to order, and clearing-house certificates, under section 5192, were lawful money.

Governor CRISSINGER. They are all lawful money.

Mr. WINGO. So the common acceptation even among the bankers—I am not saying this to reflect upon you—I asked a very noted expert that in 1913, and he had to get a ruling in order to answer me—the common acceptation in the banker's mind, even, says that lawful money is either gold or the equivalent of it. Do you not find that idea prevalent?

Governor CRISSINGER. That is pretty prevalent, I guess.

Mr. WINGO. So whenever the suggestion is made that you have not got actually enough gold to create the reserve, that overlooks the fact lawful money is legal reserve?

Governor CRISSINGER. It is just suggested by the department that lawful money is carried in the weekly statement right along.

You have here "Federal reserve system reasons which actuate eligible State banks and trust companies in failing to become members of the Federal reserve system."

There are a great number of reasons why State banks do not become members; that is, they are given as reasons. Whether they are reasons or not, I am not going to say. One reason is that they do not draw interest on their reserves in the Federal reserve banks; another is that the system does not pay a sufficient dividend; and the resources of the nonmember banks are not such as would be eligible to permit them to become members; and they have a theory that there is too much red tape connected with the bank examinations of the Federal reserve system, though most of them are just excuses, probably.

The CHAIRMAN. Are there any applications to join on file?

Governor CRISSINGER. We have had one application since this new legislation was passed, if I remember correctly, and I do not think that ever went through.

The CHAIRMAN. Have there been many applications refused for membership?

Governor CRISSINGER. Not one that I know of, unless it was due to the fact that their assets were improper or ineligible.

The CHAIRMAN. Comparatively few in number?

Governor CRISSINGER. I do not know of any. There is not any application for membership to be refused. They have just one excuse after another. I know very many State banks that would make good members, but they do not come in, because they say, "Let George across the street do it." They would let the National banks carry the load.

You ask what administration measures, if any, have been taken and are being taken to increase such membership.

The Federal reserve banks have what they call bank relations departments, the members of which go out among the banks and solicit and talk to them, and try to persuade them to come in, and full information is given to any bank that wants to seek a membership. But we do not have any banks seeking membership from the outside. There is an effort being made constantly by the Federal reserve banks to secure State banks to come in, but with very little success.

The CHAIRMAN. That is an organized effort?

Governor CRISSINGER. That is an organized effort operating all the time.

The CHAIRMAN. With each one of the small banks?

Governor CRISSINGER. Each one of the Federal reserve banks has a bank relations department whose representatives do nothing but go around to see banks, both member banks and nonmember banks, eligible ones, to try to get them to come in and they try to show them the importance of being members, but it does not prevail.

The CHAIRMAN. This act specifically directs us to inquire as to what effect the present limited membership has on the operations of the system. Does the fact that the banks do not come in have a tendency to impede the service that is supposed to be rendered through the Federal reserve system?

Governor CRISSINGER. It does not impede the system. It, in a measure, does impede the service, getting out to the users of credit. It does, in this way: A nonmmber bank borrows of a correspondent bank or rediscounts with a correspondent bank. The correspondent

bank gets its rediscount with the Federal reserve bank at 4½ per cent now. The nonmember bank probably pays 6 or maybe 5½; that is, 1 per cent additional; and then when it gets down to the borrower he has to pay 2 per cent on top of that. Whereas if there should be a direct contact of the nonmember bank in the Federal reserve system they could get it with one commission. So it does retard the issue of credit to the man or corporation that wants it.

The CHAIRMAN. Then, indirectly, the Federal reserve system is furnishing relief to the nonmember bank in rediscount privileges of credits extended to them?

Senator GLASS. And at the expense of the borrower?

Governor CRISSINGER. At the expense of the borrower, absolutely.

Senator GLASS. Why does not the deserving nonmember banker himself see that he could get this rediscount facility at a less rate from the Federal reserve bank than from his correspondent bank?

Governor CRISSINGER. They, I think, do see. But, as I said before, their banks are not in condition to come into the system, a very great many of them; and a large number of them do not want to come in on account of various State laws that give them privileges that the Federal reserve system probably would not permit, the privilege of loans on real estate and things of that kind. But it is at the expense of the fellow who is down in the country and borrowing the money of the banks that do not come in; that is the truth about it.

Senator GLASS. Has your observation convinced you that the three major reasons why eligible nonmember State banks do not become members of the system are, first, that they prefer not to impound their reserves with the Federal reserve banks without interest, when they may obtain nominally 2 per cent interest from their correspondent bank; second, that they prefer not to endure the overhead cost of the system, and they think they may indirectly obtain ample facilities acting through their correspondent banks; and, third, that they do not want to be harassed by the severe scrutiny and examination of the comptroller's office?

Governor CRISSINGER. Well, they would not be examined by the comptroller's office, these State banks; they would be examined by the Federal reserve banks themselves. Those are all given as major excuses, that is true.

Then we are further handicapped by many of the big banks in the city going out and telling the little nonmember banks, "You do not need to become a member, for we can give you better service than the Federal reserve system."

Senator GLASS. That is what I say, that they think they can really get the facilities of the Federal reserve system operating through their correspondent banks who are members?

Governor CRISSINGER. The banks are very much handicapped by some of the member banks that are in the Federal reserve system doing that very thing. In other words, they are the obstructions to the Federal reserve system and the banks are the member banks, though not all banks do it.

Senator GLASS. They persuade the smaller banks that they give them these facilities at a less charge and more readily than they might obtain from the Federal reserve banks?

Governor CRISSINGER. The big banks of the commercial centers are all very favorable to the Federal reserve system, but they want to use the Federal reserve system in a way that is most beneficial to them, and that is by building up big deposits from nonmember banks.

The CHAIRMAN. Then to the extent that they have these deposits which are secondary reserves they are defeating the real intent and purpose of mobilization of reserves contemplated under the Federal reserve system?

Governor CRISSINGER. Absolutely. If a country bank has to carry $10,000 with them, they put up 13 per cent of it in one of these reserve cities, and it is only $1,300 instead of $10,000 if the bank was in the Federal reserve system. So the very purpose of mobilization is defeated by the big banks themselves.

The CHAIRMAN. Of course, in addition to that they render many services to the member banks in the way of checking paper and collection of items of different sorts?

Governor CRISSINGER. That is very true.

The CHAIRMAN. Caring for securities?

Governor CRISSINGER. The Federal reserve banks are doing that. That is one free service they are rendering—collecting and making what they call collection of "noncash items," at great expense to the system. All those things are being done by the Federal reserve banks.

Mr. WINGO. Just what items do you refer to, Governor?

Governor CRISSINGER. Such as notes and time drafts and various items you would send through that would not be a check.

Mr. WINGO. Is not that one of the objections the country banker raises now that the Federal reserve banks are requiring them to collect without any renumeration drafts which come in with bill of lading attached?

Governor CRISSINGER. No; our information is that the country banks are rather in favor of the Federal reserve bank handling these matters for them, because they do it without expense to them, and if they went through regular banking channels there would be some expense.

Mr. WINGO. But I am talking about country banks out where carload commodities are sent to a small retail village merchant, and through the Federal reserve bank a draft is drawn on the merchant with bill of lading attached?

Governor CRISSINGER. It would not be drawn through the nonmember bank; it would go through some correspondent bank.

Mr. WINGO. No; it goes through the Federal reserve system in the case I am talking about. In other words, say, a First National Bank in Kansas City, on a shipment from Mr. Strong, is the bank for the distributer of Kansas hay. He sends a carload of hay to a man he is not willing to trust in Missouri or Arkansas or some other point and then this distributer draws a draft through his bank with bill of lading attached on that merchant in the country town and the country bank is expected to make the collection. But the country banker objects to handling that business and making that collection without charge. Is not that one of the objections the country banker makes to the board?

Governor CRISSINGER. If the draft is sent down from the Federal reserve bank to a country bank?

Mr. WINGO. It goes through the regular system, just like clearing a check; that is, it comes through along with cash items.

Governor CRISSINGER. I believe that a member bank or nonmember bank could charge for a collection of that kind.

Mr. WINGO. I am not talking about the merits of the transaction. I am asking whether that criticism is not made, whether founded on fact or not.

Governor CRISSINGER. The criticism may be made, but, as a matter of fact, they do charge and are paid for it. It is only checks you refer to?

Mr. WINGO. The country bank presents a draft to the merchant?

Governor CRISSINGER. And he charges for it, or can charge for the collection.

Mr. WINGO. And turns the bills of lading over to him and remits. You say now he is permitted to charge exchange on that?

Governor CRISSINGER. Yes; that is a collection.

Mr. WINGO. You have investigated that recently?

Governor CRISSINGER. I think that is the rule.

Mr. WINGO. You say the St. Louis and Kansas City banks permit that to be done if it is a member of the par collection?

Governor CRISSINGER. If it is a mere collection.

Mr. WINGO. I am not arguing the merits of the matter. Whether there is any reason for it or not, is it true that some banks do contend that because they are a member of the par group, they have agreed to remit at par on checks?

Governor CRISSINGER. That is not a check.

Mr. WINGO. But that is a draft. Is it not charged—I am not asking you if it is true—by some country banks that if they went into the system or went into that par system that when they got a draft for $600 for a car load of commodities shipped to a merchant in their town, they would be required to present the draft, making the collection and remit in full without exchange.

Governor CRISSINGER. They may be offering that as an excuse, but that is not true in practice.

Mr. WINGO. Have you heard of that?

Governor CRISSINGER. Yes; I have heard of that, but that is not true. Some banks collect these drafts and waive the collection charge, but they have the right to charge.

Mr. WINGO. Your answer to that is that they are misinformed?

Governor CRISSINGER. Yes; they are. However, if a Federal reserve bank makes the collection itself, it makes no charge.

Mr. WINGO. You said awhile ago something about the expense. Is it contended—I am not talking about whether it be right or wrong—as one of the reasons why these nonmember banks do not want to come into the system, that there would be such an expensive amount of detail work added to their institution in handling rediscounts, to use the expression of one, on at least seven-eighths of their paper, that it makes it burdensome, and they could not stand the expense necessary to furnish all the detailed information about these small loans. One banker referred to the loans of $300 down as constituting seven-eighths of his portfolio.

Governor CRISSINGER. They claim it is red tape.

Mr. WINGO. So, as a matter of fact, they claim they would have an additional expense that they are not required to meet when they do business through their correspondent banks; that is the contention of some country banks, is it not?

Governor CRISSINGER. Yes, sir.

Mr. WINGO. It is also true that some of the correspondent bankers who are members of the Federal reserve system encourage these nonmember banks in staying out of the system and telling them it is too much expense for them to comply with all requirements, and saying, "We know you; we will take care of you."

Governor CRISSINGER. There is no doubt but what that is being done.

Mr. WINGO. That is not just simply an isolated instance?

Governor CRISSINGER. Oh, no.

Mr. WINGO. That is too general to be appreciated by you, is it not?

Governor CRISSINGER. Many of the larger banks of the cities are doing that in order to build up their deposits by reserve balances of these little banks.

The CHAIRMAN. Is that confined to the national banks?

Governor CRISSINGER. That applies to big banks, both State and National.

The CHAIRMAN. State banks and trust companies that are members of the Federal reserve system equally?

Governor CRISSINGER. Oh, sure.

Mr. WINGO. I am not favoring that practice. However, some of the worst enemies of getting in nonmember banks that really ought to be in are member banks already in, acting as correspondents for them, keeping their balances, clearing their items, and, of course. doing it at a profit, or they would not do it.

Governor CRISSINGER. I think that is one of the things that has done more to keep out State banks than anything else.

The CHAIRMAN. My understanding is that it is the practice now of the Federal reserve system that that little bank in Missouri that has a hay draft for collection has a perfect right to charge exchange for the collection of that item; that if such item is charged for, the Federal reserve bank charges it back to the party from whom received.

Governor CRISSINGER. Yes, sir.

The CHAIRMAN. It is absorbed from the man who drew the draft?

Governor CRISSINGER. Absolutely; and the little country bank is really in favor of having that done, because it gets it done through the Federal reserve bank for nothing.

The CHAIRMAN. There is no objection made by any Federal reserve bank about the charge that Missouri bank might make on the collection?

Governor CRISSINGER. Not to my knowledge.

The CHAIRMAN. They simply charge it back to the parties from whom they received the draft?

Governor CRISSINGER. There are some objections by clearing houses and some of the larger banks in several of the cities to that practice

of the Federal reserve bank. They think the Federal reserve bank ought to get out of that business and turn it over to the banks of the cities. In other words, they claim it is getting the Federal reserve bank into the banking business of collecting drafts and noncash items.

The CHAIRMAN. That is particularly important, for instance, in the automobile industry. They have a large number of drafts to collect in all parts of the country, and heretofore those drafts have largely been sent for collection direct to the local banks, whereas now they are collecting them through the Federal reserve banks and the little country bank, in some instances, feels that its functions have been encroached upon.

Governor CRISSINGER. Yes. I might say that the sentiment is about equally divided, so far as I have seen it come to the office. About half of the banks want the noncash item business done by the Federal reserve banks discontinued, and the other half want it continued. So it is about equally divided, just about as near as it could be. Some of the clearing houses are in favor of it and some are against it.

The CHAIRMAN. Now, you may proceed.

Governor CRISSINGER. I think that there are some recommendations the board might make for slight changes to be made in the law in certain respects.

The CHAIRMAN. Would you care to state those now?

Governor CRISSINGER. Some of the bills have been introduced in Congress. We have them here indicating legislation needed. I will take them up a little later.

The CHAIRMAN. All right. Suit your own convenience.

Governor CRISSINGER. The last question you ask: "If you have any suggestions of change in method of administration to bring about in the agricultural districts a larger membership of State banks and trust companies in the Federal reserve system." The only thing that I could suggest would be the building up of a department in the Federal Reserve Board here in the way of a bank relations organization that would go out and try to show these bankers that they are wrong in a lot of the excuses they give for nonmembership.

Mr. STEAGALL. I think I understood you to say just now, Governor, that you already had similar agencies?

Governor CRISSINGER. The banks themselves have, but we have no department here in Washington of that kind.

Senator GLASS. What you suggest is a department established here by the board that would relieve the banks of the duties they fail to perform now?

Governor CRISSINGER. I say that is about the only thing I could suggest.

The CHAIRMAN. That would be a centralization here?

Governor CRISSINGER. That would be a centralization here; that would be a department of the board.

The CHAIRMAN. In that connection there is some question whether it is desirable to have all of these additional State banks and trust companies come in. There are some of them, however, which it would be desirable to have in.

Governor CRISSINGER. I want to be frank about it. So far as I am myself concerned, there are a great many banks out of the system that ought to stay out.

Senator GLASS. You think they would weaken the system rather than strengthen it?

Governor CRISSINGER. I think they would be harmful rather than helpful.

Mr. WINGO. Have you made any estimate of the number of banks that you think, from your viewpoint of the soundness of the system and the benefit of the system from the public viewpoint that it would be wise to bring into the system?

Governor CRISSINGER. There were in round numbers about 9,000 eligible banks prior to this legislation. State banks and trust companies that are not in. Of course, anything I would say about it would be merely a guess. I would say not over half of them could pass the necessary examination to get in.

Mr. WINGO. Have you ever undertaken to make a preliminary survey of that proposition and estimate for the satisfaction of yourself or the board what per cent of the nonmember banks are really, from your viewpoint, eligible to come in?

Governor CRISSINGER. No. It has never been determined, since I have been here.

Mr. WINGO. Have you heard any complaints from these nonmember banks that they are afraid to come into the system, for the lack of better words, that they would be committing themselves to unfriendly espionage or something that might be embarrassing?

Governor CRISSINGER. I have heard some talk of that kind. But instead of that being true, the banks that are in, I think, are greatly pleased with the supervision they get.

I want to give you an illustration, so you will understand what is meant by that. We had some controversy about paying for the examinations that are made by the Federal reserve banks. Heretofore they have not been charged for. In other words, it was a service that the banks were rendering to the State banks and trust companies without pay. We recently issued an order requiring them to pay for these examinations where they were ordered by the banks or the board. Well, it happens that over in one of the districts nearly every State bank that was being examined for nothing has asked that this examination be continued; and they are willing to pay for it, showing that the kind of help that they get from the examining force or the supervisory force of the Federal reserve banks is such as to be of value to them—more so than the supervision and examinations they get from the State. The fact about the matter is that there are States in the Union that do not have scarcely any examinations of State banks.

Mr. WINGO. Have you heard the criticism of these nonmember banks that if they came in they would be in the same position as member banks, and therefore consider it unwise to make any complaints with reference to their treatment for the fear that they would be the subject of reprisals with reference to accommodations and other facilities?

Governor CRISSINGER. I have never heard anything of that kind; in fact, so long as I have been on the board there has never anything of that kind taken place.

Mr. WINGO. Do you say that no complaint of that kind has ever been made to you by any bank?

Governor CRISSINGER. Nothing in reference to reprisals.

Mr. WINGO. There has not been any complaint made that they fear that?

Governor CRISSINGER. I have never heard of any such complaints.

Mr. WINGO. Have there been any complaints made of favoritism in handling of loans secured by Government bonds?

Governor CRISSINGER. Favoritism shown, you say?

Mr. WINGO. Yes.

Governor CRISSINGER. None to my knowledge.

Mr. WINGO. Has it been directed to your attention that at least one Federal reserve bank would permit one banker to carry a larger amount than anyone else on his Liberty bonds and at the same time refuse equal accommodations to other bankers holding Liberty bonds?

Governor CRISSINGER. There has never been any complaint that I know of come to me as comptroller or governor, nor have I seen it before the Federal Reserve Board.

Mr. WINGO. Have you ever heard of that criticism?

Governor CRISSINGER. No, sir; I never heard of it.

Mr. WINGO. Have you heard of the criticism that one bank permitted one fellow, who actually boasted about it, to carry his bonds, that they not only carried them, but that he made profit of some $30,000. Has that case ever been brought to your attention; have you ever heard anything about it?

Governor CRISSINGER. It has not been brought to the attention of the board that I know of; it has not been discussed in the board.

Mr. WINGO. Have you ever heard any complaint from them when they did make complaints either of espionage or of confidential information submitted by them given to Members of Congress?

Governor CRISSINGER. No such complaint has ever been filed with us.

Mr. WINGO. Have you ever heard of that criticism?

Governor CRISSINGER. No, sir; I have never heard of the criticism.

Mr. WINGO. Since you have been a member of the board has any confidential information been furnished to a Member of Congress with reference to any complaining bank?

Governor CRISSINGER. Not to my knowledge, there has not been.

Mr. WINGO. You say you have not heard of it?

Governor CRISSINGER. I have not heard of information being furnished.

Mr. WINGO. You are not keeping up with criticism made at public meetings of bankers' associations, I presume?

Governor CRISSINGER. I has seen some of that.

Mr. WINGO. Have you read any of the answers of bankers to our questionnaires which the committee sent out?

Governor CRISSINGER. I have not seen them.

Mr. WINGO. What reason have you to suggest, other than the general lassitude that is always to be expected when questionnaires are sent out that such a small percentage of answers have been received? What would be your opinion, judging from your experience in association with bankers?

Governor CRISSINGER. I would think if they had not answered it they were probably satisfied to let well enough alone.

Mr. WINGO. You would not think any of them were a little bit fearful of making answers?

Governor CRISSINGER. There is not any occasion for anybody to be fearful.

Mr. WINGO. Do you think there is a spirit, whether it be well founded or not, of fearfulness?

Governor CRISSINGER. There might be that feeling; that might be so.

Mr. WINGO. Has the board investigated that feeling and tried to remove it?

Governor CRISSINGER. There is nothing to fear from being frank. We try to remove every feeling that there is unfairness on the part of the board or the banks, and if we find that there has ever been an intimation of a bank being unfair, we call their attention to it and look into it, but I have not yet found any unfairness.

Mr. WINGO. You have never seen any charges of unfairness?

Governor CRISSINGER. As Comptroller of the Currency——

Mr. WINGO (interposing). You say you have not had these matters called to your attention; you have not heard of them?

Governor CRISSINGER. We can not investigate them unless somebody brings them to us.

Mr. WINGO. If you heard a criticism along the line I have mentioned, you would feel like it was a wise thing, from the standpoint of the board, to see that any misunderstandings were cleaned up?

Governor CRISSINGER. We would immediately write them.

Mr. WINGO. Have you discussed this question of coming into the system of many country banks and nonmember banks?

Governor CRISSINGER. No; I can not say that I have personally discussed it myself.

Mr. WINGO. How many eligible State banks are there in the State of Ohio, other than national banks, which are not members of the Federal reserve system; do you recall?

Governor CRISSINGER. I think there are 60 per cent, if I remember. We have a chart here that shows that. I think 60 per cent of the State banks in Ohio are outside.

Mr. WINGO. Have you discussed with any of those country State bankers why they do not come into the system, any larger number of them?

Governor CRISSINGER. No; I have not.

Mr. WINGO. Have you discussed with any of them?

Governor CRISSINGER. In my own locality, I have discussed it with them.

Mr. WINGO. Just what reasons do they give?

Governor CRISSINGER. Most of them feel they can make more money out of the system than in it, and have more liberality.

Mr. WINGO. They feel that they can get interest on reserve balances and they get accommodations in the way of rediscounts and they get immediate credits on items sent in, and all those different service matters?

Governor CRISSINGER. I have never specifically discussed those things with them; but I know that they have more liberal super-

vision; that is, they are not kept checked up like the national bank is. That has a lot to do with it.

The CHAIRMAN. Right in that connection I would like to read one of the replies that came into the questionnaries sent out.

Senator GLASS. Let me ask one question before you read that. Would you recommend a modification of the law so as to make your examinations more liberal and less exacting in order to get these banks to come in?

Governor CRISSINGER. If I had my way with the examinations I would make them more rigid. That is the salvation of the banking system of this country—better examinations.

Mr. STEAGALL. I understood you to say a moment ago that the reason assigned by some of the banks in Ohio eligible for membership, who have not joined, was because of their dread of the additional supervision.

Governor CRISSINGER. That is offered as an excuse.

Mr. STEAGALL. But, if I understood you a few moments ago, you said there are quite a number who had joined the system who were delighted to have the double examination and pleased also with the fact that a charge is now levied.

Governor CRISSINGER. Let me tell you why: They get something for their examination; they get a real searching into their banks.

Mr. STEAGALL. I was just a little bit surprised at your statement that banks were inclined to welcome dual examination and dual expense.

Governor CRISSINGER. I do not think it is violating any secret, and I will tell you and you can call the bank, and that is in your own district, Mr. Chairman.

Mr. WINGO. Your opinion is that there is not any general complaint on that score; that most bankers, while they do not like the expense and trouble of examination, yet most bankers are glad to have strict supervision, are they not?

Governor CRISSINGER. Absolutely. I think all good bankers welcome it.

Mr. WINGO. The big majority of reputable banks do not object to very strict supervision, so as to maintain the integrity of the system?

Governor CRISSINGER. No, sir.

The CHAIRMAN. The replies received to questionnaires indicate that these banks are not objecting to strict supervision, but to dual supervision and the hardship of furnishing data required to be prepared by the banks.

Senator GLASS. You are authorized to accept examinations of State authorities, where you have reason to believe they are adequate?

Governor CRISSINGER. Where they are good; yes.

The CHAIRMAN. It might result, however, in a later examination by the Federal reserve examiners.

Governor CRISSINGER. Absolutely, because in some places these State bank examinations are not very useful.

The CHAIRMAN. You do not have examinations like the Comptroller of the Currency, but accept statements and reports?

Governor CRISSINGER. In many cases the good bankers themselves say that their State examinations are worthless, and they want a real examination.

The CHAIRMAN. The letter I referred to says:

We have your circular letter dated April 30, in which you ask banks eligible for membership in the Federal reserve system to give reasons why they have not considered it advisable to become members.

We have the required capital and are otherwise eligible to join the system. In fact, we did belong to it for two years. Largely through patriotic motives, and for the good of the cause we joined the system in July, 1918. We remained in it until July, 1920, feeling that the emergency which prompted us to join was over with. You may judge for yourself from the fact that we left the system after being in it that it was not altogether satisfactory. In the first place we did not feel that we were in the proper district. Wisconsin, as you know is cut in two, part of it in the Chicago district, the remainder in the Minneapolis district. Our section of the State is in the Minneapolis district. Our railroad connections and the trend of our business are all in the direction of Chicago and have very little business with Minneapolis. Our business is created, and such commercial paper as we buy practically all originates in the Chicago district. We are acquainted there and feel as if we belong there, and are strangers in Minneapolis.

The nature of our business is such that we seldom, if ever, need to rediscount or borrow money. At the time we belonged, it was necessary for us to carry an average balance with the Federal Reserve Bank of Minneapolis of about $75,000 on which, of course, we received no interest. That is a fixed amount which can not be drawn upon, so it was necessary to maintain with our Chicago and Milwaukee correspondents about the same reserve that we had been carrying before to give us a working balance. In short, it meant the tieing up of about $75,000 on which we received no earnings without any compensating benefit in our case. We figured that it cost us at least $3,000 to $4,000 a year to belong to the reserve system and on our capital of $100,000 that meant 3 per cent to 4 per cent less in earnings.

We see no good reason why the usual 2 per cent, or thereabouts, on daily balances should not be paid by the Federal reserve bank to its member banks. The earnings have been enormous and in the natural course of things a large part of those earnings will be frittered away in excessive salaries, palatial bank buildings, and other unnecessary expenses, and the banks who furnish the working capital get nothing. We believe that is one of the main reasons why State banks hesitate to join the system. It costs them too much money.

Another reason which has created a prejudice against the Federal reserve banks is the practically compulsory handling of all checks at par. It seems to us that the Federal reserve bank could function very nicely without acting as a general clearing house. Methods used to force small country banks into line in the parring of checks have been entirely uncalled for and it is some of those things which have created the feeling against the reserve system which now exists. The same result might have been accomplished in some other way and the good will of the banks retained.

Another objection is the dual system of examination which may be enforced. As a general thing it is rather difficult to serve two masters. Many times the Federal Government regulations and the State banking laws conflict and make it awkward for a State bank belonging to the reserve system. We concluded at the time we withdrew from the system that should we ever again consider it desirable to become members that we would go in as a national bank.

During the time of our membership we found that matters of business were handled arbitrarily according to the rule laid down and that our relations with the Federal reserve bank were not nearly as satisfactory as with the ordinary city bank correspondent. There are times when certain matters should be left to the discretion and judgment of the officers of the Federal reserve bank, even though it does not comply strictly with a rule laid down. It is not always policy to be overtechnical. The Federal reserve bank could give us nothing which we could not get from our city correspondents and we always much preferred to deal with a bank other than the Federal reserve bank, as our wants and needs seemed to be better understood and looked after. In short, we felt relieved when we finally surrendered our stock and withdrew from the system.

One question he raises there is an interesting one, and it has not been brought up here; that is, if they again came into membership they would first become a national bank. In connection with that

suggestion, has it occurred to you that the requirement of all banks to join the national bank system, if they maintain membership in the Federal reserve system, ought to be considered?

Governor CRISSINGER. For myself, I thought that was the weakest thing Congress did when they permitted the State banks to come in the system and bring with them all the rights and privileges guaranteed by the State law. It makes the Federal reserve system execute 48 different State banking laws.

Senator GLASS. Suppose you would deprive them of that right, how many do you think would remain in the system?

Governor CRISSINGER. I think there would be quite a number of the big banks which would come right back into the national system. As the law now is drawn, it is an encouragement for the big national banks to get out of the system and go into the State system, because of the liberal State laws and because they can do a great many things that they can not do as national banks.

Senator GLASS. But the intent of the law was to prevail on State banks to come into the system?

Governor CRISSINGER. Yes, sir; that was the intent of the law—to prevail upon State banks to come into the system, but it was by giving them a great many advantages over the national banking system; and it is wrong fundamentally, and, in my opinion, it ought to be changed absolutely. If it is not changed, the national banking system upon which you have superimposed the Federal reserve system will, so far as the big cities are concerned, be a thing of the past in a few years. The only reason the national banking system has been able to hold together as well as it has in the last three or four years is because several States have had the State guaranty law. Take Oklahoma, which has driven into the national banking system, I think, something like 100 banks within the last 18 months; Texas has driven into the national banking system quite a few banks. Take the State of Massachusetts, where we have been getting several big State banks, because of the bad supervision that permitted a half dozen of the big trust companies to fail up there. So that it made the national system very popular in Massachusetts, and we have grown there. But in New York we are now, I am told, about to lose one of the big national banks because interlocking directors are denied it. On one side of the street we have a system of big State banks and trust companies that have interlocking directorates in the Federal reserve system, and on the other side of the street a national bank that can not have a director in two banks.

Senator GLASS. Yes. But there a question arises as to whether you had not better lose that national bank than permit the old vicious system of interlocking directorates and thus use the banks in big industrial enterprises.

Governor CRISSINGER. I am in favor of the law against interlocking directorates but it ought to be made applicable to State banks that come into the system.

The CHAIRMAN. In many States they are now interlocking?

Governor CRISSINGER. Yes; absolutely.

Mr. STRONG. As a matter of fact the State bank gets more privileges than the national banks?

Governor CRISSINGER. The State bank gets a great many more advantages.

Mr. STEAGALL. How many national banks are going out? You say they are being driven in in Texas, Oklahoma, and Massachusetts, and you name one in New York that is going out.

Governor CRISSINGER. We have lost four big national banks in New York.

Mr. STEAGALL. That is four you have lost as against a hundred that have come in in one State, so that it does not seem to bear out your fear that the national banks will be driven out of existence.

Governor CRISSINGER. Whenever the States do away with the foolish idea of the guaranty of bank deposits, as they had down in Oklahoma, it will not be that way; that is all.

Mr. STEAGALL. You expressed fear just now that the national banks will ultimately go out of the Federal reserve system; but you followed that up by saying that in one State a hundred came in, that in Oklahoma they were coming in mighty fast that in Massachusetts they were coming in, and only four were going out. What have you lost?

Governor CRISSINGER. We have lost in the State of California, I suppose, 40 big national banks in the last 18 months. The only reason we got these banks from these six or seven States is because of the guaranty system. In New York we lost one bank the resources of which would amount to probably as much as all the banks in Oklahoma put together.

Mr. STEAGALL. Is not this true, Governor, that the States are inclined more and more to tighten up their restrictions and examinations and supervisions, and are they not really inclined to pattern after the Federal system; is there not improvement going on all the time?

Governor CRISSINGER. There are improvements in a few States. Let me give you an illustration in one State. We have in that State what is considered a pretty good banking department, but when they come to examine one of the big trust companies with branches, I asked them what they do, and they say they "do the best they can." There is one trust company in that State with over 50 branches, and I asked them what they did when they made an examination of that big trust company, and they said they did the best they could. That is the way such examinations get by until something happens, just like it did over in Boston, and then they begin to wake up to the necessity and the advisability of having good banking examination and good supervision.

Senator GLASS. Governor, as pertinent to this letter read by the chairman, may I ask you how many State banks are members of the par collection system?

Governor CRISSINGER. How many State banks? Approximately 17,000 State banks are remitting at par; there are 181 affiliated banks, I think.

Senator GLASS. How many State banks are members of the Federal reserve system?

Governor CRISSINGER. One thousand six hundred and fifty, I think, or about that.

Senator GLASS. Then how can it possibly be, as this gentleman suggests in this letter, that par collection keeps State banks out of the system when there are 17,000 State-bank members of the par collection system and only 1,600 members of the Federal reserve system?

Governor CRISSINGER. I do not think his conclusions are correct.

Mr. WINGO. You have heard, have you not, Governor, that a great many of these State nonmember banks went into par collection systems because they felt like they were compelled to?

Governor CRISSINGER. Yes.

Mr. WINGO. That is a fact, is it not?

Governor CRISSINGER. That is a fact. But let me give you an illustration of just what happened lately: A bank down in the St. Louis district wrote in to the Federal reserve bank and did not want to be put on the par list because they thought they were being forced on the par list. When the St. Louis bank wrote back to the bank and said, "You are not being forced. You can be on the par list or the nonpar list," he said, "Then, if I am not forced I want to be on the par list."

Senator GLASS. Governor, right there: Suppose a State banker feels that he has been forced—morally forced, not legally forced—to become a member of the par collection system. The fact that he is a member of the par collection system by moral force does not keep him out of the Federal reserve system, does it?

Governor CRISSINGER. Not at all.

Mr. WINGO. Governor, you say that this Federal reserve bank was told they would not have to belong to it, and then they staid in?

Governor CRISSINGER. That is what they wrote back, that "if there is no force about it we want to be in."

Mr. WINGO. I want to relate a short incident and ask you if the same situation existed there: There was a planter in one of the cotton States who was on trial before the Federal judge for preventing a negro from voting, and the negro's memory got a little bit weak, and he did not testify on the direct examination to what he testified in the grand-jury room. Finally the judge, who happened to belong to the Hebrew faith, had the old darkey to tell just exactly what he did that whole day and led him up to the mouth of the lane that led down to the schoolhouse where the polling place was; and the old darkey admitted that the defendant was sitting on the stump with a Winchester across his lap, and he accosted the old darkey and asked him where he was going. He replied, "Just strolling around." He said, "Don't you want to vote?" "No, sir; I just want to stroll around a little bit." "Yes, you old rascal; you do want to vote. Go on down there and vote." He said, "Judge, I did not vote; I went on back home." Do you not think possibly there is about the same feeling?

Governor CRISSINGER. You understand the banks have the option to par.

Mr. WINGO. Whether they do right or wrong—I am not discussing that; I am trying to avoid the merits of controversial questions—but it is a fact that a great many of these nonmember State banks went into the par collection because they were coerced, and that the methods that were being adopted just made it suicidal for

them not to go in. Is not that the contention of a great many of them?

Governor CRISSINGER. I think that is their contention.

Mr. WINGO. Of course, your contention is that they are in error about that. But that is one of the criticisms of the system?

Governor CRISSINGER. It has been, I think, and is one of the criticims. They feel that when the Federal reserve bank throws their check out that that is a reflection on their banks.

Mr. WINGO. In other words, they feel they have to do some things the law does not compel them to do, and they are left with no alternative?

Governor CRISSINGER. They can not compete with other member banks across the road that has to do it or does do it, and in order that their customers who do business with them do not go over to the other bank that does business that way they are, of course, obliged to come in and do it.

Mr. WINGO. And do they not also have to present their checks in person in large volume?

Governor CRISSINGER. They did do that, but do not do it now.

Mr. WINGO. That has been removed?

Governor CRISSINGER. That has been removed.

Mr WINGO. There is another criticism I want to draw to your attention, and it affects agricultural banks, and that is primarily in the law that our chief investigation shall be in these agricultural States; there has been contention made by banks either in the Wheat Belt or Cotton Belt that they were compelled to make their farmer borrowers pay up on wheat or cotton in the warehouse, and then when the farmer through that forced distress sale sold his cotton to the cotton factor or his wheat to the elevator man the cotton factor or elevator man went to his bank and got credit, and his paper was carried in the Federal reserve system to carry the same cotton or wheat. Has your attention been directed to that?

Governor CRISSINGER. No; my attention has not been directed to that.

Mr. WINGO. Have you investigated any alleged cases of that kind?

Governor CRISSINGER. I have not investigated any alleged cases of that kind, but I presume that there is more behind a contention of that kind than the mere fact of making one fellow pay up and letting another borrow the money.

Mr. WINGO. Has your attention been called to the fact that the Federal reserve banks specifically still say that if this is the same cotton the note will not be renewed? They find out it is the same cotton, and then the cotton factor grabs up that cotton, goes to his banker and gives another note and keeps it in the same warehouse and gets another receipt and uses that for the speculator to carry that loan.

Governor CRISSINGER. I do not know of that.

Mr. WINGO. Did you know that that was pretty generally charged by many small bankers in the Cotton Belt?

Governor CRISSINGER. It has never been brought to the attention of the Federad Reserve Board, if that is true. I have been here nearly three years, and I went through pretty nearly the worst of it.

Mr. WINGO. Have you ever read of it in the papers?

Governor CRISSINGER. I have read of a lot of stuff in the papers, but it really does not come to the department.

Mr. WINGO. Have you ever been present here in this committee room when members of this committee would call attention to the effect of that state of things?

Governor CRISSINGER. This is possible, but it has never been brought before the board or the comptroller's office while I was comptroller.

Mr. WINGO. Is there any distinction in your mind—please state this, so that the country bankers who read the hearing may know your opinion—between the liquidity of the asset after the commodity gets into the hands of the cotton factor than in the hands of the planter?

Governor CRISSINGER. I would not think there was any difference in liquidity.

Mr. WINGO. Any Federal reserve bank doing that has not been doing it on account of any instructions by the Federal Reserve Board?

Governor CRISSINGER. I have never seen any such instructions as that, and I do not think the Federal Reserve Board ever made any such instructions. It has not while I have been here, and I have attended pretty nearly every meeting.

Mr. WINGO. You are not accountable, then, for the mistakes Governor Harding made?

Governor CRISSINGER. I am not responsible for anybody's mistakes. I make enough of my own.

Just at this point, here is a check of the Wabash Valley Mercantile Cooperation, "Pay to the order of R. Tuttle & Co. $128.75 for account to date." It is signed by the treasurer of this company, and across that check is stamped, "This check is void if indorsed by the Federal reserve bank." It seems to me that raises a very pertinent question for Members of Congress to consider.

The CHAIRMAN. You may have referred to that before, but it is not clear to me. Is that an attempt on the part of a State bank and trust company to break down the par collection system?

Governor CRISSINGER. Oh, yes. This is a photostat copy. It is my notion that banking is a national function, and I do not believe the State banks ought to be permitted to do such things.

Mr. WINGO. As a general proposition you think citizens of the country should look into the causes of such banks and then rush to Congress immediately for relief?

Governor CRISSINGER. No, sir. I am just offering this as showing just how it is being done.

Senator GLASS. This is an attempt to break down the par collection system?

Governor CRISSINGER. That is it, of course.

Mr. WINGO. You think, then, a man ought not to be permitted to draw that kind of a check?

Governor CRISSINGER. I think a man can draw that kind of a check if he wants to, but I say that banking is a national function and one of the things Congress ought to control.

Mr. WINGO. Banking is a national function?

Governor CRISSINGER. Yes, sir; and not a State function at all. That is my personal view. Maybe some of the board would not agree with me.

Checks are much the same as a secondary currency in this country.

Mr. WINGO. And you believe that because checks float as currency that the Federal Government through national laws ought to control it?

Governor CRISSINGER. Yes, sir.

Mr. WINGO. That is an old quarrel, is it not?

Governor CRISSINGER. Yes, sir; that is an old quarrel, and I do not want to get into it now.

(Thereupon, at 12.40 o'clock a. m., the joint committee took a recess until 2 o'clock this afternoon.)

AFTER RECESS

The joint committee reconvened at the expiration of the recess.

STATEMENT OF HON. D. R. CRISSINGER—Resumed

Governor CRISSINGER. Before passing to another subject I want to further answer the question that the Congressman asked about the cotton factor and the farmer who had money borrowed on cotton. In a great many cases the local banker is in need of or has no money to loan, and he lays it to the Federal reserve bank or the board. He passes the buck. In order to show that his bank is not in trouble or to relieve that impression he says that the Federal Reserve Board is responsible, when very frequently it is his bank that is in need of funds and is doing the pressing for payment. We have had numerous cases of that kind, where the local banker puts whatever responsibility there is for any failure of credit, or the rate of interest or something of that kind, back on the Federal reserve bank. We just recently had a case in Iowa which Mr. Cunningham brought up to the board. The banker out there was about to loan a farmer some money, probably to buy cattle. The banker said he could not loan the money himself out of the bank, but that he could get it out of the Federal reserve bank if the farmer would sign a note to the Federal reserve bank at 8 per cent, and pay the bank 2 per cent commission. That transaction was all put on the Federal Reserve Bank at Chicago, whereas it was the local banker. The Federal reserve bank rate on all classes of paper is now 4½ per cent.

And I am saying this to you, because I have heretofore stated that the enemies of the Federal reserve system are largely, not intentionally so, within the banking fraternity itself, because a great many of the banks have repeatedly passed the "buck" for all the ills of the community for which they themselves were responsible to the Federal Reserve Board or the Federal reserve bank. I just want to say that to you, because it is so prevalent throughout the West, the Southwest, and in the South.

There is another thing I want to explain further, and that is your inquiry as to whether I or the board had made any investigation as to the nonmember banks that would be eligible. The only

way that could be done would be by examination to ascertain whether they could pass the requirements, and we have no power to make such an examination. We could not in any other way determine the eligibility of these banks. They may be eligible on the basis of capital, but their resources are not of the Federal reserve bank standard.

Mr. WINGO. What is your judgment, Governor, about these small banks coming in—those that were declared eligible under the agricultural credits act? Do you think that was a wise proposition or not?

Governor CRISSINGER. I think that they are not going to come in, whether it is wise or not. If they were in and had eligible assets, they would be serviceable to the community up to the extent of their eligible paper.

The CHAIRMAN. As I understand you, Governor, none of those banks has made application for membership in the system?

Governor CRISSINGER. Not one.

Mr. WINGO. Has there been any rush on the part of these banks to get in?

Governor CRISSINGER. Not a single one of them has made application. The door is open, and they are welcome, but none have come.

Mr. WINGO. So that those who decided it might be better to treat that as an abstract question, to permit them to come in, were not far wrong?

Governor CRISSINGER. They were not far off at all. We have, as I believe, had but one inquiry. I think we had an inquiry from some bank in Texas, but outside of that there has not been a ripple on the surface.

Now, take up a further question of branch banks and how it affects the Federal reserve system.

Senator GLASS. I was a few minutes late in coming in. I inferred from what I heard that you were referring a moment ago to the last act of Congress reducing the minimum requirement of capital to $15,000; and you say that not a single bank has joined under that?

Governor CRISSINGER. Not a single bank has been admitted or attempted to be admitted. One bank made an inquiry about it. Although the board made a regulation giving them five years in which to make up the balance of their capital, not a bank has come in.

Senator GLASS. I am glad to know I was a prophet. I said it was foolish and never would be availed of.

Governor CRISSINGER. Under the amendment to the Federal reserve act, which permitted State banks to come in and retain all their rights and privileges under the State statute, we have encountered a great deal of difficulty, not only in the comptroller's office, but we are encountering some difficulty in the Federal Reserve Board and banks. It is particularly acute in California, and we have some places in the South where it is inclined to develop; and also in Ohio, Michigan, New York, and various other places. It is not confined to any particular spot. There are 23 States in the Union that have permitted or authorized State banks to maintain branches, offices, or agencies.

I have with me charts that I want to show the committee, because I think they will help the committee to visualize what has taken place in some localities. These are records I compiled while I was comptroller, and they are very illuminating. I am not going to introduce them in the record, because it would be expensive, and probably not warranted. Here is Buffalo [indicating]. The reds are the State banks with the branches, the triangles are the branches; and four yellow stars, with one branch, are national banks. It just gives you an idea of how the privilege which the Federal reserve bank can not control very well at least, works out. We have not succeeded very well at it, and this shows how it is affecting the national banking system, upon which you have founded the Federal reserve system.

Senator GLASS. You said a while ago that you believed in the national banking system.

Governor CRISSINGER. Yes, sir; I do.

Senator GLASS. You went so far as to say that it was your individual belief that it ought to be one great system.

Governor CRISSINGER. No; not that; a uniform system of banking.

Senator GLASS. Do you think a national system should be discriminated against in this way?

Governor CRISSINGER. I do not.

Senator GLASS. Do you not think that within a State where large State banks are permitted to have branches, national banks should be put on the same competitive footing?

Governor CRISSINGER. Absolutely; and I am in favor of the McFadden bill for that reason. It may need some modifications, but, generally speaking, I am in favor of it.

Here is the city of Detroit [exhibiting chart to the committee], 3 national banks, with 1 branch; and 14 State banks with 189 branches, in a city like Detroit.

Mr. WINGO. Do you think, Governor, that branch banking is sound?

Governor CRISSINGER. I am opposed to State-wide branch banking, and I have voted against it on the board. I think it perfectly sound in municipalities; indeed, I think it is sounder than small individual banks in municipalities.

Mr. WINGO. But as a general proposition the distinctive feature of the American banking system and that which has enabled it to develop credit agencies to the extent it has and contribute, as every student knows, to the wonderful industrial development in this country, has been the independent banking system, has it not?

Governor CRISSINGER. I think that is true.

Mr. WINGO. The logical effect of a bank branching system is to destroy the small independent banks and to have fewer of the banks, is it not?

Governor CRISSINGER. I think that has been the result in California; that is my judgment about it.

Mr. WINGO. Is it not only the experience in other countries, but is not that the logical theory?

Governor CRISSINGER. I think that is true, but when you get into a municipality it is different, and I want to tell you why I think it is different.

Senator GLASS. Before you proceed let me get this logic of the situation: Is the logic of the situation of advantage or disadvantage to the man who has to borrow money?

Governor CRISSINGER. Well, there is a difference of opinion about that so far as I have seen it developed here in this country.

Senator GLASS. Why does a branch banking system drive out an independent bank?

Governor CRISSINGER. There are various reasons why that is so.

Senator GLASS. What is the primary, the essential, reason?

Governor CRISSINGER. They claim to offer cheaper rates of interest, but I think we have demonstrated that that is not always true.

Senator GLASS. Is it usually true?

Governor CRISSINGER. I do not think so.

Senator GLASS. Then, how does it succeed in driving out the independent bank?

Governor CRISSINGER. They do it by going into the communities where the national banking system is suffering from it, and also more or less the State systems, and buy up the stock of these good banks and then convert them into a branch of the parent bank in these communities.

Senator GLASS. But that is an extraneous activity altogether.

Governor CRISSINGER. I know it is, but it is going on to a tremendous extent and more than you have any idea of.

Senator GLASS. I want to get at the logic of the branch banking system. I want to determine why it is to the advantage of the borrowing public.

Governor CRISSINGER. I do not say that it is to the disadvantage of the borrowing public. It maybe to the advantage of the borrowing public, but ultimately it may result in a great harm to the borrowing public.

Senator GLASS. We charter banks not primarily, certainly not solely, to make money?

Governor CRISSINGER. No.

Senator GLASS. We charter banks to minister with facility and surety to the commerce of the country, to the public. Why is it the logical conclusion that a branch banking system does not do that?

Governor CRISSINGER. That it does not administer?

Senator GLASS. Yes.

Governor CRISSINGER. Well, take it in Canada, for instance, where they have branch banking systems; and I think if you would go among the merchants in western Canada, they would say to you that they do not have the same credit facilities as are afforded at the parent bank.

Senator GLASS. Why?

Governor CRISSINGER. Because they claim their money is taken east to the bigger centers. I had a Canadian tell me that the other day.

Senator GLASS. Do not the big banking centers have branches in the western part of Canada?

Governor CRISSINGER. Oh, yes; they do that.

Senator GLASS. Is not the real fact this: That a branch banking system can do a business in a small community at less overhead charge than an independent banking system can?

Governor CRISSINGER. I would not think so.

Senator GLASS. Then, how do they drive out the independent banks?

Governor CRISSINGER. I do not think that is always true; it is not true in California.

Senator GLASS. I am not talking about "always." There are exceptions to all rules.

Governor CRISSINGER. I was speaking about our own experience.

Senator GLASS. If branch banks are upon the same basis of expense or operating cost, why can not the independent bank exist?

Governor CRISSINGER. You should have been at a hearing we had the other day. That hearing developed a situation of this kind: Testimony was offered that the branch bank wanted to acquire another independent bank and had gone out and bought up $68,000 worth of checks and pass books and took them in and laid them down on the counter and demanded payment. They were paid.

Senator GLASS. That is not an essential part of branch banking.

Governor CRISSINGER. I know; but that is the way they drive out an independent bank. That is what the testimony shows was done. In that hearing it developed that at times they lowered the rate of interest and at other times they followed the same rate that was prevalent in the community with the first bank. But on the whole, I take it, that the branch banking system is dangerous because you are unable to supervise it. We have not any laws for that purpose.

Senator GLASS. You have no laws—at least, I think you have no laws—authorizing branch banking, but you can very readily make laws.

Governor CRISSINGER. Yes; you can make them, of course. There are a lot of State laws that do permit it.

Senator GLASS. Yes; we have branch banks in my State, and if they engage in any illicit practices, even involving duress, coercion, or wreckage activities, such as you have recited here, we would undertake to control them.

Governor CRISSINGER. And of course it does make a bank monopoly if they get all the banks; and there is nothing to prevent them after they have the monopoly from raising the rate and doing whatever they please.

Senator GLASS. Do you think there is a likelihood that any one, two or three or four, a dozen or score of banks in this country could acquire a monopoly of the credit facilities of the country?

Governor CRISSINGER. They could not do it in this country, because each State limits the banking to their own State and excludes outside banks.

Senator GLASS. Exactly.

Governor CRISSINGER. We have 22 or 23 States that permit or directly authorize branch banking.

Senator GLASS. But they do it under limitations, and there never has been a proposition presented to the Congress of the United States that did not have the severest sort of limitations.

Governor CRISSINGER. Yes.

Senator GLASS. For instance, as I recall the last bill introduced on the subject and reported by the House Banking and Currency Committee that was passed by the Senate, the limitation was as to

the population of a city that might have branch banking—no city under 100,000 population, and no bank should have a branch that did not have a capital of $1,000,000. So that we are not discussing wide open branch banking; we are discussing branch banking with limitations.

The CHAIRMAN. In California you have a situation of four banks with approximately 200 branches, which is State wide.

Governor CRISSINGER. Which is State wide, and they still want it to grow.

Senator GLASS. That is a State proposition.

Governor CRISSINGER. But you have here a national proposition.

Senator GLASS. And you have tied the hands of the national banks in the State of California—I do not mean you have, I mean the failure of Congress to act has done it?

Governor CRISSINGER. Absolutely that.

Senator GLASS. Has absolutely tied the hands of the national banks in California so that they can not compete with this system?

Governor CRISSINGER. Absolutely.

Mr. WINGO. In other words, because Congress has not adopted an evil that the California Legislature has adopted, certain results——

Governor CRISSINGER (interposing). Would you put it that way or not—would it not be a greater evil if the national banking system goes out of existence in California?

Mr. WINGO. I would rather put it this way, that it is not—national banks complain of competition with State banks.

Governor CRISSINGER. I am willing to assume that state-wide branch banking in the United States is wrong and will ultimately be dangerous to the States that adopt it. But you have that system, and it has grown up, because Congress has permitted it to grow up through the Federal reserve act. You have authorized us to take into the system these banks, and six banks out there practically have one-half of the banking resources now of the State of California. We have no way of examining through the Federal reserve bank, and the State of California has no way of examining, and the people of California are made to believe that they are under proper supervision, and I contend that they are not. I contend that California has no moral right to institute a system of banking that they themselves can not properly control.

Senator GLASS. Do you think the Congress of the United States could by law prevent that?

Governor CRISSINGER. By law you could prevent the Federal reserve bank from taking them in as members.

Senator GLASS. You mean you would exclude them from membership in the Federal reserve system?

Governor CRISSINGER. I am not fighting the State banks; remember that.

Senator GLASS. That would be fighting them with a vengeance if you would exclude every State bank from the system that had a branch.

Governor CRISSINGER. If you approve State branch banking, then give the national banks the same opportunity.

The CHAIRMAN. Suppose we should pass a bill to permit branch banking only within certain cities of certain populations; if we

should pass such a law, that would deal directly with the California situation, because it would forbid the continuance of branches outside of certain city limits.

Governor CRISSINGER. You could do that, and then modify the Federal reserve act to cover that situation; and then you will have it secured.

Mr. WINGO. Those who advocate this from the standpoint that is opposed to branch banking, those who advocate that because the States have permitted an evil Congress should authorize the same evil to be indulged in by the national banks, assume that that is the only action that can be taken. I can appreciate the fact that you do not care for obvious reasons to suggest possible actions Congress might take, but there are actions Congress could take that instead of surrendering to that evil would eradicate it in a very short time. As a matter of fact whatever may be the theory, experience has been that human nature in the branch-banking business asserts itself just like a monopoly in the oil business or anything else.

Governor CRISSINGER. I would think it would.

Mr. WINGO. That has been the experience in every country where it has been tried. Senator Glass asked you why it is, other than the instruments and the methods you suggested, that an independent bank is driven out by a branch bank, notwithstanding the fact that the branch bank by experience does not give the facilities to the local community that the local independent bank does. You overlook this factor that human nature seems to be that whenever you have a branch bank of a big bank in the city down here they will lead a great many people to believe that you had better do business with the branch bank instead of with this small bank over here, and they do not realize what a fix they will be in when they chuck down and destroy the local institution.

Governor CRISSINGER. The big branch banking system goes into the community and skims the cream off the banking business of the community, and the little country bank has to take what is left.

Mr. WINGO. And human nature exists itself on the same theory that the housewife will order an article from a big mail-order house and pay a bigger price than she would from a local merchant; and when they try to convince her that she has been skinned, she gets indignant.

Senator GLASS. Has Congress passed any laws to prohibit the use of the parcel post to the mail-order houses of the United States? Why not, if it is an evil?

Mr. WINGO. Congress is not going into the question of authorizing any evil or aiding any evil. We are talking about not surrendering to an evil that will destroy the independent banking system.

Senator GLASS. Here is a difference of opinion whether branch banking is an evil. Governor, we are charged here with the duty of devising ways and means, if we may, if anything has been left undone, to bring State banks into the Federal reserve system.

Governor CRISSINGER. And to keep the national banks in the system.

Senator GLASS. You are proposing a way now to exclude State banks from the system because they have branches?

Governor CRISSINGER. No; I am not. You asked me what should be done. I was saying that could be done.

Senator GLASS. But that would not bring State banks into the system; it would exclude them.

Governor CRISSINGER. But you have got to put the national banks on an equality with the State banks.

Senator GLASS. I say so.

Governor CRISSINGER. That is my idea; I am not fighting the State banks.

Mr. WINGO. Suppose the Government to-morrow would authorize State banks to establish branches. Just as soon as the legislatures in the remaining States could meet, every State in the Union would adopt this evil.

Governor CRISSINGER. That is not the way I would do it.

Senator GLASS. My colleague means every State in the Union would adopt this economic system.

Mr. WINGO. I am not going to quarrel with history. In the light of experience in his own State, when he says branch banking is a good thing I am not going to quarrel with him.

Governor CRISSINGER. The national bank at the present time has not the same opportunity. I would adopt the McFadden bill, which would limit branch banking to the localities in which it is now operating.

Mr. WINGO. You are pretty familiar with political influences. Banks influence men at the head of them, and they generally shape banking legislation, do they not?

Governor CRISSINGER. They do to a certain extent.

Mr. WINGO. And if you said a national bank in a State where State laws authorized banking might do branch banking, then there might be an inducement to the national banker to get the State law amended to have the law come under the scope of the McFadden bill. There would be that inducement to the national banker who wanted branch banking?

Governor CRISSINGER. Yes; to operate under the national law.

Mr. WINGO. If the McFadden bill became a law, if there were national bankers who wanted to establish branches, they would then bring their influence to bear to get the State law amended. Do you not think that is what would happen?

Governor CRISSINGER. That is human nature.

Senator GLASS. Usually, how many State banks are there to a national bank?

Governor CRISSINGER. There are a little over two to one.

Senator GLASS. In that circumstance could not the State banks control the situation?

Governor CRISSINGER. They have done so. I do not know wheether they would nor not. I will just give you another picture of a city of a million people. I might say to the committee that there are some of the members of the board who do not agree with me about branch banking.

Mr. WINGO. The committee understands the board is divided on that.

Governor CRISSINGER. Yes. Here is the city of Cleveland, with three national banks. The other banks have been gobbled up by a trust company, with 54 branches.

The CHAIRMAN. Three national banks?

Governor CRISSINGER. One being the Brotherhood of Locomotive Engineers Cooperative National Bank.

Senator GLASS. Is Cleveland suffering for credit facilities in consequence of the establishment of these banks?

Mr. STEAGALL. First, let us see how many banks they have got there.

The CHAIRMAN. There are 4 national banks, 180 State banks, and 750 bank branches, and the present national banks have 2 additional offices.

Senator GLASS. Now, let me repeat my question: Do you think that the credit facilities of Cleveland are circumscribed by reason of these many branch State banks, or do you think that credit facilities would be amplified if the four national banks were given the privilege to establish branches?

Governor CRISSINGER. I am going to answer in this way, from an experience which was told me by one of the very best banking heads of a certain State. He said this was what was actually taking place in the district: A big concern was needing a lot of credit; it was good in every respect, yet the trust company that had this business, because the corporation borrower needed the credit very much, started out to require a bond issue of this industrial plant and then handle the bonds, which would be, to my mind, a limitation upon credit that ought not to be permitted. It was turning a good commercial loan into a bond issue to earn the brokerage and attorneys' fees, etc.

Senator GLASS. But does that arise?

Governor CRISSINGER. It arises from the fact that one bank controlled practically the banking situation in that city; that is the reason it arises.

Senator GLASS. Does it arise from the establishment by that bank of branches?

Governor CRISSINGER. They took in all the national banks and took in a lot of State banks as branches. Of course, it controls the credits.

Senator GLASS. Then, you think that would be removed by still depriving the national banks of the right to establish branches?

Governor CRISSINGER. No; I do not say that. I should say that a national bank ought to have the right, and if they had the right the big national banks would be there instead of one State bank that restricts credit. As it is, they are out of the system—that is, they are out of the national-banking system and are in the State system.

Senator GLASS. They are in the State system because the State system is put upon a basis of competition that the national bank is not put upon.

Governor CRISSINGER. Yes. They have liberality in the State laws in the management of the bank that can not be otherwise than destructive to the national banks.

The CHAIRMAN. I recall distinctly hearing before this committee when the vice president of the trust company in question was present, and he was asked the reason why they went under the State system instead of under the national system, and he said it was because of the limitations on the national bank laws.

Mr. WINGO. He said that was one of them.

The CHAIRMAN. And limitation of charter.

Mr. WINGO. You remember there were some other reasons he did not care to give publicly, and I think they were the controlling reasons.

The CHAIRMAN. Do you care to say what those were?

Mr. WINGO. Oh, no; because we got it in confidence.

Governor CRISSINGER. That is an illustration of why all the credits should not be confined or given to three or four banks in a community of that size; I think it is a very wonderful illustration of it myself.

Senator GLASS. Yes; but it is not an argument against branch banking.

Governor CRISSINGER. I am not speaking against that. For myself I am in favor of the big banks in the city having branches or offices, and I am going to tell you why—because I think it is fundamental.

I know of several States where they permit State banks to start in a city of 500,000, say, with a capital of $25,000. I know a city that has 38 of those banks—$25,000 to $50,000; and last year the clearing house association told me that 14 of them were insolvent. What that does is to compel the poor man out in the community to do his business with a little bank that is absolutely unsafe, whereas if a big bank were permitted to put a bank out there his funds would be secured. That is my reason for being in favor of a National or State bank having city offices or branches. It is absolutely true, because these fellows who start these little banks start them with the purpose, first, of making places for themselves, very often; and when they get them started and get their furniture and pay a year's salary, they have used up their capital, and probably started on the road to insolvency at the end of the first year.

Mr. WINGO. Why does not that argument apply to a village, or small town? Why distinguish between the city and the country towns?

Governor CRISSINGER. Because it is the biggest thing in the village. The $25,000-bank in your village is all right, because it is the biggest thing there, and it is controlled usually by the best men there, with a small overhead expense.

Mr. WINGO. As a matter of fact, the strength of the independent local bank in that its directors, for selfish reasons, are made up of the strongest and best business men of the community, who are more eminently acquainted with the credit reasons and needs of the community than anybody else, and they have a selfish reason for maintaining that information, have they not?

Governor CRISSINGER. Yes; that is true. I am rather of the opinion that we ought not to put all of the banking under a State system.

Senator GLASS. I am not going to argue here for or against a branch banking system. What we are charged with finding out is how we can get State banks to come into the Federal reserve system, and I submit we can not get them to do it by denying a right to establish branches.

Governor CRISSINGER. That is probably true.

Mr. STEAGALL. If we follow the States in policy at that point, are we not rather magnifying the State's power and authority?

Governor CRISSINGER. You are.

Mr. STEAGALL. Then, that is what we do if we adopt the policy of allowing the national banks to have branches in States where State banks are allowed to have them; we are letting the States set the pace.

Governor CRISSINGER. You are surrendering the controlling power that you ought to have over the Federal reserve system to the 48 States.

Here is Los Angeles [exhibiting chart to the committee], with a hundred branches.

The CHAIRMAN. I noticed recently as I went around New York City that many branch banks have opened across the street from old-established institutions. For example, I noticed the other day that the Chase National had established a bank across the street from the Bowery Savings Bank, which is one of the old institutions. What effect does the establishment of a branch bank across the street have on the old institution; have you observed anything about that?

Governor CRISSINGER. No; I have not made any particular observation of it nor had any complaint about it.

Mr. WINGO. Have you talked to any people here in the city of Washington where they are available and asked them, "Just why have you changed from your local bank here over to this branch of one of the larger banks?" You will find it is quite interesting, if you want to understand why it is that the branch bank of a big bank can drive a neighborhood community bank out of business.

Governor CRISSINGER. I assume they can do it because they think the big bank can extend to them greater facilities and a safer place to deposit savings.

Mr. STEAGALL. You have heard complaints here in Washington?

Governor CRISSINGER. Yes; I have had a great many letters about it.

Mr. WINGO. Suppose you had charge of a bank. I am not using this illustration for an invidious reason. I am not interested in this row. I am simply using it because I signed security for a lame duck. Suppose you were managing one of the branch banks that had just been established across the street from one of the older banks in the city and you were out getting business and going to the local shops, you would naturally say, "I am manager of the big branch bank. I have no fight on these other people over here, but here we can give you greater facilities. It is worth more to your credit standing to have your banker and have your wholesalers see your checks come on a big institution." You would use that argument, would you not; that would be perfectly legitimate?

Governor CRISSINGER. It may be used.

Mr. WINGO. Do you not think you would use that argument?

Governor CRISSINGER. That might not be considered an ethical method.

Mr. WINGO. You might not use it quite as boldly, but the man would get that idea. Suppose you were one of those little merchants. You would reason that out possibly, "I like this bank, but

maybe it will sound a little bit better if I am a depositor and do business with the big institution."

Governor CRISSINGER. But there are reasons why you should have service banks.

Mr. WINGO. I am not talking about the reason; I am talking about human nature and what takes place, whether wise or unwise; that does take place?

Governor CRISSINGER. It does take place.

Mr. WINGO. Is not that the reason the local bank is raising sand about it?

Governor CRISSINGER. I have not had any complaint about it, but that might have taken place.

Mr. WINGO. I was under the impression you had had some complaint.

Governor CRISSINGER. No; I have not had that complaint. I have had a good deal of complaint because one office was established, but it was not put upon such basis as that.

Mr. WINGO. I suppose the only complaint would be that they take away the customers.

The CHAIRMAN. As a matter of fact, in that one bank the deposits have increased rather than decreased?

Governor CRISSINGER. Both banks have increased their deposits. You take the office out at Park Road. There was an old bank there, just as you speak about, and they thought it was going to hurt that bank tremendously, but the branch that was taken used to be the Hamilton, which was taken over by the Riggs—we might as well mention the names. And I think they have something like $900,000 deposits in this little branch, while the bank across the street has increased something like $400,000 or $500,000. So it has created a banking center there, and the people instead of coming down town to get their money in a bank are going where it is more convenient, where they can drive up with an automobile, which you can not do down town here at all.

Mr. STRONG. What is the necessity of having branch banks?

Governor CRISSINGER. It is claimed that down town people can not get up to the banks with their automobiles, which is true.

Mr. STRONG. Do you mean to say that the branch banks are being established to accommodate the people or to accommodate the banks?

Governor CRISSINGER. They are being established for both purposes, to serve the people and to accommodate the banks as well. But I have a map here which I want to show you and give you a statement of one of the biggest bankers in New Orleans.

Mr. WINGO. Before you do that, I think we ought to at least make reference to another aspect of this question, not what pleases or displeases the little independent bank, but what pleases the people who borrow from banks, who have to have business transactions with banks. Have you had any complaints from people like myself, who have to go and transact business with a bank and borrow money from them, that they have had ready access to these banks by reason of the establishment of the branch banks; have you had any complaints from the borrowers of money, because, perhaps, they can get these loans at a lower rate of interest than they could get it from some other bank before the establishment of these branches?

Mr. STRONG. You do not mean that a man who wants to borrow money would have to own and park an automobile in order to get in and borrow it?

Mr. WINGO. No; I am talking about the man who has not an automobile to park, but who can go across the street a block away, instead of having to pay even a street-car fare or hire a taxicab to come away down to the Riggs Bank to borrow money.

Governor CRISSINGER. I think it is unquestionably true that the little banks and offices of big banks in the community centers have a tendency to make for greater security and for more bank deposits than would be the case if they had to come down to the big banks in the center of town.

Mr. WINGO. This is no new question. It is the same old argument that was indulged in, and it was the contention that the Standard Oil Co. being a bigger concern would go in and drive out the independent fellows and immediately the little independent oil fellows complained; and, of course, the community did not grasp the fact that after the independents were driven out, which was like the scriptural admonition which said the last shall be worse than the first.

Governor CRISSINGER. I do not think there is any doubt that by the establishment of these service stations, or whatever you would call them—offices or branches or agencies——

Mr. WINGO (interposing). Do not misunderstand my altruistic motive.

Governor CRISSINGER. There is an effort to make money and to serve at the same time.

Mr. WINGO. I do not believe if I were at the head of one of these big banks I would do it from altruistic impulse; I think I would do it for cold-blooded profit.

Governor CRISSINGER. And to serve the people.

Mr. WINGO. I think it is not to the credit of the big banker to drag the independent out and make the public suffer. It is a reflection on the big banker. He knows it is to his interest to get control out there.

Mr. STRONG. It is to give the big banker control.

Mr. WINGO. If I were a banker I would be in favor of branch banks.

Governor CRISSINGER. I do not think it is for the purpose of getting control.

Mr. STRONG. It is for the purpose of getting control of the business.

Governor CRISSINGER. Very well, let us assume that is true. Then why should the State bank have all the control; that is what I am trying to get before Congress; that the national bank ought to have equal opportunity.

Mr. WINGO. Why should a branch bank controlled by somebody in another community be more liberal in dealing with me, a poor Congressman and the poorly paid Senator from Virginia than my local neighbor would?

Governor CRISSINGER. He probably would not be.

Mr. STRONG. You eliminate all such element when you do business with the branch bank controlled by those whose interests are far distant.

Mr. WINGO. I can get better accommodation from my neighbors than from people who do not know me.

The CHAIRMAN. Governor, have you observed in the operation of these branches any tendency to centralization? In other words, in many of the places where these branches are started there is an old-established institution which serves in that neighborhood as much as if the bank was located in some country district. Its stock in many instances is owned by local people. A branch comes in. Does that branch serve as well in that locality, or is there a tendency to take the money that has been accumulated in that locality in the local institution and lend it under rules and regulations which might in some instances prevent those local people being served as well as by the big bank?

Governer CRISSINGER. I think under those circumstances banking is under such great competition now that the local institution serves as well as the big bank.

Mr. WINGO. You do not know what will happen in another generation?

Governor CRISSINGER. I do not want to be in the banking business in another generation.

Mr. STRONG. I have talked to some of these gentlemen who are running branch banks on the Pacific coast in the last 60 or 90 days. They tell me that under the arrangement they have they do not have much use for the Federal reserve system; in fact, they are talking about getting out of it. They said, "We have 12 crops and a branch bank in each community, where they are raising walnuts, strawberries, pears, cantaloupes, and citrus fruits, and this, that, and the other thing, and we just pass our credits around from bank to bank. We do not need the Federal reserve system"; and they said, "When we get stronger we can do without the Federal reserve system." It seems to me if you go ahead and build up a great bank, if you have a branch in each town you are going to eliminate the Federal reserve system; you are going to let the big fellows gobble up the little ones.

Governor CRISSINGER. I am talking about evils of state-wide branch banking. I am not advocating that.

Senator GLASS. That happens to be a system not established under Federal statute. It is a State system with which Congress has nothing to do, because while Congress might pass a law excluding them from membership in the Federal reserve system, I do not think that is our mission. I think we were to try to find out how to get them in instead of how to get them out.

Governor CRISSINGER. I want to give you another illustration. Here is a map of New Orleans, with one national bank [exhibiting map to the committee], and the president of one of the largest State banks down there told me that they succeeded in weathering the storm in 1920 by reason of having these branches out in communities where the savings were gathered in.

Mr. STRONG. They have a little Federal reserve system of their own.

Governor CRISSINGER. There is one national bank, as illustration of how national banks are being replaced by State banks, because of the dissemination of Congress in favor of State banks.

I want to show you what has just started in Cincinnati. Here is Cincinnati, which used to be one of the prize cities for national

banks, with nearly all national banks, which is now starting out with the system of branches to these State banks, and the biggest bank in Cincinnati is now threatening to go out of the Federal reserve system because it can not compete with the State banks that are favored by the Federal reserve act and friendly State laws.

Here is Dayton that is starting off on its branch banking system also. Here is Savannah, Ga., without a national bank in it—all State banks and branches. Here is the city of Nashville [exhibiting maps to the committee].

Mr. STRONG. Why will the State banks do that?

Governor CRISSINGER. Why will they do it?

Mr. STRONG. Yes.

Governor CRISSINGER. Because they have no supervision comparable with the national banking system, and they go out and can do more business and more different kinds of business, doing everything from raising the pig to promoting the biggest concern in the world under State laws. Nashville, with four national banks, is starting out on a branch banking system.

Here is Richmond [exhibiting chart to the committee].

Mr. WINGO. You have no charts showing branch banking in Canada, have you?

Governor CRISSINGER. No; I have not. Here is Baltimore, which is starting out with a lot of State banks. You can see the result here, little banks and branches, great numbers of them, while they have but 12 national banks [exhibiting chart to the committee].

Here is Atlanta—and since this was made up we have lost one of the biggest national banks there. We have lost the Lowry National Bank, which was recently taken over by a trust company. So we have three national banks down there.

Mr. STRONG. Is there any way to fight the evil?

Governor CRISSINGER. I am leaving it to Congress to find a way to do it.

Mr. WINGO. Governor, if you will permit me, I know some Members of Congress have not yet recovered their breath in connection with your incumbency as comptroller.

Governor CRISSINGER. I think that ruling is right; I am willing to stand for it.

Mr. WINGO. Congress blundered along in its ignorance and come to find out we did not have any law at all.

Governor CRISSINGER. You know you have to do things to waken people up. Here is Boston [exhibiting chart to the committee]. As I say, Boston is on the upgrade in the national banking system. There are still State banks there that have branches.

The CHAIRMAN. That does not apply to New England generally, does it?

Governor CRISSINGER. No; only to the city of Boston. It was due to the fact that they had a great many trust companies fail, and the State trust company failure caused a lot of distress.

Here is the District of Columbia, and, my dear Mr. Congressman, they had a lot of branch banks before I came here.

Here [exhibiting chart to the committee] is Oakland, Calif., with two or three little national banks. The rest of them have been

bought up. It is the practice in California for the big banks to go out and buy our national banks and make branches of them.

Here is the city of Fresno; and here is San Francisco, which has practically gone to the State system, and one of the big banks is just liquidating now and becoming a member of a State trust company.

Here is Sacramento with four national banks left.

Mr. WINGO. I gather, then, from your statement that you are in favor of branch banking in cities, but not in the country.

Governor CRISSINGER. I want to be perfectly frank about it. I have voted against state-wide branch banking since I have been here, and as comptroller have encouraged the national banks to have additional offices in the same city as the head office and under the control of the head officers of the bank.

Senator GLASS. Governor, just exactly what do you mean by voting against branch State banks?

Governor CRISSINGER. In the California situation the board, prior to my coming here, had made regulations and conditions that there should not be any branches taken on by any of the banks that were coming in as members without the approval of the Federal Reserve Board. So that whenever they want to take on a new branch or buy a national bank or State bank they make application through the Federal Reserve Board for permission to buy and make a branch of it, and on these questions I have been voting against the state-wide branches.

Senator GLASS. The board thinks it has power to exclude from membership any State bank that has a branch?

Governor CRISSINGER. The board is divided on that. We think we have the power under the Federal reserve act to stop any system of banking that might become a danger to the system, which might involve a liability, under the power to regulate.

Senator GLASS. I thought the law prescribed certain exact qualifications of membership for State banks in the Federal reserve banking system?

Governor CRISSINGER. It does.

Senator GLASS. Do you mean to say that the board goes further than that?

Governor CRISSINGER. The board under the power to regulate laid down certain regulations and imposed certain conditions to which these banks of California, in coming into the system had to abide by. I think I am stating it correctly. If they attempted to start a branch, they would have to make application to the board, and you can see why the board should properly impose the conditions.

Senator GLASS. No; I do not. I am not a lawyer, and it is a great assumption to say so.

Mr. WINGO. I think you are overlooking the law.

Governor CRISSINGER. Subject to such conditions and regulations as the board may prescribe the applying bank may become a stockholder of such a Federal reserve bank.

Senator GLASS. Subject to such conditions, which means such conditions as the law provides. It does not mean the whim of the board of the prejudice of any member or collective number of members on the board.

Governor CRISSINGER. Let me be frank about the matter. There are certain members of the board that take the position you do about that, that we have no right to stop them bringing in branches.

Mr. STEAGALL. It would certainly seem to me that it is imposing very clearly conditions not contemplated by the original Federal reserve act.

Senator GLASS. As a matter of fact, if you turn to the provisions of the law there, State banks are made eligible?

Mr. STEAGALL. Absolutely.

Senator GLASS. Upon specific terms, and among other things it provides that they shall retain all of the rights and franchises which their State charter gives them; and if the State of California charters a bank and gives it a right to establish a branch, it seems to me an extreme proposition if the Federal Reserve Board, under existing law has a right to exclude it from membership.

Mr. STEAGALL. Was not that whole question of whether or not the State banks be made eligible for membership in the Federal reserve system fought out here with all those details at the time the Federal reserve act was passed?

Senator GLASS. Oh, yes.

Mr. STEAGALL. And the act was passed without any such authority, and without reference to it.

Mr. WINGO. I suppose the governor is a lawyer. But whenever you said "conditions," all the rest of it was just an expression of congressional idea, a kind of French suggestion. Whenever you tell a board it may do anything upon conditions named by them, they can name any conditions they think proper to carry out the original purpose of that act.

Governor CRISSINGER. The solicitor is here who was present when that regulation was drawn. Probably you would like to hear him express an opinion upon it.

The CHAIRMAN. I think it would be interesting. Please give your full name to the stenographer.

STATEMENT OF WALTER WYATT, GENERAL COUNSEL FOR THE FEDERAL RESERVE BOARD

Mr. WYATT. There has been a suggestion made that the State banks retain all of the rights granted to them by the State law when they join the Federal reserve system. As a general rule, that is true; but it is subject to two qualifications.

In one part of section 9 of the Federal reserve act, it says:

> **Subject to the provisions of this act and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal reserve system shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created.**

That subjects them to regulations made pursuant to the terms of the act, and which are intended merely to interpret and carry out the specific provisions of the act.

But, in addition to that, you will find in the first paragraph of section 9 a provision that, "the Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such Federal reserve bank." The Federal

Reserve Board has discretionary power under this provision to admit or decline to admit any eligible State bank applying for admission; and if it admits a particular State bank, the board is authorized to admit it "subject to such conditions as it may prescribe." Under the original act the board was granted discretionary power to admit or decline to admit them, without any specific authority to impose conditions. It was thought then that the discretionary power to admit them carried with it the power to admit them on such conditions as the board might prescribed; and the board provided in its early regulations that the banks would be admitted subject to such conditions as the board might prescribe at the time of their admission. The board assumed it had that power under the original act, and that power was confirmed by Congress later at the same time that it passed this provision preserving their rights under State laws.

Senator GLASS. I do not agree with you at all. It says that such rules and regulations may be adopted by the board which link themselves specifically to the sanctions of this act.

Mr. STEAGALL. Conform to it?

Senator GLASS. Yes.

Mr. WYATT. In addition to that, when Congress amended the law so as to preserve their rights under State laws, it also recognized the pre-existing power of the board to impose conditions of membership at the time the bank came in. It recognized it by inserting this language which was not in the act prior to that time:

The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder.

There is certainly a distinction between conditions and regulations.

Senator GLASS. Such conditions that are not inconsistent with this act.

Mr. WYATT. It does not say that here.

Senator GLASS. According to your interpretation of that segregated sentence, the other provision of the act that enables a State bank to exercise all of the functions which its State franchise gives it would be just simply worthless.

Mr. STEAGALL. Just a word right there. If that interpretation is to be placed on that language, it means that every right granted under this act insuring the eligibility of State banks for membership in the Federal reserve system is subject to the limitation of this language and any provision of the act can be qualified by the board or set at naught.

Senator GLASS. The interpretation here given to that segregated clause means the other thing is not worth anything, and that the board itself may determine, regardless of the provisions of the Federal reserve act, regardless of a State franchise, whether or not a bank shall come in.

Mr. WYATT. I desire to call attention to a practical distinction. The regulations of the board may be amended from time to time after a bank comes into the system. The banks were afraid of amendments to the regulations which would additionally curtail their powers after they joined the system. They wanted protection against that, and they got it. This power to impose conditions, as distinguished from regulations, does not enable the board to change

the conditions under which any particular bank comes in. When a bank applies for membership the board says, "We will admit you on the following conditions," and it defines the conditions which it considers applicable to that particular case. The bank then has the option of either accepting those conditions and joining the system or rejecting those conditions and staying out of the system. If it accepts those conditions, it comes into the system with the understanding that it will comply with those conditions; but those conditions can not be changed thereafter as applicable to that bank.

Senator GLASS. My contention is that the Federal Reserve Board has no right under the sun to prescribe conditions that are not authorized by law. It certainly has no right to prescribe conditions that vitiate one of the major provisions of the Federal reserve act.

Mr. WINGO. May I say this from a legal standpoint? The State banks are authorized to come in solely upon conditions to be prescribed; and this isolated provision that the Senator refers to, he said if you took that it nullifies all the rest of them?

Mr. WYATT. Yes, sir; that is his contention.

Mr. WINGO. Of course, the well-known provision is that if Congress were passing on this power the first thing they would say is that "we are required to give some meaning and force to this thing"?

Mr. WYATT. Absolutely.

Mr. WINGO. In other words, they were given the right to exercise every bit of their franchise power if they came in, subject to certain conditions, and those were the conditions the Federal Reserve Board might fix. For illustration, the board had the power—I am not talking about the wisdom of the statute—to say, "We will not permit any State bank to come in with branches, because we can not examine them as closely as we think necessary." The board might say, "We will not permit a bank to come in, even if it is able to comply with the reserve requirements, if we think the conditions both of the management and the condition of its paper indicates it is unsound we do not want it in the system." What other interpretation could you give to the language if you did not give it the one you did?

Mr. WYATT. In my opinion, you can give it no other interpretation.

Mr. STEAGALL. That can not be true at all.

Mr. WINGO. Suppose you were a judge, what would you say?

Mr. STEAGALL. Here is exactly what I would say: I would give that phrase in which the language "Upon such conditions as the board may prescribe" is used—I would find a meaning for it, but I would not find a meaning for it that abrogated the other express provisions of the act, which upon all rules of interpretation should take precedence over it, because it is the subject matter of the enactment of the Congress itself, which should have more weight than the provision for the exercise of discretion by a board created by Congress. All these provisions set forth in the specific language of the act prescribing eligibility for the entrance of State banks into the Federal reserve system are set forth very clearly. But it was the intention, as clearly appears from this other language that the Federal Reserve Board should work out all details, prescribe rules and regulations and conditions upon which this former enactment should be carried out and put into execution, and there are many instances,

whether I could enumerate them now or not, that might arise which would be covered by the language "upon conditions to be fixed by the Federal Reserve Board," that would conform with the other provisions of the statute without abrogating them or setting them aside.

Mr. WINGO. Will you please point out the other conditions that it abrogates? That is the statute now. Is not the basis upon which they could come in, this, that the capital requirement must be considered?

Mr. STEAGALL. Yes; but if your contention is true and the Federal Reserve Board saw fit as a condition upon which they should enter the Federal reserve system that those requirements should be more than fixed in the statute, under your contention they would have a right to do it. There is specific provision that they come in with all powers vouchsafed to them by their States.

Mr. WINGO. It says, "subject to the provisions—that the Federal Reserve Board, subject to such conditions as it may prescribe, may permit." It does not say "shall come in." All these provisions are the requirements they shall make on them after they come in. Maybe it is unwise, but I think the gentleman is right in his legal interpretation.

Governor CRISSINGER. Evidently, from what we hear it needs some elucidation by Congress.

In handing you these maps showing you the conditions under which national banks are operating, I want to call attention to the McFadden bill. I have not a copy of it here, I thought I had. It authorizes national banks to have branches, offices, or agencies where State banks and trust companies have the right and no place else.

Mr. STRONG. If that bill was passed, immediately every national bank who wanted a branch bank would go to their legislature and have a law passed to permit State banks to have branches.

Governor CRISSINGER. There are so few national banks in your State it would hardly be worth while. You would not feel that the national banks were getting a fair, square deal under the present arrangement. If it is not possible to curtail branches, then you must take care of the national banks. Are you not a national banker?

Mr. STRONG. No; I have never owned any bank stock.

Governor CRISSINGER. I thought you were a national banker.

Mr. STRONG. I have paid a great deal of interest to banks, but they always credited on my notes.

Governor CRISSINGER. There is one other question I want to call you attention to, that greatly handicaps national banks, not only in California, but in New York and other points.

Mr. STRONG. Do you not think that under the branch banking system as being carried on in California those fellows are soon going to be in a position where they will not need the Federal reserve system?

Governor CRISSINGER. I do not know. They are trying to build up a little one of their own. I think they will need the Federal reserve system worse when they get fully going.

Mr. STRONG. I pointed out to one of those big bankers that the great number of branch banks they had in California would soon give them a small reserve system of their own, and he said "that is what we are expecting to have."

Governor CRISSINGER. Let something go wrong some day, and they will be very anxious to have the Federal reserve system.

Mr. WINGO. In other words, when the storm comes they will run to the city of refuge?

Governor CRISSINGER. They will get under the tent.

The other handicap is the savings department or the departmental banking that is authorized by various States. Take California for an illustration, because I think they probably have the best law on the segregation of assets of any that have come to my observation. The savings of the State banks are segregated and invested separately, and if the bank gets into trouble the assets are taken to liquidate the savings departments, whereas under the national bank system the savings accounts in a national bank are subject, of course, to the same rule of 30 days notice, and such notice, if it is given, ties up the savings of the poor man, and they are used to liquidate the commercial accounts; and when the bank fails the savings depositors are left to hold the sack, as we call it. They are left with the bad assets to make their deposits good.

It seems to me that the national banks ought to be permitted to do this kind of departmental banking, and with a leeway of giving them more opportunity to invest in real estate loans for the savings department only. That is one of the handicaps of the national banking system in California, and I think in other States.

Mr. WINGO. Would you say that a national bank can engage in the same kind of business that a State bank is authorized to do by the law in the State in which located?

Governor CRISSINGER. I would not put it that strong, but I think some amendments could be made that will be very helpful to the national banking system along sound principles. You know there has not been much, if anything, done to the national banking act since it was passed.

Senator GLASS. You are trying to tell us how to keep the national banks in the system and not to get the State banks in.

Governor CRISSINGER. A bill was introduced in the Sixty-sixth Congress on that subject, Senate bill 4721.

Now, we have something that is real aggravating, and I think it should be stopped. I think we will all agree to this. Here we have a bank down at Cincinnati that is not even a member bank, advertising "6 per cent loans under Federal reserve system on city or farm property. Reserve Deposit Co., Keith Building, Cincinnati, Ohio."

Here is another bank that is not in the system that is advertising "Federal reserve bank protection." It is not a member of the system, and we have a great number of violations of that kind. It would seem to me that the Federal reserve system ought to be protected by some provision or enactment of Congress that would prohibit a banker from advertising improperly.

Mr. WINGO. What is the matter with the State courts?

Governor CRISSINGER. The State courts do not look after national bankes very well.

Mr. WINGO. They have a statute against that in New York State. Do you say that is Ohio?

Governor CRISSINGER. One is in Ohio and one in Wyoming.

Mr. WINGO. If they have not a statute, under the common law they could reach them.

Governor CRISSINGER. I do not know whether they could or not.

Mr. WINGO. Is not that false advertising?

Governor CRISSINGER. It is very false. It is a fraud upon the people; it is against the national interest.

Mr. WINGO. You are a lawyer, Governor. Do you not think if you were district attorney or county attorney you could stop that, if you wanted to? You can walk down here and see genuine briar pipes advertised at 25 cents, and genuine mahogany tables at $35.

Governor CRISSINGER. It would seem to me that you have one section which authorizes bringing an action for anybody using the word "national" in connection with a national bank.

Senator GLASS. You would not prevent the use of the words "Federal reserve"?

Mr. WINGO. I think we have a Federal statute.

Governor CRISSINGER. If you do, I think it is being violated every day. The solicitor says there is no such provision.

Mr. STEAGALL. Experience develops the necessity for amendments to every statute.

Mr. WINGO. I venture the assertion, if the solicitor will look it up—because this act has been codified—that the words "Federal reserve" are protected.

Mr. WYATT. I have looked it up, and they are not protected.

Mr. WINGO. The Senate may have killed it.

Mr. WYATT. There has been a bill introduced to protect it—H. R. 12649 of the Sixty-seventh Congress.

Mr. WINGO. It was included in some bill that passed the House that the word "national" and the words "Federal reserve" are both protected.

Governor CRISSINGER. It never has passed.

Senator GLASS. It was in the bill; it may have been eliminated.

Governor CRISSINGER. I feel this is a child of Congress and it ought to be protected.

Mr. Chairman, I told you we were getting letters from each of the governors of the Federal reserve banks giving their views of what might be done and what amendments might be helpful to the system. I have these letters here.

The CHAIRMAN. We will place them in the record at this point.

Mr. WINGO. Mr. Chairman, why not have these men come here so that we can examine them and find out?

The CHAIRMAN. This occurs to me, and I was going to suggest it to the committee: I understand that the governors and the chairman of the board have a quarterly meeting or some kind of a meeting the middle of next month, and if our hearings proceed it might be advisable to have those men here at that time instead of having them come especially for this hearing.

Governor CRISSINGER. I think it would be well to have this in the record for the consideration of the committee.

There is a synopsis, and they can go in together.

(The letters from the governors of the Federal reserve banks and digests of the same submitted by Governor Crissinger are as follows:)

FEDERAL RESERVE BANK OF BOSTON,
September 10, 1923.

DEAR GOVERNOR CRISSINGER: I acknowledge receipt of your letter X–3885, dated September 8, 1923, with which you inclosed copy of letter from Hon. L. T. McFadden, chairman of the congressional Joint Committee of Inquiry on Membership in the Federal Reserve System. I note your request that I furnish the board with answers which I would individually make to the questions propounded by the committee, and in accordance submit the following:

1. Effect of the present limited membership of State banks and trust companies: I do not regard the limited membership of these institutions as being altogether unfortunate. Quality should always be considered in the membership of the system, and I have no doubt that there are some undesirable members. It is equally true, however, that there are many nonmember banks whose acquisition would be desirable. I believe that there is a gradually developing sentiment among bank depositors throughout the country that the safest and most reliable depositaries are the member banks. This sentiment ebbs and flows but gains additional strength whenever clouds appear upon the financial horizon. In my opinion, the influence of the Federal Reserve Board and the respective Federal reserve banks should be exerted upon the member banks in such a away as to justify and foster the faith of the public in member banks.

2. Advisability of attempting to increase the membership of the Federal reserve system: I doubt the wisdom of undertaking a systematic campaign along revival or camp-meeting lines to increase the membership. The reasons which actuate desirable nonmember banks to remain aloof should, however, be carefully analyzed, and if any of these reasons are well founded, steps should be taken either by appropriate changes in the regulations of the board or by amendment of the Federal reserve act to remove any valid objections which may be heard, and you will notice that I shall discuss this feature further on and will make a pertinent suggestion.

3. Advice on the present financial conditions in the agricultural sections of the United States: I have already forwarded to the board a report on conditions in the most distinctive agricultural section of this district, viz. Aroostook County, Me. I do not know of any especial agricultural credit problems elsewhere in New England. The legislation of 1922 is, in my opinion, an admission on the part of Congress that the administration of the Federal reserve system under the law as it stood in the years 1920–21, was not in any way responsible for the adverse conditions in agricultural sections, and I do not know of any further amendments to the Federal reserve act with respect to the agricultural credits that are either necessary or desirable. Time should be allowed for testing the efficacy of the amendments already made.

4. Reasons which actuate eligible State banks and trust companies in failing to become members of the Federal reserve system; what administration measures, if any, have been taken and are being taken to increase such membership; and whether or not any changes should be made in the existing law or in the rules and regulations of the Federal Reserve Board. * * * Interest on daily balances of the Federal reserve system, conflict and competition now existing between National and State banking laws: In this district there is little, if any, disposition to criticize the Federal Reserve Board or the administration of this bank, and, except in the State of Connecticut, local laws do not operate against State banks' membership in the system. In Connecticut, however, the law requires specific reserves to be carried by State banks and trust companies and does not admit of any modifications in favor of State bank members. Therefore, the few State banks and trust companies in Connecticut which are members of the system, work under the handicap of carrying double reserves in order to meet the requirements both of the Connecticut law and the Federal reserve act. Efforts have been made repeatedly to induce the Connecticut Legislature to make the same concession as has been made in other States in favor of State bank membership, but due to the efforts and influence of one individual, the president of a trust company, who is also a State senator, and chairman of the finance committee of the Connecticut senate, these efforts have been unavailing. Further attempts will be made in the succeeding sessions of the Connecticut Legislature, which I hope will ultimately be successful.

During the early weeks of my incumbency here I found that there was a strong sentiment among many of the member banks, as well as the non-

member banks, that the Federal reserve bank should pay interest on deposits. I took some pains to point out, however, that in order for the bank to pay interest it must increase its earnings very considerably and that in order to increase its earnings it would be obliged to engage so extensively in open market operations as to put it in active competition with member and nonmember banks, and that such a policy would also destroy its character as a reserve bank, for by having its assets actively employed at all times it would have no means of assisting member banks in times of emergency. These arguments have proved effective and for some months past I have heard of no sentiment in favor of interest on deposits.

There is, however, a feeling that the reserve bank is distinctly a Government institution and that the member banks have no actual part or interest in its affairs. No interest is taken in the election of class A and class B directors, and there is absolutely no feeling of proprietorship on the part of member banks.

Quite recently the Boston Clearing House has inaugurated a movement to bring about a closer contact and keener interest on the part of member banks, believing that it is useless to attempt to bring in nonmember banks and State banks as long as there is an aloofness and lukewarmness on the part of member banks. Enthusiasm is contagious and whenever member banks become active partisans of the system, State banks will apply for membership.

It has been suggested that at the next annual meeting of the New England Bankers Association one session be set aside for a meeting of the stockholders of the Federal reserve bank. This meeting will elect its own chairman and will call for such information as stockholders usually receive at meetings, and will also elect for the term of one year an executive committee of seven. This committee wil receive complaints or suggestions from member banks and will take them up with officers and directors of the Federal reserve bank. Being representative of the stockholders, conversations can be held with this committee by the officers of the reserve bank on questions of mutual interest without fear of the imputation of favoritism, which might be the case at present if the opinions of officers of two or three banks were sought. In view of the fact that the New England aBnkers Association does not meet until next June, the Boston Clearing House has requested the president of the bankers' association of each State in New England to appoint one member of a committee to serve until the stockholders' meeting next June. The president of the Massachusetts Bankers' Association has appointed two members of the committee, and one member has been or will be appointed from each of the other New England States. This committee is expected to meet in the near future and will probably have some suggestions to make to the board before the meeting of Mr. McFadden's committee in October.

I may say that there is a general feeling among the New England bankers that section 7 of the Federal reserve act should be amended; not with the view of depriving the Government of revenue but rather with the idea of making the system a mutual one. It is argued that as section 7 now stands there is no reason why member banks should take any particular interest in the system. The dividends on their stock at 6 per cent per annum are cumulative and are a fixed charge on the net earnings, but the Government gets all the rest. Even the surplus will go to the Government in the event of final liquidation. It has been pointed out that Congress has been more liberal in this respect to the farm loan banks than it has to the Federal reserve banks, for the capital of the farm loan banks was supplied originally by the Treasury of the United States, although the joint stock land banks have now relieved the Treasury of by far the larger part of its stockholdings in the farm loan banks. Farm loan banks are exempt from all taxes except as to real estate owned; their bonds as well as those of the joint-stock land banks are exempt from income taxes, and the earnings are applied to the payment of dividends to stockholders, to the creation of a surplus, and the remainder is distributed to borrowers as a rebate of interest.

In the case of the Federal reserve banks the capital was supplied entirely by the member banks, which also furnish the deposits. The Government's sole contribution was $100,000, which was appropriated to pay the expenses of the organization committee, of which amount $17,000 was turned back into the Treasury. The Government has received so far $135,000,000 from the Federal reserve banks as franchise taxes, and it has also had the benefit of their services as fiscal agents, the value of which would be hard to estimate.

It is argued that the only real contribution that the Government makes to the Federal reserve banks is the Federal reserve note, and that is a contribution only to the extent to which the Federal reserve note is not specifically covered by a gold reserve.

There is undoubtedly a strong feeling throughout New England that there should be an equitable division of the profits, if any, of the Federal reserve banks. It has been pointed out that in the summer of 1913 the original Glass bill as it passed the House of Representatives provided for 5 per cent cumulative dividends to member banks, the creation of a surplus equal to 20 per cent of the capital stock, and the division of any additional earnings between the Government and the Federal reserve banks in the proportion of 60 per cent to the Government as a franchise tax and 40 per cent to the reserve banks to be distributed by them to their stockholders in proportion to the average reserve balances carried during the year. The Owen bill, as it passed the Senate, provided for 6 per cent cumulative dividends, the creation of a 40 per cent surplus, and th payment of 50 per cent of any earnings remaining as a franchise tax to the Government, and the setting aside of the other 50 per cent as a trust fund for the payment of claims against insolvent member banks. This introduced the principle of a guaranty of deposits and would have tended to put all member banks on the same footing. Bankers generally protested and the House conferees would not agree to this provision. The differences between the Senate and the House were compromised by the conference committee and the bill as reported by that committee, and which finally became a law, provided for 6 per cent cumulative dividends, the creation of a surplus of 40 per cent, and the payment of all additional earnings to the Government as a franchise tax.

In 1919, section 7 was amended so as to provide for a surplus equal to 100 per cent of the subscribed capital and the retention by the banks as a further addition to surplus of 10 per cent, the remaining 90 per cent to be paid to the Government as a franchise tax. The surplus created, however, under the present law, goes to the Government when the banks are finally liquidated.

I have made no effort to influence banking sentiment in this district but have taken some pains to ascertain just what the sentiment is. There is no disposition to change the character of the Federal reserve banks; in fact, most of the banks are anxious that they should be continued as reserve banks and not as competing banks. There is no longer any general sentiment in favor of interest on deposits, but there is a strong feeling that member banks should be accorded the benefits which usually accrue to stockholders

I think that banking sentiment in New England is in favor of an amendment to section 7 which would provide, first, for the payment to the Government of a specific tax by Federal reserve banks—a tax based upon the uncovered portion of Federal reserve notes outstanding, which, after all, is the Government's real contribution to the system. I have heard suggestions made that this tax be fixed at 2 per cent, which is the same as national banks pay, and it has been pointed out that with this tax in effect in 1919, 1920, and 1921 the Government would have received a large return from it, and the Federal reserve banks would have been well able to pay it. In 1922, when the reserves were large, the earnings were small, and the tax would have been small. I believe that New England bankers generally would like to see the 6 per cent cumulative dividends continued with no further additions to surplus, and that they would like to have excess earnings, if any, after payment of taxes and dividends, distributed to member banks in proportion to their reserve balances. This principle was recognized by the Glass bill, which passed the House of Representatives in 1913.

I again repeat that I have heard of no disposition whatever to seek to interfere with the administrative and regulatory powers of the Federal Reserve Board, and that banking sentiment here is not actuated by a desire for the actual profit but rather by a feeling that the present provisions of section 7 are not equitable in that the nonborrowing bank gets no direct benefit, while its reserve is used often at a profit by the banks which are borrowers.

I have been interested in reading the discussion of this matter in the last two issues, September 1 and September 8, of the United States Investor, written by Mr. Frank P. Bennett, who tells me that he made the suggestions contained therein after discussing the matter with many bankers throughout New England.

5. Par collections: I have not heard of any sentiment whatever in this district against the par collection system, and everything that has been reported to me by our field representative indicates a favorable sentiment.

I am also advised that there has been no general sentiment in favor of abolishing the office of Comptroller of the Currency since March, 1921.

There does not appear to be any desire on the part of any New England bank to establish branches outside of its own town or city. In metropolitan Boston which embraces several municipalities, there are two or three national banks, as well as several trust companies, which have branches in various parts of the city and in the suburbs. The national banks which have branches have acquired them either by establishing them while they were operating under State charters as trust companies or else through merger with converted national banks which had established branches while they were trust companies. One or two other national banks are considering the question of establishing branches, but if they do will probably acquire them through mergers. So far I have heard of no talk of any national bank surrendering its charter for the purpose of establishing branches as a State institution, although it is probable that one large national bank would have surrendered its charter had it been unable to establish branches in the manner above described. In many large cities it appears that the establishment of suburban branches is becoming more and more a necessity for a down-town bank.

Very truly yours,

W. P. G. HARDING, *Governor.*

Hon. D. R. CRISSINGER,
Governor Federal Reserve Board,
Washington, D. C.

FEDERAL RESERVE BANK OF NEW YORK,
September 22, 1923.

SIRS: We have received and have given careful consideration to the board's letter of September 8, 1923 (X-3883), which requested our views on the subject matter of the inquiry by Congress into the question of membership in the Federal reserve system.

The matters suggested for discussion seem naturally to fall into two classifications, viz:

1. What is the effect of the present limited membership?
2. Why do not more eligible banks become members?

With respect to the first, we submit the following:

The proportion of membership in this district is relatively high. Out of a total of 1,183 banks, 830, or 70 per cent, are members of the Federal reserve system. The division by States is as follows:

	Member banks	Total banks	Percentage of membership
New York (entire)	614	870	71
New Jersey (12 counties)	204	283	72
Connecticut (1 county)	12	30	40
Total	830	1,183	70

With this high proportionate membership, and partly because of it, the banks of this district were not affected by the adverse economic conditions of 1920 and 1921 to the same extent as were the banks in parts of the country where membership was less general. There were in fact no instances of bank failure during this period which could be attributed to general banking or economic conditions. A substantial number of banks temporarily affected through the dereliction of officers or from other causes were able to meet demands upon them through their relation to the Federal reserve system, together with the assistance of National or State banking departments. This is a condition which has been more or less general in Federal reserve districts having a large proportion of member banks.

The question, however, can not be answered from the limited experience of one district. In the country as a whole one-third of the banks belong to the Federal reserve system. But this one-third represents approximately two-

thirds of the total banking resources of the country; membership has appealed more generally to the larger city banks. Hence the Federal reserve system has been able to exercise its influence more generally in the centers of population than in the rural communities. In those States where membership was proportionately smallest it was natural that the credit-making power of the Federal reserve system should be least available to the public. Nevertheless it can not be doubted that even in those regions where the Federal reserve system was unable to exercise a direct influence nonmember banks secured benefits indirectly through correspondent member banks.

An indirect influence is never as effective as a direct influence. From the standpoint of the Federal reserve banks, misinterpretations of the acts and purposes of the system have been most general in those regions where its influence was felt indirectly; and from the standpoint of the nonmember banks the indirect relation has limited their ability to adjust themselves to varying economic conditions. If the influence of the Federal reserve system is to be of maximum effect and benefit indirect relations must yield to direct relations and the proportion of membership must increase.

The system is bound to move in one direction or another; its membership will increase or decrease. Any large decrease will impair its ability to serve the credit needs of the country, not only because the member banks, which are the principal means for making Federal reserve credit available to the country, will become fewer, but because the credit-making powers of the Federal reserve banks themselves will be lessened.

Individually both member and nonmember banks will benefit from an extension of membership. In a crisis the member banks now have to provide credit for many nonmember banks, which may involve additional expense to the latter and possible danger to both.

Outside but expert testimony on the benefit of a wider extension of membership is furnished in a resolution adopted by the directors of the National Association of Credit Men on September 20, 1923:

"The Federal reserve system has saved the country from several panics, and if the present membership has rendered so great a service to the country no stretch of imagination is required to appreciate how very safe we would be if every qualified bank were to enter the system."

A larger membership would make credit more generally available not only because the Federal reserve banks would have added credit-making power, but because that credit would reach the users of credit more directly. This would result to the special advantage of those regions where membership is now less general, and where in emergencies credit is inadequately supplied.

2. The reasons given by nonmember banks in this district for not joining the Federal reserve system may be summarized as follows, in the order of their importance:

A. Cost, because of the loss of interest on balances, inability to count cash in vault as reserve, and limited dividends.

B. Ability to secure benefits from correspondents without membership, and disinclination to sever these relationships.

C. State laws, prescribing reserve requirements at variance with the requirements prescribed by the Federal reserve system.

D. Inconvenience of further examination and supervision.

A. Cost: Of these three considerations the argument of cost is most often encountered. Yet the officers and other representatives of the bank, who are most closely in contact with member banks, have found that in most cases membership in the Federal reserve system involved no, or very little, additional expense. It does not appear, generally speaking, that membership has resulted in reduced profits to State banks either through loss of interest on reserve balances formerly kept with city correspondents, or through loss of exchange on checks; where earnings have been reduced in one direction they have been increased in others. The special services afforded by the system and the earmark of security which membership gives is usually regarded as ample compensation for any added expense incurred.

Few country bankers have a cost-accounting system which enables them to compute precisely the cost of membership. The most obvious factor as an active deterrent to membership is the loss of the interest which the country banker has been earning on his reserve balance with his city correspondent. Under the Federal reserve act country member banks are obliged to keep 7 per cent of their demand deposits as reserve, wholly with the Federal reserve bank. Under the national bank act a country national bank had to keep 6

per cent in vault, and was permitted to keep an additional 9 per cent on deposit in a reserve or central reserve city, making a total reserve requirement of 15 per cent. Superficially the reserve requirement for country member banks under the Federal reserve system is 7 per cent, as compared with 15 per cent formerly required under the national bank act. But actually there should be added to the 7 per cent which country banks are required to keep on deposit with the Federal reserve banks the following amounts, which are not counted as reserve

Cash in vault, about 3 per cent; float, about 2½ per cent; balances with city correspondents, about 2 per cent; total, about 7½ per cent.

Thus the reserve actually required of country national banks is very close to the reserve previously required, and the amount on which interest is earned is much reduced. In the case of New York State country banks, for which the State law requires only a 10-per cent reserve, the loss in interest on reserve deposits is even more pronounced.

It has been observed, however, that country bankers are now thinking less and less about the loss of interest on reserves. They recognize the fact that if the Federal reserve banks in seasons of slack credit demand, as well as in seasons of active credit demand, were obliged to pay interest on deposits, they would be obliged at all times to invest their funds freely, and in consequence would necessarily compete with banks everywhere. They recognize also that such action by the Federal reserve banks would create forced inflation with all the evils appertaining to it. Latterly the country banker in this district has argued rather that his participation in the earnings of the Federal reserve bank should not be limited to 6 per cent on his stock ownership, and that in years when Fereral reserve profits warranted the member banks should share somewhat more largely in those earnings.

The loss in exchange on checks is not at present a factor of importance in this district, since all banks, whether member or nonmember, pay their checks at par. This is a question which may well be argued on its own merits, quite apart from membership in the Federal reserve system. Because of the check collection system now operated through the Federal reserve banks and the absorption by the latter of costs formerly held to justify the charging of exchange, the exchange charge has become obsolete and unnecessary. Appended hereto is a memorandum prepared for another purpose which discusses the various objections to the payment of checks at par.

In summary of the foregoing there are certain tangible losses which country banks in this district may have to incur if they join the Federal reserve system. Balanced against these are intangible benefits derived from the services rendered by the Federal reserve banks, the advertising value attaching to membership, and added insurance in times of severe credit demand. These benefits, if fully taken advantage of, permit the country banker to operate more effectively, and therefore more profitably.

B. Ability to secure benefits from correspondents: Many country bankers believe that through their city correspondents they can obtain many of the benefits of membership indirectly and at the same time secure from their city correspondents advantages and services which the Federal reserve banks are not in a position to give. It is undoubtedly true that certain of the services performed by city banks for their country correspondents can not be performed by the Federal reserve banks. The latter have confined themselves to giving mechanical services as distinguished from such services as giving information and advice on securities, lending money on call or time, affording participations in loans and syndicates, purchasing commercial paper, etc. These and other similar services the city banks can and do render to their country correspondents, and in consideration of them many country banks maintain balances with one or more city correspondents.

The services which the Federal reserve banks render are of a nature consistent with the purposes of the Federal reserve system and include the supplying of currency and coin, the collection of checks, the collection of noncash items, the safe-keeping of securities, the purchase and sale of securities on instruction, the transfer of funds by wire, etc. Many of these services are interrelated with other operations of the reserve banks and tend to give the country member banks a participation in the benefits of the system equal to those enjoyed by city member banks Many of them are of such a character that they can not be carried on as expeditiously by city correspondents or in the gross so economically as by the Federal reserve banks.

These services are important factors in insuring the permanency of the Feleral reserve system, because through them the Federal reserve banks are constantly in contact with the member banks, and without them contact with member banks, particularly country member banks, would be impaired. To most State banks the value of these services, rendered directly and without cost, constitute a benefit which considerably offsets the expenses involved in membership. To country national banks, whose membership is compulsory as long as they remain in the national system, the services are often important considerations in determining their continuance as national banks.

Further, the services tend to make the Federal reserve system a living bank organization, because efficiency of operation can not be effected on an emergency basis. The services are sufficiently continuous to insure the maintenance of a well-knit organization, available for use at all times, emergency or otherwise. A Federal reserve system regarded solely or mainly as a means to supply currency and credit in emergencies is a Federal reserve system frozen and without human relation.

No correspondent bank can give the same services as the Federal reserve bank as directly or as fully, and when the city correspondent serves as the medium through which these services are rendered expense of handling is incurred, and that expense naturally falls upon the user of the services, namely the country banker.

Most of the Federal reserve banks maintain limited organizations which maintain, by visit and otherwise, relations with member banks. Their main function has been to ascertain and eliminate the difficulties which country banks have met in their various dealings with the reserve banks. They have also informed the country banks how to make most effective use of Federal reserve services. They have done much to place country banks on a parity with city banks in their relations to the Federal reserve system.

C. State laws: In the States of New York and New Jersey State reserve requirements are no longer effective on member banks; on the contrary, a State bank becoming a member of the Federal reserve system becomes subject to the reserve requirements of the Federal reserve system only. In the State of Connecticut, however, State reserve requirements are still effective against member banks. There State laws require the retention of a certain amount of cash in vault and specify the type of security in which savings deposits may be invested. Thus upon Connecticut State banks which join the Federal reserve system two sets of reserve requirements are effective, those of the State and those of the Federal reserve banks, and in every item the more stringent of the two sets of regulations prevail. Consequently State banks which become members of the Federal reserve system are often in unfavorable competition with both national banks and State banks. Therefore many State banks are deterred from becoming members. This bank, however, is affected only to a limited extent, because only the westernmost county of Connecticut is in this district.

D. Inconvenience of further examinations and supervision: In times past there has been considerable complaint of the number of reports required by the Comptroller of the Currency and reserve banks, and particularly of "interference in banking methods" on the part of bank examiners. Recently there have been fewer complaints of this character. Many of these complaints were based upon misunderstanding and in general may be regarded as an unimportant factor in restraining banks in this district from joining the system.

A more positive deterring influence has been a reluctance on the part of State banks to submit to an examination preparatory to entrance into the reserve system. These cases have resulted usually from the possession of slow or doubtful assets which might be criticized, and discussion of this as a restraining factor may therefore be dismissed.

Possible remedies.—There are four ways, among others, to encourage increased membership in the Federal reserve system:

1. To compel membership by Federal law and undergo the test of the courts on the question of constitutionality. A possible precedent was the taxing out of existence of State bank currency when the national banking system was established. Such a plan would lead to endless controversy and to a type of unwilling membership of doubtful benefit.

2. To secure uniformity of reserve requirements for banks, both State and national. This means a modification of many State laws and possibly a modification of the Federal reserve act itself. The effect of such legal changes, how-

ever, would remove the penalty now attaching in some States to State banks becoming members of the Federal reserve system.

3. To educate systematically all eligible nonmember banks upon the value of membership, appealing both to their self-interest and to their public spirit. This would result in a voluntary membership of joint benefit to the banks and the system. It is necessarily a long process, but in certain districts has been successfully pursued.

4. To make membership more attractive financially. Should this prove to be possible, it would remove the main obstacle in the way of an enlarged membership of State banks of this district in the Federal reserve system. But any plan so designed should be framed so as to preclude the chances of inflation. Two of the plans sometimes proposed would lead inevitably to inflation in greater or less degree:

(*a*) Payment of interest on reserve deposits. This presupposes greatly enlarged earnings by reserve banks in years of any but the most intense credit demand. At all times, slack or active, the reserve banks would have to keep their funds very generally invested . The result would be that the reserve banks would have to initiate competition with national and State banks, interest rates would be cut and business be unhealthily stimulated as inflation advanced. It should be borne in mind that an investment by a reserve bank corresponds to the interjection of fresh gold into the money market, and funds so invested provide additional reserve upon which member banks can build deposits. In other words, an investment by a reserve bank is likely to be multiplied in the loan accounts of banks generally. And excessive investment would lead to excessive multiplication of bank loans.

(*b*) Reduction of the reserve requirements for country banks. To reduce reserves releases funds not previously available for investment. Unless the revised reserve requirements represented a fair average of all reserve requirements now effective on country banks, both State and national, and unless there was fair assurance that a great majority of banks in States where reserve requirements are now lowest would apply for membership in the system and be admitted, a large volume of fresh funds would be released for investment. Or funds so released would be available as reserve for additional deposits. In either case inflation would result. When reserve requirements have been reduced in this country heretofore, loan expansion has followed.

A third plan may or may not be open to a similar objection, depending on how it is framed:

(*c*) Payment of additional dividends upon Federal reserve bank stock when and if earnings warrant. Such a plan would result in a closer relationship between the member banks and the reserve banks and no doubt also in a fuller attention on the part of the member banks to the operations carried on by the reserve banks. But if from such a plan pressure resulted upon the reserve banks to make earnings, it would lead to inflation. In years of quiet credit demand the reserve banks are unlikely to earn more than their expenses, and in that case under the present law no return to the Treasury results. In years of larger credit demand, if additional dividends to the banks are to be allowed and if pressure to make large earnings are resisted, the return to the Treasury would be less than under present law. In other words, some of the funds now derived by the Treasury would be shared with the banks.

The foregoing views are offered for your consideration.

Very truly yours,

J. H. CASE, *Deputy Governor.*

FEDERAL RESERVE BOARD,
Washington, D. C.

FEDERAL RESERVE BANK OF PHILADELPHIA,
September 10, 1923.

Hon. D. R. CRISSINGER,
Governor Federal Reserve Board,
Washington, D. C.

MY DEAR GOVERNOR CRISSINGER: In response to your letter of the 8th instant (X–3883) I beg to reply as follows, all statements of fact and expressions of opinion, except where otherwise specified, being applicable only to the third Federal reserve district:

Assuming that it was the intention of the framers of the Federal reserve act to create a general banking system for the United States in which all of the national banks and most of the State banks would be included, it is regrettable that this expectation has not been fully realized. Aside from that general consideration, however, I can not see that the fact that the number of State banks which have availed themselves of membership in this district is comparatively small has had any distinct effect upon financial or business conditions.

For the purpose of doing what lies in our power to carry out the assumed intention of the Congress, we have always been alert to increase the membership of the system, but we have always done this quietly and without admitting any great interest in the matter. We believe that this is the proper policy and shall continue to follow it unless directed to the contrary. We think that any concerted and public attempt to increase membership would be a mistake. In the first place, we doubt whether it would be as effective as the methods which we are now following. In the second place, it would be regarded as a confession of weakness or failure, or at least a dissatisfaction with present conditions. In the third place, if it had any result at all, the result would probably be to bring in applications from institutions which would be the least desirable members. It would be difficult to refuse their applications in the face of a campaign for additional membership, and such refusal might have serious results to them.

The eligible State banks which fail to become members of the Federal reserve system belong in almost every case to one or more of the following eight classes:

1. Those whom it would not pay to lose interest on their cash reserves.
2. Those whose affairs are not in such condition that they care to submit to examination.
3. Those who feel that they obtain most of the advantages of membership through a correspondent bank or banks.
4. Those who have an idea that membership would subject them to some sort of Federal control or restriction.
5. Those which have among their officers or directors one or two old-fashioned men who are constitutionally prejudiced against "new things," and whose prejudices the majority do not care to override.
6. Those who are merely ignorant and uninterested.
7. Those who have been advised against membership by State officials or by their correspondent banks.
8. Those who have little or no paper eligible for discount.

We are not clear as to Mr. McFadden's meaning in asking "What administration measures * * * are being taken to increase such membership?" Assuming that it is intended to mean "What efforts, if any, are we taking to get new members?" I would say that we have constantly in mind those institutions which it would be most desirable to secure as members. When the traveling representatives of our bank-relations department are in a town, they always call upon the nonmember as well as upon the member institutions. The officers of this bank seek contacts with the officers of these desirable institutions at conventions, group meetings, or other visits to their neighborhood. We avail ourselves of every opportunity to show them any courtesy, and whenever the opportunity offers, without seeming to unduly press the matter, we talk membership to them. We believe that if a large number of small or undesirable institutions became members it would have little or no effect—possibly a bad effect—upon the larger and more desirable institutions, but each time that we get an institution of the latter class it makes it easier to secure ultimately such as we want of the former class.

The above report covers all the information which it occurs to me that it is within my power to give to the board on this subject. I shall, of course, be pleased to cover any other points desired, or to make more clear anything that may be obscure in what I have said. I am,

Very truly yours,

GEO. W. NORRIS, *Governor.*

FEDERAL RESERVE BANK OF CLEVELAND,
September 25, 1923.

Hon. D. R. CRISSINGER,
Governor Federal Reserve Board,
Washington, D. C.

DEAR SIR: This is to acknowledge the board's letter of September 8, X–3883, subject, "Congressional inquiry on membership in the Federal reserve system," inclosing copy of the letter addressed to the board by the chairman of the Joint Committee of Inquiry, and indicating a desire to be informed with respect to the following:

1. Why more eligible State banks and trust companies do not become members of the Federal reserve system.
2. What measures, if any, are being taken to increase such membership; and
3. Whether any change should be made in the existing law or in the rules and regulations of the Federal Reserve Board.

There are a number of reasons advanced by the eligible State banks in this district for not becoming members of the Federal reserve system, the principal ones being:

1. Nonpayment of interest on reserve balances.
2. Inability of the Federal reserve bank to collect at par all of its cash items.
3. Fear that membership will mean the preparation and filing of numerous reports.
4. Fear that a certain amount of red tape is required in dealings with the Federal reserve bank.
5. Fear of Government control.

The last three reasons are assumed and can be met readily.

In attempting to offset the first two reasons by explaining the advantages which would accrue through membership in the system, we are often confronted by what, to us, appears to be one of the principal reasons why more eligible State banks are not members of the Federal reserve system; that is, that we have in our present membership too many banks that are "passive" rather than "active" in the support of the system.

We have found on numerous occasions, when discussing membership with a State bank or trust company, that they had been advised by representatives of the larger banks, with whom reserve balances were maintained, not to become members; that their needs had been provided for in the past; that they would be taken care of in the future; that the larger banks were equipped to extend many services that could not be extended by the Federal reserve bank; and that the smaller bank was not manned to furnish the numerous reports and certain other requirements of the Federal reserve bank with respect to sorting of checks and currency.

In the smaller towns when a prospective member consulted with a neighboring member we have found that very often no enthusiasm over membership was displayed.

The greatest aid in obtaining new members would be the active cooperation of a satisfied membership. Consequently, any amendments to the Federal reserve act that would make membership more popular would help solve the problem.

The greatest degree of dissatisfaction exists with banks located outside the centers. Many of this class of banks feel that the banks in the centers enjoy advantages and profit through membership to a greater extent than they. One thing that might be done to meet this objection is to permit a more liberal basis for computation of reserves on the part of the 7 per cent reserve bank by allowing this class of banks to deduct from their deposits the amount of cash items for collection in the hands of the Federal reserve bank before computing their reserves.

National bank members complain about the limitations imposed in making mortgage loans, and their enthusiasm for the system would be increased if they were permitted to lend a greater proportion of their time deposits on mortgage security of the same kind and under the same conditions as are permitted to State banks. This complaint and request comes principally from the 7 per cent banks.

Another objection that is raised is lack of participation in the earnings of the Federal reserve bank. Many banks feel that something more than a 6 per cent dividend on their capital payment is due them.

The principal industry in the fourth Federal reserve district is not agriculture, although the district ranks high in the value of its agricultural products. It is our opinion from close observation during the stress of times in 1920 and 1921 that the legitimate credit needs of agriculture in the fourth district were well provided for, so that the necessity for stimulating membership in this district to provide additional resources as a basis of additional credit for agriculture is not as great as in some of the other districts.

While we have no one actively engaged in direct solicitation of membership, our officers and our field men of our member bank relations department do not overlook an opportunity to develop prospects or to take advantage of inquiries from eligible banks to explain the various benefits of the system.

Very truly yours,

E. R. FANCHER, *Governor.*

FEDERAL RESERVE BANK OF RICHMOND,
September 22, 1923.

Subject: Congressional inquiry on membership in Federal reserve system.

MY DEAR GOVERNOR CRISSINGER: Referring to the board's letter of September 8 (X-3883), under the above caption, I submit the following observations on the letter of Hon. L. T. McFadden, chairman, etc., addressed to the board, under date of September 6, in which it was indicated that comment or opinion would be desired by congressional committee upon the following points:

1. The effect of the present limited membership of State banks and trust companies in the Federal reserve system; whether or not it is advisable to attempt to increase the membership of the Federal reserve system.

2. The present financial conditions in the agricultural sections of the United States.

3. Federal reserve system reasons which actuate eligible State bank and trust companies in failing to become members of the Federal reserve system.

4. What administration measures, if any, have been taken and are being taken to increase such membership.

5. Whether or not in the opinion of the Federal Reserve Board any change should be made in the existing law or in the rules and regulations of the Federal Reserve Board.

6. Suggestions of changes in the method of administration to bring about in the agricultural districts a larger membership of State banks and trust companies in the Federal reserve system.

Incidental to comments or opinions on the foregoing, consideration appears to be invited by Chairman McFadden to the following matters, which are specifically mentioned in his letter as being necessarily involved:

(*a*) Branch banking.
(*b*) Par collections.
(*c*) Abolishment of the office of the Comptroller of the Currency.
(*d*) Administrative practices and policies of the Federal reserve system.
(*e*) Administrative practices and policies of the office of the Comptroller of the Currency.
(*f*) Interest on daily balances of the Federal reserve system.
(*g*) Conflict and competition now existing between national and State banking laws.

COMMENTS

1. The abstract of conditon reports of State bank and trust company members and of all member banks, compiled by the Federal Reserve Board as of June 30, 1923 (Report No. 21), showed that the aggregate resources of all member banks of the Federal reserve system were $33,795,000,000. The report of the Comptroller of the Currency as of June 30, 1922, showed that the aggregate resources of all reporting banks in the United States and inland possessions were $50,425,000,000. Assuming that the aggregate was practically the same on June 30, 1923, the resources of the members of the Federal reserve system constituted 66 per cent of all banking resources of the country.

The comptroller's report of June 30, 1922, showed the aggregate resources of 18,232 State (commercial) banks in the country to be $13,064,000,000 and the resources of 1,550 loan and trust companies to be $8,553,000,000, so that the aggregate resources of 19,782 commercial State banks and loan and trust companies combined were $21,617,000,000. The aggregate resources of 1,620 State

bank and trust company members of the Federal reserve system, as shown in the board's Report No. 21 on June 30, 1923, were $12,293,000,000, so that the Federal reserve system embraced about 60 per cent of the aggregate resources of all commercial State bank and trust companies, although it embraced but little more than 8 per cent in the number of such commercial State bank and trust companies.

Furthermore, taking the aggregate resources of the commercial State banks and loan and trust companies as of June 30, 1922, amounting to $21,617,000,000, and addng to that sum the aggregate resources of national banks, as shown by the comptroller's report on April 3, 1923, $21,612,000,000, making the total resources of commercial State banks, loan and trust companies, and national banks $43,229,000,000, it will be seen that the Federal reserve system comprises about 78 per cent of the total commercial banking resources of the country, although it comprises only about one-third of the number of all such banks and trust companies; that is, 1,620 State banks and trust companies and 8,236 national banks, out of a total of 29,724 of all commercial banks and loan and trust companies. It is to be taken into account that a very considerable number of State banks are not eligible for membership. The board is probably in position to determine the number of eligible State banks out of this total.

It is apparent that the Federal reserve system embraces a sufficiently large proportion of the volume of commercial banking resources of the country to render its credit power and influence thoroughly effective, as proved during the war period, when the demands upon it were probably greater than will ever again be the case. The effect of the present limited membership of State banks is, therefore, clearly negligible or limited when we consider whether the credit and currency issuing power of the system is adequate for the commercial needs of the country. This has been proven.

Whether it is advisable to attempt to increase the membership of the Federal reserve system, therefore, must be considered from the point of view of whether the system can be made of greater usefulness through increased membership, regardless of whether the acquisition of a large number of State bank members would strengthen the system. It is the usefulness of the system to the banks and the public rather than the strengthening of the Federal reserve system which is the issue. As to the enlarged usefulness of the system to the public and the banks through increased State bank membership, it is to be considered whether the State banks now out of the system do not derive all practical benefits possible through the present membership of the system. As bearing upon one feature of this question, it is pertinent to state that at the height of credit expansion in 1920 our member banks were lending about one-third of all the funds which they were borrowing from us to nonmember banking institutions. At the present time nonemember banks enjoy, indirectly through member banks, practically all of the advantages of the credit and collection facilities of the Federal reserve system.

The effect of this is to divide banks into two classes, one class contributing to the resources for the maintenance of the Federal reserve system and bearing whatever burdens may be incident to the creation and existence and operation of the system and the other class enjoying the fruits thereof and the protection without any contribution. Thus member banks which solicit and cater to the accounts of nonmember banks are accustomed to offer all the credit and conveniences and facilities, practically, which the Federal reserve banks could offer, although they are able to offer these privileges to a very material extent only because of their membership in the Federal reserve system. At least membership in the system gives them such a feeling of strength and security that they are in a better position to offer such facilities to nonmember banks than before the organization of the system.

A very large number of member banks, however, do not carry the accounts of other banking institutions, and it is such banks which naturally feel that they are contributing the means of protection which is being accorded to nonmember banks of the system and bearing burdens incident thereto. This would naturally engender a feeling of discontent. The feeling is intensified in many cases by the fact that nonmember banks can collect checks on them through the Federal reserve system free of charge, while they must bear in many cases the expense of collecting on those nonmember banks; either they are compelled to pay a direct exchange charge or compelled to keep a larger compensating balance.

It appears to be desirable that all eligible commercial banking institutions should be included in, or contribute to, the maintenance and operation of,

the Federal reserve system, if only to equalize the burden which is necessary to be borne in order that the system may be maintained. When the word "burden" is used, it is in a comparative sense; for it is easy to demonstrate that, notwithstanding any specific burden, the advantages to the banking business of the country overwhelmingly outweigh the cost of any contribution made by members to the maintenance of the system. To prove this, it needs but to be stated that the banking business of the country, measured by the volume of resources of the banking institutions, has grown as much, or practically as much, during the eight years of operation of the Federal reserve system as it grew from the foundation of the Republic up to that time.

2. The financial conditions in the agricultural sections of this district give evidence of material improvement. The money outcome of current crops will add to this improvement, and a large volume of liquidation is expected from the sale of this year's crops. Generally speaking, the recovery from distressing conditions has been more rapid than could have been anticipated. The losses of certain individuals and certain communities were, of course, heavier than the losses of others, and the recovery in such cases will be slower. This opinion is confined to this district.

3. The answer to this query has been in large part covered by the answer to query No. 1. A very large part of State banks remain out of the system from selfish regard for immediate profits; all other reasons are wholly subordinate to this one.

State banking laws in many States permit a greater freedom of operation and do not impose in some cases that reasonable and wholesome restraint which should be exercised by law over all banking institutions. Supervision of banking practices in many States is not as thorough as membership in the Federal reserve system would necessarily entail. It is possible and probable that this greater freedom of action influences a certain number of banks. Many banking institutions combine a commercial banking business (requiring, according to experience, the maintenance of proper reserves) with business of other character, and they desire to be free from the burden of maintaining a specified reserve. This applies to a considerable number of trust companies. It is undoubted that the facilities offered to nonmember banks by those banks within the system constitute a very powerful reason for their remaining out of the system.

There is believed to be a very strong undercurrent of feeling that the Federal reserve act is not sufficiently liberal to member banks in fundamental principles. The member banks provide the capital and the deposits of reserve banks. While these contributions are not the only source of earning power of Federal reserve banks—the issue of currency being a material source of earning power—the member banks are believed to feel that they are entitled to a greater degree of ownership in Federal reserve bank assets and earnings than they are accorded by law.

If it were possible to pay member banks interest on their reserve deposits, as correspondent banks pay interest on their deposits, it is believed the way would be open for the entrance of a large number of State banks, and the feeling of dissatisfaction would be removed in the case of a very considerable number of member banks. The payment of interest on deposits, however, is not desirable nor is it possible. It would impair or undermine the usefulness and integrity of the reserve system. Member banks are called the stockholders of the Federal reserve banks, but their ownership and power are limited in all directions. When reserve banks were organized it was not expected that their earnings would ever excite the cupidity of member banks, or that there would be any room for participation in earnings beyond the dividend provided by law. There is undoubtedly a widespread feeling among member banks that they should have a greater participation in earnings and a greater ownership in accumulated and undistributed earnings. It is possible to liberalize the law in this respect without injury to the fundamental structure of the Federal reserve system.

With or without justification, there appears to be a feeling, at least on the part of some member banks—and that to a considerable extent—that the Federal reserve banks are more governmental banks than is justified by their inherent structure; that is, justified by the fact that the resources of the member banks only render the existence of the reserve banks possible. It is not intended to imply in the foregoing the belief that the management of reserve banks could safely be left to member banks. The experience in bringing about the enactment of the reserve act and the long delay required are proof con-

clusive to the contrary. Since popularity of the reserve system is partly involved in its membership, it is pertinent to allude to a feeling that is believed to exist; that the structure of the reserve act invites, in some respects, political interference to a greater degree than is wholesome or safe.

4. Recent amendments to the Federal reserve act materially reduce the capital requirements of State banks. In this connection it is pertinent to point out that State banks have all the advantages of national banks as members of the Federal reserve system, in addition to the broader privileges sometimes granted by a State charter. The matter of capital of the smaller banks is one of these, but it is one which the State banks have no right to feel strengthens their position. Beyond doubt there are too many small banking institutions—many of them not qualified by experience, or otherwise, for the proper conduct of the banking business. This is not intended to be the advancement of a theory but a statement of fact.

It is not believed to be desirable to directly and indiscriminately solicit membership of State banking institutions, but rather to set forth, as well as may be done, the advantages of membership in the system, the protection which the system affords to the banking business in general, and the vital necessity for the maintenance of the system for the conduct and growth and preservation against disaster of the banking business of the country, leaving the invitation to all qualified and eligible banks to enter the system.

If it is possible, it should be brought about that it be not made to the special interests of member banks to keep State banks out of the system on account of the value of their reserve accounts. All Federal reserve banks, or most of them if not all, maintain special departments to cultivate the good will and understanding of all banks with which they come in contact (whether members or nonmembers) and to spread an understanding of the operations and benefits of Federal reserve banks. Further than this—which, indeed, is an important feature of the conduct of the Federal reserve banks—no administration measures in this bank have been taken to increase membership. Many State banks, at least in this district, while eligible so far as capital requirements are concerned, are far from eligible because of other conditions surrounding their management. It would be a considerable tibe before all State banking institutions, technically eligible for membership, could be admitted into the system.

5. Suggestions are given in the foregoing comments of changes in law and administration which might possibly be made and which, if made, might result in a considerable increase in the membership of the Federal reserve system.

It is believed to be a fact that in some sections of the country a number of State banks have remained and are remaining out of the system because if they became members they would have to give up exchange charges. It is probable that any plan which would result in making par clearance general and settle the question finally and forever would result in considerable addition to the membership of the Federal reserve system. This, perhaps, is another indication of selfish regard for immediate profits which tends to keep State banks out of the system.

6. There are no comments other than contained in the foregoing with respect to changes in the method of administration to bring about in the agricultural districts a larger membership of State bank and trust companies. The trust companies, as a rule, are located in the larger cities, although these cities may be in a region whose chief interest is agriculture, and no provisions of administration conceived in the interests of agriculture would be any particular inducement to trust companies so situated. It is probable that recent provisions of law involved in so-called rural credit acts rather tend to keep State banks in agricultural sections or rural communities out of the system than to bring them in.

(*a*) Branch banking is a very vexing subject, but a very vital one to the Federal reserve system so long as membership in the system consists chiefly of national banks. It has been pointed out that State bank members of the Federal reserve system have privileges more than the national banks because of the greater liberality or flexibility of State banking laws. If State laws encourage branch banking in their own State banking institutions, then the situation must permit equal or like privileges to national banks in such States; otherwise there would be offered an inducement to surrender national-bank charters and take out State charters, even while retaining membership in the Federal reserve system. It will be recalled that the privilege of withdrawal

from the system, which a national bank does not possess, is accorded the State bank.

(*b*) The collection system is believed to be essential to the efficient operation of the Federal reserve banks in the service of the public. The bulk of the exchanges of the country is conducted and settled through Federal reserve banks, and the final adjustments between districts in the ebb and flow and seasonal operations of trade are made by Federal reserve banks through the instrumentality of the gold-settlement fund. The expenses of these operations are borne by the Federal reserve system, which under the present practice is the real maker of exchange, the benefit of which is realized by nonmember and member banks alike, as well as by the public. There is no just reason, in view of this gratuitous service performed by Federal reserve banks, for the existence of exchange charges by any banking institution. The universal, or country-wide, par collection system would facilitate the entrance of State banks into the reserve system.

(*c*) It is, of course, well understood that the Federal reserve banks are brought into very intimate relation with member banks, especially at times when the banks are borrowing, and supervision of the management and practices, particularly of the country member banks, has been proved by experience to be necessary on the part of the Federal reserve banks. In the case of a very considerable number of member banks, a Federal reserve bank will be possessed of more intimate knowledge as to condition and management than the comptroller's office will often possess. It is believed that a close and cordial cooperation should exist between the comptroller's office and Federal reserve banks and between the examining forces of the comptroller and those of the Federal reserve banks, and that if this can not be assured at all times because of separate organizations and functions supervision over member banks should be lodged in the Federal reserve system.

(*d*) The administrative practices and policies of the Federal reserve system have been developed by experience, and this experience during the major part of the existence of Federal reserve banks has been highly intensive. These practices and policies can only be developed and become more scientific and effective—flexible where flexibility is needed and rigid where requirements of law are at stake—in the course of time. It is believed that the highest ability and experience should be an essential requirement in reserve bank administration and that inducements and rewards should be sufficient to attract and retain men of such capacity. Continuity of administration is vitally necessary to maintain efficient and satisfactory management of reserve banks.

The opinions here expressed are personal.

With these comments I am sending, for what they may be worth, issues of the United States Investor, published in Boston on September 1 and 8, containing an article on "Improving the Federal reserve act."

Very truly yours.

GEO. J. SEAY, *Governor.*

Hon. D. R. CRISSINGER
Governor Federal Reserve Board, Washington, D. C.

FEDERAL RESERVE BANK OF ATLANTA,
September 12, 1923.

FEDERAL RESERVE BOARD,
Washington, D. C.

DEAR SIRS: I have the honor to reply to your letter of September 8, 1923, requesting my views in the matter of limited membership of State banks in the Federal reserve system. Since the Federal Reserve Board promulgated its rules and regulations for the admission of State banks to the system our bank has pursued an active policy, endeavoring to persuade and induce State banks in our district which are eligible to become members. We have had some success along these lines, but not as much as we expected and should have had, in view of the credit conditions existing in the district. At this date there are 1,680 State banks in the sixth (Atlanta) Federal reserve district. Of these, only 147 are members. There are 148 State banks ineligible for membership on account of having a capital of less than $15,000, about 100 of them being in Tennessee and the balance of 48 scattered throughout Alabama, Mississippi, and Louisiana.

We have tried in various ways to obtain a larger membership of State banks. The officers of our bank regular each year attend the various group meetings and State conventions of bankers and have always in their addresses and in personal contact with State bank officials discussed with them the advisability of becoming members. On several occasions we have sent officers from our bank to make a direct canvass of the State banks which we thought could be induced by the proper presentation of the matter to become members. I will say, however, these methods have proven only partially successful.

What we have said and written may have put some of them to thinking, which later on bore fruit in the membership that we have obatined. I would say that a large majority of those who have joined our system have done so through imperative necessity to avail themselves of the rediscount privilege. Some few have joined primarily for the protection it offered and for advertising purposes.

As to my opinion on whether or not it is advisable "to attempt to increase the membership of the Federal reserve system," I think it is advisable to increase the membership of the system, and that we should continue our work on the same line as in the past. I think it desirable for the reason that in times of financial stress we are practically forced to indirectly care for the needs of the nonmember State banks, who borrow heavily from their correspondents who are members of the system, and ultimately we have to carry the load. If such State banks were members and carried their reserves with us, our lending power would consequently be increased.

In reply to your inquiry as to the reasons which actuate eligible State banks and trust companies in failing to become members of the system, my observation and experience in this district is that the main objection of a large number of State banks is based on purely selfish grounds, they believing that the benefits accruing from membership would not compensate them for the losses sustained on reserve deposits without interest and the remittance of checks without exchange. In other words, a great many State banks, in my opinion, feel that they get a substantial benefit from the system through their correspondents without having to contribute anything material to it.

Another reason why many country State banks remain out of the system is that they are discouraged from joining by their city correspondents, receiving the assurance from them that they can take care of their requirements.

It seems to me that the Federal Reserve Board has been very liberal in their rules and regulations favorable to the admission of State banks. I have no suggestions to offer as to altering or changing the existing rules and regulations. However, there is one feature in this connection that may be stated. It is that State banks as well as member banks feel that under the provision of the Federal reserve act, in the distribution of the profits of the reserve banks, that they are not treated fairly in such distribution. In other words, they think too great an amount of the earnings goes to the Government, while the member banks contribute fully or more than their share in furnishing capital to the reserve banks to operate upon. Along this line, my suggestion would be to amend the Federal reserve act so that after the expenses of operation and losses are charged off and the 6 per cent dividend paid to the stock-holding banks, that the net profits then be divided one-half to the Government and one-half to the member banks, provided that the 6 per cent dividend to member banks would be considered as a part of the 50 per cent of profits which they would receive. As an example of this contention, the Federal Reserve Bank of Atlanta paid to its member banks in dividends for the year 1921 the sum of $245,861.62 and paid into the United States Treasury $4,480,251.19. If a more equitable division of the profits were given to the member banks I feel that a long step would be taken in gaining membership of good State banks.

In conclusion I may add that nearly all of the large State banks and trust companies in this district have become members of the Federal reserve system. They felt the necessity of it on account of having so many country correspondents, thus needing the protection of the Federal reserve bank, and being able to obtain the privilege of rediscounting in order to take care of their country bank customers.

Very truly yours,

M. B. WELLBORN, *Governor.*

FEDERAL RESERVE BANK OF CHICAGO,
September 18, 1923.

FEDERAL RESERVE BOARD,
Washington, D. C.
(Attention Hon. D. R. Crissinger, governor.)

DEAR SIRS: In further reference to the subject matter in your letter (X-3883), and in response to your request for an expression of my individual views relating to the questions asked by the Joint Committee of Inquiry on Membership in the Federal Reserve System as set forth in the letter addressed to you by Hon. L. T. McFadden, chairman of the committee, I am pleased to advise you as follows:

Question. What is the effect of the present limited membership of State banks and trust companies in the Federal reserve system?

Answer. At the present time approximately 10,000 banks, national and State institutions, are members of the Federal reserve system, and including that class of banks made eligible for membership under the terms of the recent agricultural credits act, there are approximately 13,800 eligible banks which are not members of the system.

The most important result ensuing from the limited membership is that eligible nonmember banks are sharing in the benefits while making no contribution in support of the system. This I believe to be true notwithstanding the provision contained in the Federal reserve act designed to prevent the extension of credit to eligible nonmember banks through the medium of member banks.

Question. Is it or is it not advisable to attempt to increase membership in the Federal reserve system?

Answer. My answer is in the affirmative.

Since, as above stated, eligible nonmember banks are receiving benefits, it would seem advisable that such institutions should become members.

Question. What are the present financial conditions in the agricultural sections?

Answer. While, generally speaking, the available supply of credit throughout this district appears to be ample for legitimate purposes, many banks are still suffering from the effects of overextension during the inflation period, this being evidenced by the fact that they are possessed of an unduly large proportion of unliquid loans. This, I believe, is particularly true with respect to many banks operating in the agricultural sections.

Question. What are the Federal reserve system reasons which actuate eligible State banks and trust companies in failing to become members of the system?

Answer. 1. Loss of interest on reserve deposits.

2. Prejudice unfavorable to membership created by long continued agitation on the part of a small minority of the banks throughout the country hostile to the par collection system.

3. Belief on the part of many eligible nonmember banks that membership in the system would afford no additional facilities beyond those which they now receive from correspondent banks located in the financial centers.

4. In considering the large number of eligible nonmember banks and their reasons for not joining, it should be borne in mind that the character of the business conducted by many of these institutions and the nature of their loans and other assets are such as would make it impossible for them to avail themselves of the credit facilities of the system to any material extent.

Question. What administration measures, if any, have been taken or are being taken to increase such membership?

Answer. The bank relations department of the Federal Reserve Bank of Chicago with an experienced manager and a number of field men visits all member banks from time to time and, moreover, has at all times endeavored in so far as possible to keep eligible nonmember banks informed with respect to the facilities of the system, to answer all questions arising relating to prospective membership, and where called upon, has endeavored to explain just how membership in the system would affect each individual institution.

Question. Should any change be made in the existing law or in the rules and regulations of the Federal Reserve Board?

Answer. I have no suggestions to offer.

Question. Have you any suggestions of change in method of administration to bring about in the agricultural districts a larger membership of State banks and trust companies in the Federal reserve system?

Answer. While, as stated above, this bank has consistently endeavored to inform eligible nonmember banks with respect to the benefits of membership, for two and perhaps three years we have not carried on an aggressive campaign of solicitation. I believe that interest in membership can be stimulated and the membership increased by educating banks and the general public as to what the Federal reserve system is and what it is not. This, in my opinion, is an important and necessary preliminary worthy of consideration.

Respectfully submitted.

J. B. McDOUGAL, *Governor.*

FEDERAL RESERVE BANK OF ST. LOUIS,
September 20, 1923.

Subject: Congressional inquiry on membership in the Federal reserve system.

FEDERAL RESERVE BOARD, *Washington, D. C.*

GENTLEMEN: Replying to your letter of the 8th (X-3883) in regard to the above subject, my views in connection with the questions contained in the letter from the chairman of the congressional Joint Committee on Inquiry on Membership in the Federal Reserve System are as follows:

The "effect of the present limited membership of State banks and trust companies in the Federal reserve system" has been indirectly to throw the credit burden of nonmember banks on the Federal reserve system without their contributing anything to its support. In the majority of instances nonmember banks are accommodated through correspondents which are members of the Federal reserve system. This is practically true even though the paper of nonmember banks is never rediscounted with member banks.

Under normal conditions this perhaps has little effect in the communities served by nonmember banks, but during such a time as the latter part of 1920 it has meant that communities served only by nonmember banks were nothing like as well cared for as the communities served by member banks. This, however, is not the fault of the system, as it can do nothing if nonmember banks do not exercise their option to join. If the communities thoroughly understood the situation they undoubtedly would force the banks to join. Gradually they are beginning to see the necessity of the system. It, however, is a slow process, but one that the congressional committee can help along by the proper publicity.

In considering the advisability of attempting to increase the membership of the Federal reserve system, one must bear in mind that the Federal reserve banks now hold the bulk of the gold reserve of this country; that further membership on the part of State banks does not necessarily result in any increase in the gold holdings of the reserve banks, but does result in an increased responsibility on the part of the reserve banks. This responsibility is one to be gravely considered in view of the fact that State banks are under State examination and supervision, and the character of this service varies greatly in the different States. In some States it is good, in others it is very lax, due to lack of proper appropriation for the procuring of competent examiners, political control, and, in some instances, inadequacy of the State law itself under which the State banking department operates. A careful plan will have to be devised on the part of the Federal reserve system in order that it may keep in accurate touch with the condition of many small State banks in order that the system may not be weakened by their membership rather than strengthened.

In the eighth Federal reserve district, aside from the fact that weather conditions have been adverse for the past few weeks, the agricultural situation is not bad. There is little or no reason why the credit needs of any community in this district served by a well-managed bank, either member or nonmember, should not be taken care of adequately.

The officers of the Federal Reserve Bank of St. Louis have always made it a practice to, whenever called upon or whenever the opportunity was presented, explain the operations of the Federal reserve system, with the object of

aiding prospective members in determining the question of membership. Care has been taken to have the prospective member thoroughly understand what membership in the system means from every angle, and to enable it to come to a correct conclusion as to membership. The officers have not, however, at any time urged banks to act contrary to their own views in the premises.

In my judgment, the principal reasons which result in eligible State banks and trust companies failing to become members of the Federal reserve system are, in the order of their importance, as follows:

(1) No interest paid on reserve balances. At least this is the reason most often given. From the viewpoint of both the prospective member and the member bank this loss is something tangible, and it is rather difficult for the average banker to get a clear idea of the offsetting advantages of membership, which require explanation, and unless the banker is well skilled in banking he can not comprehend them at a glance as he can the loss of interest.

To pay interest on reserve balances would necessitate increased revenue on the part of Federal reserve banks in times of easy money. This would easily easily result in active competition between Federal Reserve Banks and member banks. It is wrong in principle to pay interest on reserves, and, as a rule, member banks appreciate this when the matter can be fully explained to them.

(2) Lack of knowledge of the system.

Lack of knowledge of the system is gradually being overcome, although it is a slow process, as it is educational in its nature. It applies to both members and nonmembers, although naturally to a greater extent to the latter. This bank from the opening of its doors has tried to meet this problem and has done and is doing everything in its power to have member banks, nonmember banks, and the public understand the system.

(3) No difficulty in obtaining necessary accommodation through correspondents, and knowledge that the majority of the facilities of the system can be so obtained.

This requires little further elaboration except to add that many banks have had relations with correspondents of long standing and they hesitate to take any steps that may interfere with such relations even when they realize that membership in the system does not necessarily interfere with the relations already established. They seem to be afraid that it may have a tendency that way. Correspondent banks have not always encouraged them to think otherwise.

(4) Requirements in respect to paper offered for rediscount.

The requirements in respect to eligibility of paper are now extremely liberal, and about the only States that this applies to are those where the individual loan limit is considerably in excess of 10 per cent.

The requiring of financial statements of customers comes under this heading. In fact wherever the requirements raise the standard of banking there is liable to be the unfounded objection of "red tape."

(5) Needs of community or policy of bank does not make rediscounting necessary.

(6) Objection to par clearance of checks.

The objection to par clearance of checks, so far as this district is concerned, is, in my judgment, of minor importance.

(7) Propaganda of those opposed to the system.

Propaganda of those opposed to the system has undoubtedly created a certain amount of distrust on the part of some bankers as to the motives and purposes of the Federal Reserve Board and the management of the Federal reserve banks. It takes time to cure such matters. A more thoroughly informed understanding of the system and a word from a satisfied member will accomplish more than anything else.

Before further legislative or administrative action is taken, it would, in my judgment, be better to devote our efforts to creating a better understanding on the part of the bankers, as well as the general public, of the purposes, the activities and the accomplishments of the Federal reserve banks.

Yours very truly,

D. C. BIGGS, *Governor.*

FEDERAL RESERVE BANK OF MINNEAPOLIS,
September 26, 1923.

FEDERAL RESERVE BOARD,
Washington, D. C.
(Attention Gov. D. R. Crissinger.)

GENTLEMEN: This will acknowledge receipt of your letter No. X-3883 dated September 8, 1923; also, copy of a letter from Congressman L. T. McFadden, chairman of the Joint Committee of Inquiry on Membership in the Federal Reserve System, dated September 6, 1923, No. X-3883a. The following are replies to the inquiries made of you by Congressman McFadden:

1. Is it advisable to attempt to increase the membership of the Federal reserve system?

We believe that it is and that the campaign of the system should be confined entirely to well-managed, solvent institutions.

2. Present financial conditions in the agricultural sections of the United States.

While this district has many industries, primarily, our prosperity depends almost entirely upon the success of the agricultural and livestock industries. Many of our farmers rely entirely upon small grain. In the sections where the people have relied upon small grain, conditions are not good, either because of drouth, grasshoppers, unsatisfactory yields, or because the price received for small grain does not bear a fair relation to the prices the farmers must pay for the actual necessities of life. In sections where farmers have resorted to diversification, principally the dairy cow, conditions are better and, generally speaking banks are not in such an overextended condition and the business of manufacturers, jobbers, wholesalers, and retailers is fair. In the sections where beef cattle are raised conditions are only fair, and some of the cattle people are having a very difficult time, largely because of the great burden of debt that was thrown upon them on account of the unfortunate conditions that existed during the winter of 1919 and 1920. The sheep raisers are in a little better position than cattlemen, and, while the winter of 1919 and 1920 left them with burdens not unlike the cattlemen, still at the same time the satisfactory prices received for the past two years have improved their condition very materially.

3. Reasons which actuate eligible State banks and trust companies in failing to become members of the Federal reserve system.

See memorandum attached.

4. What administration measures have been taken and are being taken to increase membership?

This bank has made an active campaign through the agent's department, also the officers of the bank, for membership. This campaign has covered personal letters, circulars, booklets explaining the advantages of membership, and personal calls of our officers upon State banks that are eligible for membership. We believe that the campaign should be continued but do not know of anything else that we could do in procuring desirable members than we have already done.

5. Should any change be made in the existing law or in the rules and regulations of the Federal Reserve Board?

We do not think so. The present law is very liberal and the regulations of the Federal Reserve Board are such that any good, sound, well-managed institution can obtain membership without difficulty.

6. Any suggestions of change in the method of administration to bring about in the agricultural districts a larger membership of State banks and trust companies in the Federal reserve system.

We do not know of anything but would be glad to consider any suggestions.

While we have enumerated many of the reasons that are given for failure to become members of the Federal reserve system, we are satisfied that the real objection seems to be centered on the one question—reserves upon which they do not receive interest for daily balances. We have a number of State banks in this district that have been conducted in an unusually conservative manner for a number of years, banks whose liquidity, as well as their solidity, is of the highest type. Because of these factors in their management they have been able for the past four strenuous years to rely entirely upon their own resources without seeking outside assistance, or, if they found it necessary to seek outside assistance, because of their high standing and character of their paper, they had no difficulty in procuring such assistance through correspondents in

the larger centers. The result of our inquiries as to why these banks do not join the Federal reserve system seems to be all centered upon the amount of reserve that they are required to carry with us upon which they do not receive interest for daily balances. They feel that the reserves which are carried with city correspondents upon which they receive interest for daily balances are just as good as any reserves which they might carry with the Federal reserve system. Because of this loss of interest on reserves and because our gratuitous services do not offset these losses they feel that membership is just an additional expense, without a corresponding amount of benefits. There are, however, a number of State banks in this district that are members of the Federal reserve system, that are in good liquid condition and that have never used our rediscount facilities. We believe that the active officers in charge of these institutions have looked upon the Federal reserve bank and their membership in a broad way, arriving at the conclusion that any loss in interest that they might take upon the reserve because of membership, is more than offset by the indirect benefits they obtain because of support of the system.

There are also a number of banks in this district at the present time that are in an overextended condition, but not in a particularly precarious condition. We belive that these banks realize what has been done for their competitors who are members of the Federal reserve system, and that as soon as their house is in order they will seek membership in the Federal reserve system, and when they do, they will disregard any loss of interest that they will have to take on account of reserve balances, and become members because they believe it is a good insurance against possible emergencies that may arise in the future.

There are also a number of State banks in this district that are technically eligible for membership, but we question very much whether an examination would disclose a condition that would permit the board to act faovrably upon their application.

Yours respectifully,

R. A. YOUNG, *Governor.*

FEDERAL RESERVE BANK OF MINNEAPOLIS,
September 19, 1923.

Memorandum for Governor Young.
From: Harry Yaeger, assistant deputy governor.
Subject: State member banks.

Referring to copy of a letter from the chairman of the Congressional Joint Committee of Inquiry on Membership in the Federal Reserve System. addressed to Hon. D. R. Crissinger, governor of the Federal Reserve Board at Washington, under date of September 6, it seems to me that it is decidedly advisable to attempt to increase the membership of the Federal reserve system from eligible State banks which are in a satisfactory condition and which are managed by conservative officers and directors, to the end that the Federal reserve banks as a whole may, by the increase of their capital stock and deposit of reserves, be the better able to more effectively serve the productive business of the country as a whole, whether it be in commerce, industry, or agriculture. Analysis has shown that there are numerous ably managed State banks in the ninth Federal reserve district, which are eligible from a capital standpoint.

The letter from the chairman of the Congressional Joint Committee of Inquiry requests, among other things, reasons which actuate eligible State banks and trust companies in failing to become members of the system.

These reasons are mainly selfish. I have found in many instances that the officers of such banks are interested in private business or enterprise; that to finance such business or enterprise they use the club of their reserve account with their city correspondent bank to borrow for such business directly on its obligation or directly themselves, collateraled by the obligation of the enterprise. They fear that any reduction of their reserve balance deposited with such city correspondent, by carrying the portion of reserve with us as required by the Federal reserve act, they might not be able to procure a continuance of such accomodations. The compensation generally paid officers of country and small city banks is not sufficient, together with the income derived from dividends on their stock in such bank, to enable them to assume the position in their several communities which they think is necessary or desirable, and, actuated by the natural impulses, increase their income by

engaging in outside business activities, either insurance, real estate, mercantile business, and very generally in the automobile business. Their connection with such outside business enterprises is not generally known. I have found many responsible bank directors in my discussions with State bank boards and directors, who are financially responsible and who appreciate the advantages of membership, but the cashier or managing officer generally throws a monkey wrench into the machinery because of his personal outside business, by way of various criticisms of our activities. This is not a theory—this is an actual fact, and I have repeatedly seen where the substantial director, not being conversant with banking practices, unconsciously assumes the attitude of the objecting officer.

Another reason for failure to apply for membership is found in the absolute lack of information concerning the rights of a State bank to operate under the Federal reserve act. They do not know that, by the provisions of section 9, they retain, subject to the provisions of the Federal reserve act and to the regulations of the board made pursuant thereto, their full charter and statutory rights as a State bank or trust company and may continue to exercise all complete powers granted them by the State in which they are created. They do not realize that they will be entitled to all of the privileges of member banks. They are also fearful of supervision by the Comptroller of the Currency, and not being acquainted with the provisions of the section of the act which absolutely eliminates his supervision of such State member banks, they confuse the comptroller's office with the Federal reserve bank. Confidentially, in my opinion, the banking departments of many of the States lack both the power and disposition to enforce proper banking methods, as well as the laws of the State. They realize the power of the Federal Government and feel that they would be, not only subject to the additional costs of such examination, but might also be compelled to more rigidly conform to conservative banking practices.

Another reason is found in the fact that the laws of several States permit State banks to make loans to individuals, partnerships, or corporations in an amount greater than they would be permitted to rediscount with the Federal reserve bank. They feel that this class of loans includes what they term their best paper. While they generally feel that this class of paper is of a high quality, more generally the carrying of such loans is the result of very active competition. I have found on numerous occasions in suspended member banks that the carrying of this class of loans is one of the causes of suspension, because the losses therein, if any, are usually of such an amount as to materially impair, if not wipe out, the bank's capital. These bank officers feel there would be an unwarranted supervision of their affairs if they attempted to loan one of their good customers more than 10 per cent of their unimpaired and fully paid in capital and unimpaired surplus. They fear that they would lose business if compelled to carry such loans at a 10 per cent limitation. They do not realize or appreciate that they may lawfully loan good customers the amount permitted by the State statutes. They always insist that as these loans are among their best they should be permitted to offer for rediscount the paper of such borrowers up to 10 per cent of their capital and surplus and make such other and additional advances as may be required by the borrower, up to the percentage amount permitted by the State statutes.

They feel, no matter how lengthy or complete may be the explanation to the contrary, that in rediscounting paper they will encounter much of the so-called red tape—comparing their offerings for rediscount, if they should make them, with other activities with different bureaus of the Government. Each and all of them have at some time had some transaction of a business nature with Government departments and have felt that they were abused, that they were delayed, and that the requirements were entirely too technical. I am not arguing as to the justice of their claims, but only to disclose one of the reasons whey they do not apply for membership.

They all invariably complain about failure to pay interest on their balances, and even when it is pointed out to them that such interest at 2 per cent on the amount they would carry with us in many, many instances would not amount to even a dollar per day for the year, nevertheless this loss is magnified to a point beyond its real dimensions. This is usually the first criticism offered. Actuated by selfish motives, they prefer the old system of counting as reserve such items as they may send their city correspondent banks, which

are immediately charged on their books to the account of such city bank, even though the amount is nothing but float; and under the old system they were paid interest on these amounts from the date of receipt by the city correspondent bank, even though it had not collected such items. The interest on this float was considerable. While the city correspondent banks are now generally paying interest on balances, including funds actually collected, the smaller bank feels that it can draw its drafts against such balances more readily than they could against their reserve account with us, and that they would not be penalized for any deficiency in such reserve. They generally are not inclined to pay much attention to the State statutes which provide that they may not make new loans when their reserve is impaired, and then to add a penalty to that feature they feel that the outlay is an actual cost.

Many banks complain about our par clearance activities. With this you are very familiar, and I do not go into details other than to show that numerous small country banks have in the past been able to procure a substantial portion of their dividend from the aggregate of such charges heretofore made. They feel that if this par clearance activity is pursued to its fullest extent, it is but an entering wedge into the supervision and control of their other activities which result in a profit to their institutions, and that these other actvities may suffer a similar fate and they will be deprived of what they claim is just remuneration for their services.

In the rediscount of paper they were encouraged by their city correspondent banks, before the collapse of 1920, to just send in their note or certificate of deposit to such correspondent with collateral attached. This method of borrowing received a severe setback in 1919 to 1922, because of the condition of such city banks. Since the correspondent banks in the cities have bettered their financial situation they are again suggesting to the country bank that it may obtain more readily and quickly such funds as it requires for its business by borrowing as formerly. They do not appear to be very much concerned with the statement that, if their seasonal rediscounts are normal in amount, they are not compelled to put up additional collateral. They say they might just as well put up $100,000 worth of notes selected at random to secure a $50,000 debt as to carefully select $50,000 of paper and offer it for rediscount to be accompanied by certified copies of signed financial statements, certified copies of chattel mortgages, and otherwise comply with our rediscount requirements. The difference in the rate, being not greater than 1 per cent, if the borrowing of the last amount named was not longer than six months, would amount to but $250, and that this would not be sufficient inducement to them to change their relationships.

They feel that because of their past relations with their correspondent banks they can more easily and readily deposit their valuable papers, such as Liberty loan bonds (including similar valuable papers of their customers), with their correspondent bank and would not be subjected by their city correspondent bank to what they term red tape in procuring a release of such valuable papers held for safe-keeping, as they think would be imposed upon them should they deposit such valuable papers with us.

They are not at all impressed with the rate of dividend on their capital stock investment.

They are not at all impressed with the privilege of making telegraphic or mail transfers, even without cost to themselves, intimating that the regulations incident to advices regarding transfers, drafts, etc., are too cumbersome and in event of failure to properly advise, they feel the draft might be dishonored.

They are not at all impressed with the ability to procure new or fit-for-use currency without cost to themselves. They say they can procure such money as they require from their city correspondent banks, which in turn call upon us for the same.

They are not at all impressed with the fact that they may properly reduce the amount of actual money on hand, thereby using a portion of the amount usually carried for reserve purposes (as to which portion, of course they are not now receiving interest because it lies in their vaults) and thereby lessening the cost of insurance protection and lessening the liability for holdup. I have repeatedly discussed this matter with eligible State banks and found from an examination of their books that they are at all times carrying in their vaults from two to four times the amount of actually necessary funds to handle their daily transactions.

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Lastly, the real main reason, in my judgment, for failure on the part of eligible State banks to join the Federal reserve system is found in the fact that supervision by State banking departments is more or less lax, is more or less under political control, on account of which the managing officer of a large number of such State banks, having in mind the alleged pressure of Federal reserve banks exerted on national member banks during the collapse of 1920, 1921, and 1922, are possessed of unwarranted fear that if they became members of this system they would be compelled to conform more rigidly, not only to the laws of the State under which they operate, but to the regulations of the Federal Reserve Board and Federal Reserve banks. Because of their lack of knowledge and the desire to manage their institutions as they see fit, having listened to demagogic misstatements and having received a lot of misinformation, even from member bank officers who were justly subject to criticism, these State bank officers prefer to continue along the lines of least resistance, following their oldtime practices.

The main reason for failure to join are really but three: First, the fear last above referred to; second, the fear of inability to finance their private enterprises for personal gain, if their reserves with city correspondent banks are lessened; third, failure to receive interest on their reserve accounts with Federal reserve banks.

All of the other reasons suggested above are merely smoke screens to hide the real purpose mentioned in the first and second conclusions herein set forth.

HARRY YAEGER.

FEDERAL RESERVE BANK OF KANSAS CITY,
September 19, 1923.

FEDERAL RESERVE BOARD,
Washington, D. C.

(Attention Governor Crissinger.)

GENTLEMEN: We have given careful consideration to the matter suggested in your letter under date of September 8 (X-3883). I submit the following as the outstanding reasons why, in my judgment, State banks are slow in joining the Federal reserve system:

First. The outstanding reason seems to be that they receive no interest on their reserve balances.

Second. The State laws are much more liberal in their administration of the State banks than those acting under national charter. In most States in the tenth district a State bank is permitted to loan to one person 20 per cent of their capital and surplus, whereas a national bank can only loan 10 per cent.

Third: The national banks are under a more rigid surveillance than are the State banks. State bank examinations are less thorough, all of which appeals to the average State banker. The State laws generally allow them to loan a very much larger percentage on real estate than the national banks.

As a result of this looser administration, I will use the State of Kansas as an example: During the last year we have not had one national bank failure in Kansas, and we have had 28 State bank failures, which is a complete answer to the question, "Which is the better system?" I think it is due very largely to want of understanding of the benefits to be derived from membership in the system. This bank has tried in every way to educate the nonmember banks to the advantages of the system, and in our conversations with many of them they recognize all we tell them, but will turn around and say, "We are getting all the benefits of the system without having to pay any of the expense," and we are conscious that a good many member banks, especially those in the large commercial centers, have advised against the average country bank joining the system, saying, "We are able to take care of you," undoubtedly the member bank fearing that if one of its customers should join the system it would lose a part, at least, of his deposits.

This, to me, covers very largely the reasons why we do not have more State bank members of the Federal reserve system. I think that paying interest on deposits would be impractical.

After careful investigation of the whole situation, we here feel that the above reasons practically cover the grounds contemplated by Congress in appointing a committee to investigate.

Yours very truly,

W. J. BAILEY, *Governor.*

FEDERAL RESERVE BANK OF DALLAS,
September 20, 1923.

FEDERAL RESERVE BOARD,
Washington, D. C.
(Attention Governor Crissinger.)

GENTLEMEN: I have given careful consideration to the board's letter of September 8, 1923 (X–3883), in which request is made for me to give my individual opinion as to the answers which should be made to the questions asked by the congressional Joint Committee of Inquiry on Membership in the Federal Reserve System, and I am pleased to submit my views in connection therewith. It will be understood, of course, that my discussion of the various points raised by the congressional committee is made in the light of conditions and experience in this district.

I. Effect of the present limited membership of State banks and trust companies in the Federal reserve system.

The effect of the present limited membership of State banks and trust companies in the Federal reserve system has been to deprive production interests and commercial business of the benefits that would accrue by reason of a higher standard of banking and business practices made possible by a unified and uniform banking system under which many unsound and hurtful practices could be more effectively dealt with and possibly ultimately eliminated. The mobilization or concentration of the total banking reserves of the district under one agency would work for the good of the entire banking system and the public generally, and credit could be more equitably distributed and better controlled than under the present divided system of banking.

There are at the present time 1,060 nonmember State banks in this district, of which 739 are eligible for membership in the Federal reserve system, 608 of these banks being in the state of Texas. The aggregate capital stock of these 739 banks amounts to $30,983,000, while their aggregate resources total $257,883,000.

II. Is it advisable to attempt to increase the membership of the Federal reserve system?

It is my judgment that every proper and legitimate effort should be put forth to increase membership in the system. A systematic educational campaign should be conducted, designed to acquaint non-members with the advantages of membership. Such a campaign would have a wholesome effect upon the banking situation in general, to say nothing of its tangible results as measured by the number of banks added to the system.

III. Present financial conditions in agricultural sections.

Generally speaking, agricultural communities in the eleventh Federal reserve district are at present experiencing a most satisfactory harvest season, with a corresponding volume of liquidation that is going far toward restoring business and industry in this section to a normal condition. This is principally due to the exceptionally favorable outcome of the 1923 cotton crop in this section, and, to a lesser degree, to the more economical and energetic methods that have been used by the cotton producers during the past growing season. In a few isolated instances, however, there are small areas in the agricultural sections of the district, which due to successive crop failures over a period of several years, have suffered to such an extent that their banks are now in a rather serious condition; although it should be noted that this unfortunate situation has been aggravated, not by the lack of adequate credit, but, to the contrary, by the excessive or injudicious use of credit. In other sections of the district where the livestock industry predominates conditions have become even more acute than those in the farming sections referred to above, due largely to conditions beyond human control. But here again, as many of the producers freely admit, the too free use of credit in previous years has in many instances been a large factor in bringing about the present unfortunate situation. It is my belief that in no instance has an agricultural community in this district ever suffered from being denied credit when applied for by borrowers who were entitled to it for a proper purpose.

IV. Federal reserve system reasons which actuate eligible State banks and trust companies in failing to become members of the Federal reserve system.

I suggest the following as some of the most important reasons which move eligible nonmember banks to remain out of the system:

(*a*) The fact that balances carried with Federal reserve banks are not interest bearing.

(*b*) Limited participation by member banks in the earnings of reserve banks to 6 per cent per annum on their investments in the capital stock of the reserve banks, as now provided by law.

(*c*) Elimination of the opportunity afforded by State laws to use float as reserve, and the requirement of immediately available funds in payment of cash items cleared through the Federal reserve banks.

(*d*) Erroneous idea that transactions incident to membership involve too much "red tape," and in a general way ignorance of the requirements of membership.

(*e*) The fact that officers of many nonmember banks, for whom correspondent banks are carrying personal or individual loans against balances maintained by their banks, might experience some difficulty in floating their paper in the event their institutions were forced by membership in the system to concentrate their reserves with the Federal reserve bank.

(*f*) A disinclination on the part of many nonmember banks, in this district at least, to submit their affairs to examination by representatives of the Federal reserve system because of their fear that their assets will not be found in such condition as will entitle them to membership, together with an exaggerated idea of Federal supervision which member banks believe is involved in membership in the system.

(*g*) Prejudice on the part of nonmembers resulting from propaganda and misinformation promulgated by critics of the system.

V. What administrative measures, if any, have been taken and are being taken to increase membership?

Some years ago this bank waged an intensive membership campaign, both through the mails and by means of our traveling representatives. This resulted in a substantial increase in our membership. Following the war, however, when many of our nonmember banks, as well as member banks, developed a rather extended condition, our activity in the solicitation of nonmembers somewhat abated. At the present time it is our policy to maintain through our member bank relations department and otherwise a relation of friendly contact with nonmember banks, taking advantage of every opportunity to educate them to a better understanding of the system and the advantages of membership generally.

VI. Should any change be made in the existing law or in the rules and regulations of the Federal Reserve Board?

While several amendments to the Federal reserve act have been passed recently making membership in the system more attractive and no doubt even further changes will be made or additional facilities provided as future operations and progress call for them, I can not propose at this time any specific amendment which would be economically sound and at the same time make membership in the system more attractive; except that it is my judgment that the present law should be modified by eliminating the requirement that member State banks bear the cost of examinations by Federal reserve examiners. In this district we have already had a number of complaints concerning this extra expense to which member State banks are subjected and a few are reported to be seriously considering withdrawal from the system, giving the expense of our examinations as one of the principal reasons for their dissatisfaction.

VII. Changes in method of administration to bring about in the agricultural districts a larger membership of State banks and trust companies in the Federal reserve system.

I have no changes in administrative methods to suggest. As a matter of fact I do not believe that any of our member banks have had at any time just cause to criticize our administrative methods so far as they relate to the needs and demands of agriculture.

Respectfully yours,

B. A. McKINNEY, *Governor.*

FEDERAL RESERVE BANK OF SAN FRANCISCO,
September 21, 1923.

The Hon. D. R. CRISSINGER,
Governor Federal Reserve Board, Washington, D. C.

SIR: In compliance with letter X-3883, dated September 8, inclosing copy of letter received by the board from the Hon. L. T. McFadden, chairman of the joint comittee of inquiry on membership in the Federal Reserve System, I beg to inclose herewith some observations in response to the inquiries indicated in that letter.

Inasmuch as a discussion of the question asked, and particularly suggested, directly and by implication would involve a very comprehensive discussion of the organization and operation of the system and prove much too voluminous for the board's use, I have confined myself to brief observations, which, of course, are merely individual opinions.

It appears to me that great benefit might result from the careful formulation of a program of inquiry to be followed by this committee in obtaining information which they are to seek, and that the brief paragraph in the act is not adequate for this purpose.

Yours very truly,

JNO. U. CALKINS,
Governor.

MEMORANDUM IN RESPONSE TO FEDERAL RESERVE BOARD'S X–3883, DATED SEPTEMBER 8, 1923

Subject: Congressional inquiry on membership in the Federal reserve system.

Effect of present limited membership of State banks and trust companies in the Federal reserve system: The limited number of State banks and trust companies in the Federal reserve system has been seriously detrimental to the proper distribution of credit, particularly in some agricultural sections, where had a larger proportion of the banks had access to the Federal reserve banks, credit could have been better applied and in many cases embarrassment of borrowers and failure of banks avoided.

Whether or not it is advisable to attempt to increase the membership of the Federal reserve system: Increased membership in the Federal reserve system is desirable and would benefit the banks as well as the commerce of the country. The operation of the system has appreciably improved banking practice and member banks, and this influence should be continued, developed, and applied to as many of the banks of the country as possible.

Advice upon the present financial conditions in the agricultural sections of the United States: Indications are that conditions agriculturally on the whole are better to-day than they have been in the twelfth district for three years.

In the State of Washington there has been distress in grain sections in the eastern counties, but almost everywhere in those counties indications point to abundant crops this year. Banks which have been in a badly extended condition for the past three years have the fullest anticipation (and it appears justified) that liquidation arising from the 1923 crops will at least place them in an easy condition, and, although they may not fully liquidate their borrowings, they will be able to face the future with confidence.

In other areas in the eastern counties in which the banks became and were left extended as the result of their 1922 operations, a measure of liquidation is anticipated which will allow them to proceed into the 1924 farming operations without a carried-over borrowed indebtedness.

In the entire eastern portion of Oregon, which is largely a grain and livestock country, the banks have suffered quite severely during the past three years. However, almost everywhere 1923 crops have been excellent, and sufficient liquidation therefrom is expected by all of the banks to justify the belief that they will become extricated from their difficulties. Those banks which have a large cattle clientele are not anticipating any material liquidation this year. However, the number of such banks is small and we feel confident that ultimately even those banks will be able to get on a firm basis.

In California there is no unusual strain on credit in any of the rural communities.

In Arizona, there are no financial centers with resources adequate to finance the cotton crops and the livestock industry, both of which are large as compared with Arizona's banking resources. However, financial aid (particularly for the financing of the cotton crop) has been made available when necessary through banks in Los Angeles, Calif.

Generally speaking, the member banks in Arizona have been able to function normally during the past 12 months. However, there are several isolated cases of banks which became dangerously extended during the period in which cotton values diminished very appreciably. Those banks which have not yet

fully recovered should be able to obtain liquidation from this year's crop sufficient to restore them to sound condition.

Utah: For the most part, the banks in Utah, outside of those situated in the cattle areas, have operated normally in the financing of the 1922 and 1923 crops. There are only a few banks which are in an extended condition, and even those banks should get on a firm footing after the marketing of the 1923 crops. The extended banks which are principally serving cattle clients are marking time, and it will depend on the future of the stock-raising industry whether or not they can survive.

Nevada: In Nevada there seems to be adequate financial resources to finance agriculture and the livestock industry, of which the latter predominates. Nevada possesses a number of very large livestock concerns which do not rely solely on Nevada's banking resources for financial credit. Generally speaking, the banks of Nevada have kept themselves remarkably clean during the past three years without withholding from agriculture (including livestock) credit for operating purposes.

Idaho: The northern section of the State (which is situated in the Spokane branch territory) has fared very well during the past few years. Grain crops have yielded sufficient returns to enable the banks generally to avoid becoming in an extended condition.

In southeastern Idaho (which territory is affiliated with the Salt Lake City branch) a very different situation has existed during the past few years. The area referred to is that along and tributary to the Snake River. The gravest banking problems in this area can be attributed mainly to two causes, improvident banking and misfortune. In 1920 crop failures were very general. In 1921 disastrous deflation in commodity values left debts unliquidated. In 1922 some crops were failures either from the standpoint of yield or returns, and other crops were lost. Bank failures naturally brought deposit withdrawals, and in many cases the banks' resources were so depleted that very extensive borrowing was necessary. Due to the weakened condition of many of the banks, and the depleted resources of their agricultural customers, it has been difficult for the banks to produce paper which would form an acceptable basis for obtaining credit either from the Federal reserve bank or elsewhere.

A very large proportion of the paper which the Federal reserve bank now holds from banks in that section has been carried from two to three years. For the production of the 1922 and 1923 crops, farmers generally have found it difficult to obtain additional credit; first, because their financial resources have been practically exhausted as the result of several consecutive years of crop failure or ruinous prices, or both; second, because outstanding debts to their banks were already overbalanced; and third, because many of the banks themselves had exhausted their ability to obtain further credit. The banks in southeastern Idaho experienced a more general and more drastic shrinkage in deposits than anywhere else in the district. This shrinkage in deposits not having been accompanied by an offsetting liquidation of receivables, left the banks without recourse except to realize on their receivables at the Federal reserve bank or elsewhere, so far as it was possible to do so. In some cases failure was avoided only by recourse to heavy assessments of or contribution by stockholders. In others, where this was impossible, failure followed. Nevertheless, the situation in Idaho is improving, and it is anticipated that, after returns from the 1923 crops have been received, the banks in southeastern Idaho will be in better condition than they have been for three years. 1923 crops have been exceedingly abundant, and returns therefrom should liquidate some portion of the farmers' borrowings carried over from unsuccessful years.

Reasons which actuate eligible State banks and trust companies in failing to become members of the Federal reserve system:

1. Belief that membership would be unprofitable.
2. Apprehension of more "Government supervision" and curtailment of operations permitted by State laws.
3. Unwillingness to disturb or discontinue long-established and comfortable relations with correspondents and depositaries.
4. Belief that membership would subject them to supervision and restriction by Comptroller of the Currency.
5. Lack of real understanding of the provisions of the law and operation of the Federal reserve banks and reluctance to investigate and thoroughly consider advantages, largely due to prejudice and influence of antagonistic publicity.

6. In the case of many banks, some very large, whose business is mainly or largely savings business, the conviction that membership entails no advantages not obtainable from depositary banks, which pay liberal interest on balances. In some cases this conviction is not due to prejudice or disapproval, but is based on careful calculation and consideration.

7. In some agricultural communities bankers are influenced by the allegation that the Federal reserve system is responsible for the farmers' distress or by the fact that their farmer clients believe that allegation.

Administrative measures which have been taken or are being taken to increase State bank membership:

During the latter part of 1919 and the early part of 1920 a very exhaustive campaign for State bank membership was carried on in the twelfth district. The managers of the five branches visited the State banks in their respective communities and attended meetings of bankers for the purpose of explaining the workings of the Federal reserve system and the advantage of membership therein. In addition to the work of the branch managers there was employed at the head office for the period of one year an experienced man, who not only cooperated with the branch managers but covered the banks in the home office territory as well as visiting many of the banks in other parts of the district. Being an experienced lawyer also, he reviewed the laws of the various States with the idea of having enabling legislation enacted making it possible or more desirable for State banks to join the system. It was only after the enactment of these laws that banks in California—which now have resources aggregating $1,125,000,000—were able advantageously to become members.

Whether * * * any change should be made in the existing law or in the rules and regulations of the Federal Reserve Board.

EXISTING LAW

The existing law should be carefully revised for the purpose of clarifying its provisions and removing uncertainties and ambiguities and rendering it easily understandable and its application certain. This would involve no radical revision of underlying principles and should make it possible to minimize the regulations of the board, inasmuch as if the provisons of the law were clear and ambiguous, much of what is now necessary in the way of interpretative regulation would be unnecessary.

The act should be amended to make provision for examination of all member banks by the Federal reserve banks without charge to the banks examined, except in those cases where it is necessary to make frequent examination, when the bank examined should be penalized by a charge.

The provision of the act governing reserves as applied to savings or time deposits should be amended for the purpose of making its intent clear.

The provisions of the act governing branch banking by member State banks should be amplified so that this subject might be fully covered by the law rather than by regulation.

REGULATIONS OF THE BOARD

The regulations of the board should be condensed and minimized. With proper clarification of the law this could be accomplished, with resulting improvement in operation of banks, as well as satisfaction to member banks, who find it difficult to follow the ramifications of more or less frequently changed regulations.

Suggestion of change in method of administration to bring about in the agricultural districts a larger membership of State banks and trust companies in the Federal reserve system.

So far as our experience goes in this district, no change in administration would result at this time in larger membership in agricultural sections unless such change resulted in practices not contemplated in the act or consistent with sound banking practice.

A summary of State bank membership and a list of banks in each of the seven States in this district, showing number of State member banks, eligible nonmember banks, and noneligible banks, together with percentage of number of member banks and percentage of resources of member banks to the total eligible, is attached hereto.

DIGEST OF REPLIES OF GOVERNORS OF FEDERAL RESERVE BANKS TO INQUIRIES OF JOINT CONGRESSIONAL COMMITTEE ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM

I. IN GENERAL

The following is a digest of the replies submitted by the governors of the respective Federal reserve banks to the inquiries of the Joint Congressional Committee on Membership in the Federal Reserve System. For convenience these replies have been grouped under 15 topics, and under each topic the replies of the various governors have been arranged in the numerical order of their respective districts.

II. EFFECT OF LIMITED MEMBERSHIP OF STATE BANKS AND TRUST COMPANIES

1. Harding, Boston: I do not regard the limited membership of these institutions as being altogether unfortunate. Quality should always be considered in the membership of the system, and I have no doubt that there are some undesirable members. It is equally true, however, that there are many nonmember banks whose acquisition would be desirable. I believe that there is a gradually developing sentiment among bank depositors throughout the country that the safest and most reliable depositaries are the member banks. This sentiment ebbs and flows, but gains additional strength whenever clouds appear upon the financial horizon. In my opinion, the influence of the Federal Reserve Board and the respective Federal reserve banks should be exerted upon the member banks in such a way as to justify and foster the faith of the public in member banks.

2. Case, New York: The proportion of membership in this district is relatively high. Out of a total of 1,183 banks, 830, or 70 per cent, are members of the Federal reserve system. The division by States is as follows:

	Member banks	Total banks	Percentage of membership
New York (entire)	614	870	71
New Jersey (12 counties)	204	283	72
Connecticut (1 county)	12	30	40
Total		1,183	

With this high proportionate membership, and partly because of it, the banks of this district were not affected by the adverse economic conditions of 1920 and 1921 to the same extent as were the banks in parts of the country where membership was less general. There were, in fact, no instances of bank failure during this period which could be attributed to general banking or economic conditions. A substantial number of banks temporarily affected through the dereliction of officers or from other causes were able to meet demands upon them through their relation to the Federal reserve system, together with the assistance of national or State banking departments. This is a condition which has been more or less general in Federal reserve districts having a large proportion of member banks.

The question, however, can not be answered from the limited experience of one district. In the country as a whole one-third of the banks belong to the Federal reserve system. But this one-third represents approximately two-thirds of the total banking resources of the country; membership has appealed more generally to the larger city banks. Hence the Federal reserve system has been able to exercise its influence more generally in the centers of population than in the rural communities. In those States where membership was proportionately smallest it was natural that the credit-making power of the Federal reserve system should be least available to the public. Nevertheless it can not be doubted that even in those regions where the Federal reserve system was unable to exercise a direct influence nonmember banks secured benefits indirectly through correspondent member banks.

3. Norris, Philadelphia: Assuming that it was the intention of the framers of the Federal reserve act to create a general banking system for the United

States in which all of the national banks and most of the State banks would be included, it is regrettable that this expectation has not been fully realized. Aside from that general consideration, however, I can not see that the fact that the number of State banks which have availed themselves of membership in this district is comparatively small has had any distinct effect upon financial or business conditions.

5. Seay, Richmond: The abstract of condition reports of State bank and trust company members and of all member banks compiled by the Federal Reserve Board as of June 30, 1923 (Rept. No. 21), showed that the aggregate resources of all member banks of the Federal reserve system were $33,795,000,000. The report of the Comptroller of the Currency as of June 30, 1922, showed that the aggregate resources of all reporting banks in the United States and island possessions were $50,425,000,000. Assuming that the aggregate was practically the same as of June 30, 1923, the resources of the members of the Federal reserve system constituted 66 per cent of all banking resources of the country.

The comptroller's report of June 30, 1922, showed the aggregate resources of 18,232 State (commercial) banks in the country to be $13,054,000,000 and the resources of 1,550 loan and trust companies to be $8,553,000,000, so that the aggregate resources of 19,782 commercial State banks and loan and trust companies combined were $21,617,000,000. The aggregate resources of 1,620 State bank and trust company members of the Federal reserve system, as shown in the board's report No. 21, on June 30, 1923, were $12,293,000,000, so that the Federal reserve system embraced about 60 per cent of the aggregate resources of all commercial State bank and trust companies, although it embraced but little more than 8 per cent in the number of such commercial State bank and trust companies.

Furthermore, taking the aggregate resources of the commercial State banks and loan and trust companies as of June 30, 1922, amounting to $21,617,000,000, and adding to that sum the aggregate resources of national banks, as shown by the comptroller's report on April 3, 1923, $21,612,000,000, making the total resources of commercial State banks, loan and trust companies, and national banks $43,229,000,000, it will be seen that the Federal reserve system comprises about 78 per cent of the total commercial banking resources of the country, although it comprises only about one-third of the number of all such banks and trust companies; that is, 1,620 State banks and trust companies and 8,236 national banks out of a total of 29,724 of all commercial banks and loan and trust companies. It is to be taken into account that a very considerable number of State banks are not eligible for membership. The board is probably in position to determine the number of eligible State banks out of this total.

It is apparent that the Federal reserve system embraces a sufficiently large proportion of the volume of commercial banking resources of the country to render its credit power and influence thoroughly effective, as proved during the war period, when the demands upon it were probably greater than will ever again be the case. The effect of the present limited membership of State banks is, therefore, clearly negligible or limited when we consider whether the credit and currency issuing power of the system is adequate for the commercial needs of the country. This has been proven.

6. Wellborn, Atlanta: Nearly all of the large State banks and trust companies in this district have become members of the Federal reserve system. They felt the necessity of it on account of having so many country correspondents, thus needing the protection of the Federal reserve bank and being able to obtain the privilege of rediscounting in order to take care of their country bank customers.

7. McDougal, Chicago: At the present time approximately 10,000 banks, National and State institutions, are members of the Federal reserve system, and including that class of banks made eligible for membership under the terms of the recent agricultural credits act there are approximately 13,800 eligible banks which are not members of the system.

The most important result ensuing from the limited membership is that eligible nonmember banks are sharing in the benefits while making no contribution in support of the system. This I believe to be true notwithstanding the provision contained in the Federal reserve act designed to prevent the extension of credit to eligible nonmember banks through the medium of member banks.

8. Biggs, St. Louis: The "effect of the present limited membership of State banks and trust companies in the Federal reserve system" has been indirectly to throw the credit burden of nonmember banks on the Federal reserve system without their contributing anything to its support. In the majority of instances nonmember banks are accommodated through correspondents which are members of the Federal reserve system. This is practically true even though the paper of nonmember banks is never rediscounted with member banks.

Under normal conditions this perhaps has little effect in the communities served by nonmember banks, but during such a time as the latter part of 1920 it has meant that communities served only by nonmember banks were nothing like as well cared for as the communities served by member banks. This, however, is not the fault of the system, as it can do nothing if nonmember banks do not exercise their option to join. If the communities thoroughly understood the situation, they undoubtedly would force the banks to join. Gradually they are beginning to see the necessity of the system. It, however, is a slow process, but one that the congressional committee can help along by the proper publicity.

11. McKinney, Dallas: The effect of the present limited membership of State banks and trust companies in the Federal reserve system has been to deprive production interests and commercial business of the benefits that would accrue by reason of a higher standard of banking and business practices made possible by a unified and uniform banking system under which many unsound and hurtful practices should be more effectively dealt with and possibly ultimately eliminated. The mobilization or concentration of the total banking reserves of the district under one agency would work for the good of the entire banking system and the public generally, and credit could be more equitably distributed and better controlled than under the present divided system of banking.

There are at the present time 1,060 nonmember State banks in this district, of which 739 are eligible for membership in the Federal reserve system, 608 of these banks being in the State of Texas. The aggregate capital stock of these 739 banks amounts to $30,983,000, while their aggregate resources total $257,883,000.

12. Calkins, San Francisco: The limited number of State banks and trust companies in the Federal reserve system has been seriously detrimental to the proper distribution of credit, particularly in some agricultural sections where had a larger proportion of the banks had access to the Federal reserve banks credit could have been better applied and in many cases embarrassment of borrowers and failure of banks avoided.

III. ADVISABILITY OF INCREASING MEMBERSHIP

1. Harding, Boston. I doubt the wisdom of undertaking a systematic campaign along revival or campmeeting lines to increase the membership. The reasons which actuate desirable nonmember banks to remain aloof should, however, be carefully analyzed, and if any of these reasons are well founded, steps should be taken either by appropriate changes in the regulations of the board or by amendment of the Federal reserve act to remove any valid objections which may be heard.

2. Case, New York. An indirect influence is never as effective as a direct influence. From the standpoint of the Federal reserve banks, misinterpretations of the acts and purposes of the system have been most general in those regions where its influence was felt indirectly; and from the standpoint of the nonmember banks the indirect relation has limited their ability to adjust themselves to varying economic conditions. If the influence of the Federal reserve system is to be of maximum effect and benefit, indirect relations must yield to direct relations and the proportion of membership must increase.

The system is bound to move in one direction or another; its membership will increase or decrease. Any large decrease will impair its ability to serve the credit needs of the country, not only because the member banks, which are the principal means for making Federal reserve credit available to the country, will become fewer, but because the credit-making powers of the Federal reserve banks themselves will be lessened.

Individually both member and nonmember banks will benefit from an extension of membership. In a crisis the member banks now have to provide

credit for many nonmember banks, which may involve additional expense to the latter and possible danger to both.

Outside but expert testimony on the benefits of a wider extension of membership is furnished in a resolution adopted by the directors of the National Association of Credit Men on September 20, 1923:

"The Federal reserve system has saved the country from several panics, and if the present membership has rendered so great a service to the country no stretch of imagination is required to appreciate how very safe we would be if every qualified bank were to enter the system."

A larger membership would make credit more generally available, not only because the Federal reserve banks would have added credit-making power but because that credit would reach the users of credit more directly. This would result to the special advantage of those regions where membership is now less general, and where in emergencies credit is inadequately supplied.

3. Norris, Philadelphia. For the purpose of doing what lies in our power to carry out the assumed intention of the Congress, we have always been alert to increase the membership of the system, but we have always done this quietly and without admitting any great interest in the matter. We believe that this is the proper policy, and shall continue to follow it unless directed to the contrary. We think that any concerted and public attempt to increase membership would be a mistake. In the first place, we doubt whether it would be as effective as the methods which we are now following. In the second place, it would be regarded as a confession of weakness or failure, or at least a dissatisfaction with present conditions. In the third place, if it had any result at all, that result would probably be to bring in applications from institutions which would be the least desirable members. It would be difficult to refuse their applications in the face of a campaign for additional membership, and such refusal might have serious results to them.

5. Seay, Richmond. Whether it is advisable to attempt to increase the membership of the Federal reserve system, therefore, must be considered from the point of view of whether the system can be made of greater usefulness through incrased membership, regardless of whether the acquisition of a large number of State bank members would strengthen the system. It is the usefulness of the system to the banks and the public rather than the strengthening of the Federal reserve system which is the issue. As to the enlarged usefulness of the system to the public and the banks through increased State bank membership, it is to be considered whether the State banks now out of the system do not derive all practical benefits possible through the present membership of the system. As bearing upon one feature of this question, it is pertinent to state that at the height of credit expansion in 1920, our member banks were lending about one-third of all the funds which they were borrowing from us to nonmember banking institutions. At the present time, nonmember banks enjoy, indirectly through member banks, practically all of the advantages of the credit and collection facilities of the Federal reserve system.

The effect of this is to divide banks into two classes, one class contributing to the resources for the maintenance of the Federal reserve system and bearing whatever burdens may be incident to the creation and existence and operation of the system, and the other class enjoying the fruits thereof and the protection without any contribution. Thus member banks which solicit and cater to the accounts of nonmember banks are accustomed to offer all the credit and conveniences and facilities, practically, which the Federal reserve banks could offer, although they are able to offer these privileges to a very material extent only because of their membership in the Federal reserve system. At least, membership in the system gives them such a feeling of strength and security that they are in a better position to offer such facilities to nonmember banks than before the organization of the system.

A very large number of member banks, however, do not carry the accounts of other banking institutions, and it is such banks which naturally feel that they are contributing the means of protection which is being accorded to nonmember banks of the system and bearing burdens incident thereto. This would naturally engender a feeling of discontent. The feeling is intensified in many cases by the fact that nonmember banks can collect checks on them through the Federal reserve system free of charge, while they must bear in many cases the expense of collecting on those nonmember banks; either they are compelled to pay a direct exchange charge or compelled to keep a larger compensating balance.

It appears to be desirable that all eligible commercial banking institutions should be included in, or contribute to the maintenance and operation of, the Federal reserve system, if only to equalize the burden which is necessary to be borne in order that the system may be maintained. When the word "burden" is used, it is in a comparative sense; for it is easy to demonstrate that, notwithstanding any specific burden, the advantages to the banking business of the country overwhelmingly outweigh the cost of any contribution made by members to the maintenance of the system. To prove this, it needs but to be stated that the banking business of the country, measured by the volume of resources of the banking institutions, has grown as much, or practically as much, during the eight years of operation of the Federal reserve system as it grew from the foundation of the Republic up to that time.

6. Wellborn, Atlanta: I think it is advisable to increase the membership of the system and that we should continue our work on the same line as in the past. I think it desirable for the reason that in times of financial stress we are practically forced to indirectly care for the needs of the nonmember State banks who borrow heavily from their correspondents who are members of the system, and ultimately we have to carry the load. If such State banks were members and carried their reserves with us, our lending power would consequently be increased.

7. McDougal, Chicago: My answer is in the affirmative. Since, as above stated, eligible nonmember banks are receiving benefits, it would seen advisable that such institutions should become members.

8. Biggs, St. Louis: In considering the advisability of attempting to increase the membership of the Federal reserve system, one must bear in mind that the Federal reserve banks now hold the bulk of the gold reserves of this country; that further membership on the part of State banks does not necessarily result in any increase in the gold holdings of the reserve banks, but does result in an increased responsibility on the part of the reserve banks. This responsibility is one to be gravely considered in view of the fact that State banks are under State examination and supervision, and the character of this service varies greatly in the different States. In some States it is good, in others it is very lax, due to lack of proper appropriation for the procuring of competent examiners, political control, and, in some instances, inadequacy of the State law itself under which the State banking department operates. A careful plan will have to be devised on the part of the Federal reserve system in order that it may keep in accurate touch with the condition of many small State banks, in order that the system may not be weakened by their membership rather than strengthened.

9. Young, Minneapolis: We believe that it is and that the campaign of the system should be confined entirely to well-managed solvent institutions.

11. McKinney, Dallas: It is my judgment that every proper and legitimate effort should be put forth to increase membership in the system. A systematic educational campaign should be conducted, designated to acquaint nonmembers with the advantages of membership. Such a campaign would have wholesome effect upon the banking situation in general, to say nothing of its tangible results as measured by the number of banks added to the system.

12. Calkins, San Francisco: Increased membership in the Federal reserve system is desirable and would benefit the banks as well as the commerce of the country. The operation of the system has appreciably improved banking practice and member banks, and this influence should be continued, developed, and applied to as many of the banks of the country as possible.

IV. PRESENT FINANCIAL CONDITIONS AND AGRICULTURE

1. Harding, Boston: I have already forwarded to the board a report on conditions in the most distinctive agricultural section of this district, viz, Aroostook County, Me. I do not know of any special agricultural credit problems elsewhere in New England. The legislation of 1922 is, in my opinion, an admission on the part of Congress that the administration of the Federal reserve system under the law as it stood in the years 1920–21 was not in any way responsible for the adverse conditions in agricultural sections, and I do not know of any further amendments to the Federal reserve act with respect to the agricultural credits that are either necessary or desirable. Time should be allowed for testing the efficacy of the amendments already made.

5. Seay, Richmond: The financial conditions in the agricultural sections of this district give evidence of material improvement. The money outcome of current crops will add to this improvement, and a large volume of liquidation is expected from the sale of this year's crops. Generally speaking, the recovery from distressing conditions has been more rapid than could have been anticipated. The losses of certain individuals and certain communities were, of course, heavier than the losses of others, and the recovery in such cases will be slower. This opinion is confined to this district.

7. McDougal, Chicago: While, generally speaking, the available supply of credit throughout this district appears to be ample for legitimate purposes, many banks are still suffering from the effects of overextension during the inflation period, this being evidenced by the fact that they are possessed of an unduly large proportion of unliquid loans. This, I believe, is particularly true with respect to many banks operating in the agricultural sections.

9. Biggs, St. Louis: In the eighth Federal reserve district, aside from the fact that weather conditions have been adverse for the past few weeks the agricultural situation is not bad. There is little or no reason why the credit needs of any community in this district served by a well-managed bank, either member or nonmember, should not be taken care of adequately.

9. Young, Minneapolis: While this district has many industries, primarily our prosperity depends almost entirely upon the success of the agricultural and livestock industries. Many of our farmers rely entirely upon small grain. In the sections where the people have relied upon small grain conditions are not good, either because of drought, grasshoppers, unsatisfactory yields, or because the price received for small grain does not bear a fair relation to the prices the farmers must pay for the actual necessities of life. In sections where farmers have resorted to diversification, principally the dairy cow, conditions are better, and, generally speaking, banks are now in such an overextended condition and the business of manufacturers, jobbers, wholesalers, and retailers is fair. In the sections where beef cattle are raised conditions are only fair, and some of the cattle people are having a very difficult time, largely because of the great burden of debt that was thrown upon them on account of the unfortunate conditions that existed during the winter of 1919 and 1920. The sheep raisers are in a little better position than cattlemen; and while the winter of 1919 and 1920 left them with burdens not unlike the cattlemen, still at the same time the satisfactory prices received for the past two years have improved their condition very materially.

11. McKinney, Dallas: Generally speaking, agricultural communities in the eleventh Federal reserve district are at present experiencing a most satisfactory harvest season, with a corresponding volume of liquidation that is going far toward restoring business and industry in this section to a normal condition. This is principally due to the exceptionally favorable outcome of the 1923 cotton crop in this section and, to a lesser degree, to the more economical and energetic methods that have been used by the cotton producers during the past growing season. In a few isolated instances, however, there are small areas in the agricultural sections of the district which, due to successive crop failures over a period of several years, have suffered to such an extent that their banks are now in a rather serious condition, although it should be noted that this unfortunate situation has been aggravated not by the lack of adequate credit but, to the contrary, by the excessive or injudicious use of credit. In other sections of the district where the livestock industry predominates conditions have become even more acute than those in the farming sections referred to above, due largely to conditions beyond human control. But here again, as many of the producers freely admit, the too free use of credit in previous years has in many instances been a large factor in bringing about the present unfortunate situation. It is my belief that in no instance has an agricultural community in this district ever suffered from being denied credit when applied for by borrowers who were entitled to it for a proper purpose.

12. Calkins, San Francisco: Indications are that conditions agriculturally on the whole are better to-day than they have been in the twelfth district for three years.

In the State of Washington there has been distress in grain sections in the eastern counties, but almost everywhere in those counties indications point to abundant crops this year. Banks which have been in a badly extended condition for the past three years have the fullest anticipation (and it appears justified) that liquidation arising from the 1923 crops will at least place them in an easy condition, and, although they may not fully liuqidate their bor-

rowings, they will be able to face the future with confidence. In other areas in the eastern counties in which the banks became and were left extended as the result of their 1922 operations, a measure of liquidation is anticipated which will allow them to proceed into the 1924 farming operations without a carried-over borrowed indebtedness.

In the entire eastern portion of Oregon, which is largely a grain and livestock country, the banks have suffered quite severely during the past three years. However, almost everywhere 1923 crops have been excellent, and sufficient liquidation therefrom is expected by all of the banks to justify the belief that they will become extricated from their difficulties. Those banks which have a large cattle clientele are not anticipating any material liquidation this year. However, the number of such banks is small and we feel confident that ultimately even those banks will be able to get on a firm basis.

In California there is no unusual strain on credit in any of the rural communities.

In Arizona there are no financial centers with resources adequate to finance the cotton crops and the livestock industry, both of which are large as compared with Arizona's banking resources. However, financial aid (particularly for the financing of the cotton crop) has been made available when necessary through banks in Los Angeles, Calif. Generally speaking, the member banks in Arizona have been able to function normally during the past 12 months. However, there are several isolated cases of banks which became dangerously extended during the period in which cotton values diminished very appreciably. Those banks which have not yet fully recovered should be able to obtain liquidation from this year's crop sufficient to restore them to sound condition.

Utah: For the most part the banks in Utah, outside of those situated in the cattle areas, have operated normally in the financing of the 1922 and 1923 crops. There are only a few banks which are in an extended condition, and even those banks should get on a firm footing after the marketing of the 1923 crops. The extended banks which are principally serving cattle clients are marking time, and it will depend on the future of the stock-raising industry whether or not they can survive.

Nevada: In Nevada there seem to be adequate financial resources to finance agriculture and the livestock industry, of which the latter predominates. Nevada possesses a number of very large livestock concerns which do not rely solely on Nevada's banking resources for financial credit. Generally speaking, the banks of Nevada have kept themselves remarkably clean during the past three years without withholding from agriculture (including livestock) credit for operating purposes.

Idaho: The northern section of the State has fared very well during the past few years. Grain crops have yielded sufficient returns to enable the banks generally to avoid becoming in an extended condition. In southeastern Idaho a very different situation has existed during the past few years. The area referred to is that along and tributary to the Snake River. The gravest banking problems in this area can be attributed mainly to two causes, improvident banking and misfortune. In 1920 crop failures were very general. In 1921 disastrous deflation in commodity values left debts unliquidated. In 1922 some crops were failures either from the standpoint of yield or returns, and other crops were lost. Bank failures naturally brought deposit withdrawals, and in many cases the bank's resources were so depleted that very extensive borrowing was necessary. Due to the weakened condition of many of the banks, and the depleted resources of their agricultural customers, it has been difficult for the banks to produce paper which would form an acceptable basis for obtaining credit either from the Federal reserve bank or elsewhere. A very large proportion of the paper which the Federal reserve bank now holds from banks in that section has been carried from two to three years. For the production of the 1922 and 1923 crops, farmers generally have found it difficult to obtain additional credit, first, because their financial resources have been practically exhausted as the result of several consecutive years of crop failure or ruinous prices, or both, second, because outstanding debts to their banks were already overbalanced, and, third, because many of the banks themselves had exhausted their ability to obtain further credit. The banks in southeastern Idaho experienced a more general and more drastic shrinkage in deposits than anywhere else in the district. This shrinkage in deposits not having been accompanied by an offsetting liquidaton of receivables, left the banks without recourse except to realize on their receivables at the Federal reserve bank or

elsewhere, so far as it was possible to do so. In some cases failure was avoided only by recourse to heavy assessments of or contribution by stockholders. In others, where this was imposible, failure followed. Nevertheless, the situation in Idaho is improving, and it is anticipated that, after returns from the 1923 crops have been received the banks in southeastern Idaho will be in better condition than they have been for three years. Nineteen hundred and twenty-three crops have been exceedingly abundant, and returns therefrom should liquidate some portion of the farmers' borrowings carried over from unsuccessful years.

V. REASONS WHICH ACTUATE ELIGIBLE STATE BANKS IN FAILING TO BECOME MEMBERS

1. Harding, Boston: During the early weeks of my incumbency here I found that there was a strong sentiment among many of the member banks, as well as the nonmember banks, that the Federal reserve banks should pay interest on deposits. I took some pains to point out, however, that in order for the bank to pay interest it must increase its earnings very considerably and that in order to increase its earnings it would be obliged to engage so extensively in open-market operations as to put it in active competition with member and nonmember banks, and that such a policy would also destroy its character as a reserve bank, for by having its assets actively employed at all times it would have no means of assisting member banks in times of emergency. These arguments have proved effective, and for some months past I have heard of no sentiment in favor of interest on deposits.

There is, however, a feeling that the reserve bank is distinctly a Government institution and that the member banks have no actual part or interest in its affairs. No interest is taken in the election of Class "A" and Class "B" directors, and there is absolutely no feeling of proprietorship on the part of member banks.

Also suggests that member banks should receive a large share of the profits of Federal reserve banks.

2. Case, New York: A. *Cost.*—Because of the loss of interest on balances, inability to count cash in value as reserve, and limited dividends, the argument of cost is most often encountered. Yet the officers and other representatives of the bank who are most closely in contact with member banks, have found that in most cases membership in the Federal reserve system involved no, or very little, additional expense. It does not appear, generally speaking, that membership has resulted in reduced profits to State banks either through loss of interest on reserve balances formerly kept with city correspondents or through loss of exchange on checks; where earnings have been reduced in one direction they have been increased in others. The special services afforded by the system and the earmark of security which membership gives is usually regarded as ample compensation for any additional expense incurred.

Few country bankers have a cost-accounting system which enables them to compute precisely the cost of membership. The most obvious factor as an active deterrent to membership is the loss of the interest which the country banker has been earning on his reserve balance with his city correspondent. Under the Federal reserve act country member banks are obliged to keep 7 pr cent of their demand deposits as reserve wholly with the Federal reserve bank. Under the national bank act a country national bank had to keep 6 per cent in vault and was permitted to keep an additional 9 per cent on deposit in a reserve or central reserve city, making a total reserve requirement of 15 per cent. Superficially the reserve requirement for country member banks under the Federal reserve system is 7 per cent, as compared with 15 per cent formerly required under the national bank act. But actually there should be added to the 7 per cent which country banks are required to keep on deposit with the Federal reserve banks the following amounts, which are not counted as reserve:

	Per cent.
Cash in vault, about	3
Float, about	2½
Balance with city correspondents, about	2
Total, about	7½

Thus the reserve actually required of country national banks is very close to the reserve previously required, and the amount on which interest is earned is much reduced. In the case of New York State country banks, for which the

State law requires only a 10 per cent reserve, the loss in interest on reserve deposits is even more pronounced.

It has been observed, however, that country bankers are now thinking less and less about the loss of interest on reserves. They recognize the fact that if the Federal reserve banks in seasons of slack credit demand, as well as in seasons of active credit demand, were obliged to pay interest on deposits, they would be obliged at all times to invest their funds freely and in consequence would necessarily compete with banks everywhere. They recognize also that such action by the Federal reserve banks would create forced inflation, with all the evils appertaining to it. Latterly the country banker in this district has argued rather that his participation in the earnings of the Federal reserve bank should not be limited to 6 per cent on his stock ownership, and that in years when Federal reserve profits warranted the member banks should share somewhat more largely in those earnings.

The loss in exchange on checks is not at present a factor of importance in this district since all banks, whether member or nonmember, pay their checks at par.

In summary of the foregoing, there are certain tangible losses which country banks in this district may have to incur if they join the Federal reserve system. Balanced against these are intangible benefits derived from the services rendered by the Federal reserve banks, the advertising value attaching to membership, and added insurance in times of severe credit demand. These benefits if fully taken advantage of permit the country banker to operate more effectvely and therefore more profitably.

B. *Ability to secure benefits from correspondents.*—Many country bankers believe that through their city correspondents they can obtain many of the benefits of membership indirectly and at the same time secure from their city correspondents advantages and services which the Federal reserve banks are not in a position to give. It is undoubtedly true that certain of the services performed by city banks for their country correspondents can not be performed by the Federal reserve banks. The latter have confined themselves to giving mechanical sevices as distinguished from such services as giving information and advice on securities, lending money on call or tme, affordng participations in loans and syndicates, purchasing commercial paper, etc. These and other similar services the city banks can and do render to their country correspondents, and in consideration of them many country banks maintain balances with one or more city correspondents.

The services which the Federal reserve banks render are of a nature consistent with the purposes of the Federal reserve system and include the supplying of currency and coin, the collection of checks, the collection of noncash items, the safe-keeping of securities, the purchase and sale of securities on instruction, the transfer of funds by wire, etc. Many of these services are interrelated with other operations of the reserve banks and tend to give the country member banks a participation in the benefits of the system equal to those enjoyed by city member banks. Many of them are of such a character that they can not be carried on as expeditiously by city correspondents or in the gross so economically as by the Federal reserve banks.

These services are important factors in insuring the permanency of the Federal reserve system, because through them the Federal reserve banks are constantly in contact with the member banks, and without them contact with member banks, particularly country member banks, would be impaired. To most State banks the value of these services rendered directly and without cost constitute a benefit which considerably offsets the expenses involved in membership. To county national banks whose membership is compulsory as long as they remain in the national system the services are often important considerations in determining their continuance as national banks.

Further, the services tend to make the Federal reserve system a living bank organization, because efficiency of operation can not be effected on an emergency basis. The services are sufficiently continuous to insure the maintenance of a well-knit organization available for use at all times, emergency or otherwise. A Federal reserve system regarded solely or mainly as a means to supply currency and credit in emergencies is a Federal reserve system frozen and without human relation.

No correspondent bank can give the same services as the Federal reserve bank as directly or as fully, and when the city correspondent serves as the medium through which these services are rendered, expense of handling is

incurred, and that expense naturally falls upon the user of the services, namely the country banker.

Most of the Federal reserve banks maintain limited organizations which maintain, by visit and otherwise, relations with member banks. Their main function has been to ascertain and eliminate the difficulties which country banks have met in their various dealings with the reserve banks. They have also informed the country banks how to make most effective use of Federal reserve services. They have done much to place country banks on a parity with city banks in their relations to the Federal reserve system.

C. *State laws.*—In the States of New York and New Jersey State reserve requirements are no longer effective on member banks—on the contrary, a State bank becoming a member of the Federal reserve system only. In the State of Connecticut, however, State reserve requirements are still effective against member banks. There State laws require the retention of a certain amount of cash in vault and specify the type of security in which savings deposits may be invested. Thus upon Connecticut State banks which join the Federal reserve system two sets of reserve requirements are effective, those of the State and those of the Federal reserve banks—and in every item the more stringent of the two sets of regulations prevail. Consequently State banks which become members of the Federal reserve system are often in unfavorable competition with both National banks and State banks. Therefore many State banks are deterred from becoming members.

D. *Inconvenience of further examinations and supervision.*—In times past there has been considerable complaint of the number of reports required by the Comptroller of the Currency and reserve banks and particularly of "interference in banking methods" on the part of bank examiners. Recently there have been fewer complaints of this character. Many of these complaints were based upon misunderstanding and in general may be regarded as an unimportant factor in restraining banks in this district from joining the system.

A more positive deterring influence has been a reluctance on the part of State banks to submit to an examination prepartory to entrance into the reserve system. These cases have resulted usually from the possession of slow or doubtful assets which might be criticized, and discussion of this as a restraining factor may therefore be dismissed.

3. Norris, Philadelphia: The eligible State banks which fail to become members of the Federal Reserve System belong in almost every case to one or more of the following eight classes:

1. Those whom it would not pay to lose interest on their cash reserves.
2. Those whose affairs are not in such condition that they care to submit to examination.
3. Those who feel that they obtain most of the advantages of membership through a correspondent bank or banks.
4. Those who have an idea that membership would subject them to some sort of Federal control or restriction.
5. Those which have among their officers or directors one or two old-fashioned men who are constitutionally prejudiced against "new things" and whose prejudices the majority do not care to override.
6. Those who are merely ignorant and uninterested.
7. Those who have been advised against membership by State officials or by their correspondent banks.
8. Those who have little or no paper eligible for discount.

4. Fancher, Cleveland: There are a number or reasons advanced by the eligible State banks in this district for not becoming members of the Federal reserve system, the principal ones being —

1. Nonpayment of interest on reserve balances.
2. Inability of the Federal reserve bank to collect at par all of its cash items.
3. Fear that membership will mean the preparation and filing of numerous reports.
4. Fear that a certain amount of red tape is required in dealings with the Federal reserve bank.
5. Fear of Government control.

The last three reasons are assumed and can be met readily.

In attempting to offset the first two reasons by explaining the advantages which would accrue through membership in the system we are often confronted by what, to us, appears to be one of the prniciple reasons why more eligible State banks are not members of the Federal reserve system; that is, that we

have in our present membership too many banks that are "passive" rather than "active" in the support of the system.

We have found on numerous occasions when discussing memoership with a State bank or trust company that they have been advised by representatives of the larger banks with whom reserve balances were maintained not to become members; that their needs had been provided for in the past; that they would be taken care of in the future; that the larger banks were equipped to extend many services that could not be extended by the Federal reserve bank, and that the smaller bank was not manned to furnish the numerous reports and certain other requirements of the Federal reserve bank with respect to sorting of checks and currency.

In the smaller towns when a prospective member consulted with a neighboring member, we have found that very often no enthusiasm over membership was displayed.

The greatest aid in obtaining new members, would be the active cooperation of a satisfied membership. Consequently, any amendments to the Federal reserve act that would make membership more popular would help solve the problem.

The greatest degree of dissatisfaction exists with banks located outside the centers. Many of this class of banks feel that the banks in the centers enjoy advantages and profit thorugh membership to a greater extent than they. One thing that might be done to meet this objection is to permit a more liberal basis for computation of reserves on the part of the 7 per cent reserve bank by allowing this class of banks to deduct from their deposits the amount of cash items for collections in the hands of the Federal reserve bank before computing their reserves.

National bank members complain about the limitations imposed in making mortgage loans, and their enthusiasm for the system would be increased if they were permitted to lend a greater proportion of their time deposits on mortgage security of the same kind and under the same conditions as are permitted to State banks. This complaint and request comes principally from the 7 per cent banks.

Another objection that is raised is lack of participation in the earnings of the Federal reserve bank. Many banks feel that something more than a 6 per cent dividend on their capital payment is due them.

5. Seay, Richmond: A very large part of State banks remain out of the system from selfish regard for immediate profits; all other reasons are wholly subordinate to this one.

State banking laws in many States permit a greater freedom of operation and do not impose in some cases that reasonable and wholesome restraint which should be exercised by law over all banking institutions. Supervision of banking practices in many States is not as thorough as membership in the Federal reserve system would necessarily entail. It is possible and probable that this greater freedom of action influences a certain number of banks. Many banking institutions combine a commercial banking business (requiring, according to experience, the maintenance of proper reserves) with business of other character, and they desire to be free from the burden of maintaining a specified reserve. This applies to a considerable number of trust companies. It is undoubted that the facilities offered to nonmember banks by those banks within the system constitute a very powerful reason for their remaining out of the system.

There is believed to be a very strong undercurrent of feeling that the Federal reserve act is not sufficiently liberal to member banks in fundamental principles. The member banks provide the capital and the deposits of reserve banks. While these contributions are not the only source of earning power of Federal reserve banks—the issue of currency being a material source of earning power—the member banks are believed to feel that they are entitled to a greater degree of ownership in Federal reserve bank assets and earnings than they are accorded by law.

It is believed to be a fact that in some sections of the country a number of State banks have remained and are remaining out of the system because if they became members they would have to give up exchange charges. It is probable that any plan which would result in making par clearance general and settle the question finally and forever would result in considerable addition to the membership of the Federal reserve system. This, perhaps, is another indication of selfish regard for immediate profits which tends to keep State banks out of the system.

With or without justification, there appears to be a feeling, at least on the part of some member banks—and that to a considerable extent—that the Federal reserve banks are more governmental banks than is justified by their inherent structure; that is, justified by the fact that the resources of the member banks only render the existence of the reserve banks possible. It is not intended to imply in the foregoing the belief that the management of reserve banks could safely be left to member banks. The experience in bringing about the enactment of the reserve act and the long delay required are proof conclusive to the contrary. Since popularity of the reserve system is partly involved in membership, it is pertinent to allude to a feeling that is believed to exist; that the structure of the reserve act invites, in some respects, political interference to a greater degree than is wholesome or safe.

6. Wellborn, Atlanta: My observation and experience in this district is that the main objection of a large number of State banks is based on purely selfish grounds, they believing that the benefits accruing from membership would not compensate them for the losses sustained on reserve deposits without interest and the remittance of checks without exchange. In other words, a great many State banks, in my opinion, feel that they get a substantial benefit from the system, through their correspondents, without having to contribute anything material to it.

Another reason why many country State banks remain out of the system is that they are discouraged from joining by their city correspondents, receiving the assurance from them that they can take care of their requirements.

7. McDougal, Chicago: A. Loss of interest on reserve deposits.

B. Prejudice unfavorable to membership created by long-continued agitation on the part of a small minority of the banks throughout the country hostile to the par collection system.

C. Belief on the part of many eligible nonmember banks that membership in the system would afford no additional facilities beyond those which they now receive from correspondent banks located in the financial centers.

D. In considering the large number of eligible nonmember banks and their reasons for not joining, it should be borne in mind that the character of the business conducted by many of these institutions and the nature of their loans and other assets are such as would make it impossible for them to avail themselves of the credit facilities of the system to any material extent.

8. Biggs, St. Louis: A. No interest paid on reserve balances. At least this is the reason most often given. From the viewpoint of both the prospective member and the member bank this loss is something tangible, and it is rather difficult for the average banker to get a clear idea of the offsetting advantages of membership, which require explanation, and unless the banker is well skilled in banking he can not comprehend them at a glance as he can the loss of interest.

To pay interest on reserve balances would necessitate increased revenue on the part of Federal reserve banks in times of easy money. This could easily result in active competition between Federal reserve banks and member banks. It is wrong in principle to pay interest on reserves and, as a rule, member banks appreciate this when the matter can be fully explained to them.

B. Lack of knowledge of the system. Lack of knowledge of the system is gradually being overcome, although it is a slow process, as it is educational in its nature. It applies to both members and nonmembers, although naturally to a greater extent to the latter. This bank from the opening of its doors has tried to meet this problem and has done and is doing everything in its power to have member banks, nonmember banks, and the public understand the system.

C. No difficulty in obtaining necessary accommodation through correspondents, and knowledge that the majority of the facilities of the system can be so obtained. This requires little further elaboration except to add that many banks have had relations with correspondents of long standing and they hesitate to take any steps that may interfere with such relations, even when they realize that membership in the system does not necessarily interfere with the relations already established. They seem to be afraid that it may have a tendency that way. Correspondent banks have not always encouraged them to think otherwise.

D. Requirements in respect to paper offered for rediscount. The requirements in respect to eligibility of paper are now extremely liberal, and about the only States that this objection applies to are those where the individual loan limit is considerably in excess of 10 per cent.

The requiring of financial statements of customers comes under this heading. In fact wherever the requirements raise the standard of banking there is liable to be the unfounded objection of "red tape."'

E. Needs of community or policy of bank does not make rediscounting necessary.

F. Objection to par clearance of checks. The objection to par clearance of checks, so far as this district is concerned, is, in my judgment, of minor importance.

G. Propaganda of those opposed to the system. Propaganda of those opposed to the system has undoubtedly created a certain amount of distrust on the part of some bankers as to the motives and purposes of the Federal Reserve Board and the management of the Federal reserve banks. It takes time to cure such matters. A more thoroughly informed understanding of the system and a word from a satisfied member will accomplish more than anything else.

9. Young, Minneapolis: These reasons are mainly selfish. I have found in many instances that the officers of such banks are interested in private business or enterprise; that to finance such business or enterprise they use the club of their reserve account with their city correspondent bank to borrow for such business directly on its obligation or directly themselves, collateraled by the obligation of the enterprise. They fear that any reduction of their reserve balance deposited with such city correspondent, by carrying the portion of reserve with us as required by the Federal reserve act, they might not be able to procure a continuance of such accommodations.

Another reason for failure to apply for membership is found in the absolute lack of information concerning the rights of a State bank to operate under the Federal reserve act. They do not know that by the provisions of section 9, they retain, subject to the provisions of the Federal reserve act and to the regulations of the board made pursuant thereto, their full charter and statutory rights as a State bank or trust company and may continue to exercise all complete powers granted them by the State in which they are created. They do not realize that they will be entitled to all of the privileges of member banks. They are also fearful of supervision by the Comptroller of the Currency, and not being acquainted with the provisions of the section of the act which absolutely eliminates his supervision of such State member banks, they confuse the comptroller's office with the Federal reserve bank. The banking departments of many of the States lack both the power and disposition to enforce proper banking methods, as well as the laws of the State. They realize the power of the Federal Government and feel that they would be not only subject to the additional costs of such examination, but might also be compelled to more rigidly conform to conservative banking practices.

Another reason is found in the fact that the laws of several States permit State banks to make loans to individuals, partnerships, or corporations in an amount greater than they would be permitted to rediscount with the Federal reserve bank. They feel that this class of loans includes what they term their best paper, while they generally feel that this class of paper is of a high quality, more generally the carrying of such loans is the result of very active competition.

They feel, no matter how lengthy or complete may be the explanation to the contrary, that in rediscounting paper they will encounter much of the so-called red tape—comparing their offerings for rediscount, if they should make them, with other activities with different bureaus of the Government. Each and all of them have at some time had some transaction of a business nature with Government departments and have felt that they were abused, that they were delayed, and that the requirements were entirely too technical.

They all invariably complain about failure to pay interest on their balances, and even when it is pointed out to them that such interest at 2 per cent on the amount they would carry with us in many, many instances would not amount to even a dollar per day for the year, nevertheless this loss is magnified to a point beyond its real dimensions. Actuated by selfish motives, they prefer the old system of counting as reserve such items as they may send their city correspondent banks, which are immediately charged on their books to the account of such city banks, even though the amount is nothing but float; and under the old system they were paid interest on these amounts from the date of receipt by the city correspondent bank, even though it had not collected such items. The interest on this float was considerable. While the city correspondent banks are now generally paying interest on balances, including funds actually collected, the smaller bank feels that it can draw its

drafts against such balances more readily than they could against their reserve account with us, and that they would not be penalized for any deficiency in such reserve. They generally are not inclined to pay much attention to the State statutes which provide that they may not make new loans when their reserve is impaired and then to add a penalty to that feature, they feel that the outlay is an actual cost.

Many banks complain about our par clearance activities. Numerous small country banks have in the past been able to procure a substantial portion of their dividend from the aggregate of such charges heretofore made. They feel that if this par clearance activity is pursued to its fullest extent, it is but an entering wedge into the supervision and control of their other activities which result in a profit to their institutions, and that these other activities may suffer a similar fate and they will be deprived of what they claim is just remuneration for their services.

In the rediscount of paper they were encouraged by their city correspondent banks, before the collapse of 1920, to send in their note or certificate of deposit to such correspondent with collateral attached. This method of borrowing received a severe set back in 1919 to 1922, because of the condition of such city banks. Since the correspondent banks in the cities have bettered their financial situation they are again suggesting to the country bank that it may obtain more readily and quickly such funds it requires for its business by borrowing as formerly. They do not appear to be very much concerned with the statement that if their seasonal rediscounts are normal in amount they are not compelled to put up additional collateral. They say they might just as well put up $100,000 worth of notes selected at random to secure a $50,000 debt, as to carefully select $50,000 of paper and offer it for rediscount, to be accompanied by certified copies of signed financial statements, certified copies of chattel mortgages, and otherwise comply with our rediscount requirements. The difference in the rate, being not greater than 1 per cent, if the borrowing of the last amount named was not longer than six months, would amount to but $240, and that this would not be sufficient inducement to them to change their relationships.

They feel that because of their past relations with their correspondent banks they can more easily and readily deposit their valuable papers, such as Liberty loan bonds—including similar valuable papers of their customers—with their correspondent bank, and would not be subjected by their city correspondent bank to what they term red tape in procuring a release of such valuable papers held for safe-keeping as they think would be imposed upon them should they deposit such valuable papers with us.

They are not at all impressed with the rate of dividend on their capital-stock investment.

They are not at all impressed with the privilege of making telegraphic or mail transfers, even without cost to themselves, intimating that the regulations incident to advices regarding transfers, drafts, etc., are too cumbersome, and in event of failure to properly advise they feel the draft might be dishonored.

They are not at all impressed with the ability to procure new or fit-for-use currency without cost to themselves. They say they can procure such money as they require from their city correspondent banks, which in turn call upon us for the same.

They are not at all impressed with the fact that they may properly reduce the amount of actual money on hand, thereby using a portion of the amount usually carried for reserve purposes—as to which portion, of course, they are not now receiving interest, because it lays in their vaults—and thereby lessening the cost of insurance protection and lessening the liability for holdup.

The main reason for failure on the part of eligible State banks to join the Federal reserve system is found in the fact that supervision by State banking departments is more or less lax, is more or less under political control, on account of which the managing officer of a large number of such State banks, having in mind the alleged pressure of Federal reserve banks exerted on national member banks during the collapse of 1920, 1921, and 1922, are possessed of an unwarranted fear that if they became members of this system they would be compelled to conform more rigidly, not only to the laws of the State under which they operate but to the regulations of the Federal Reserve Board and Federal reserve banks. Because of their lack of knowledge and the desire to manage their institutions as they see fit, having listened to demagogic misstatements and having received a lot of misinformation, even from member-bank officers who were justly subject to criticism, these State-bank officers

prefer to continue along the lines of least resistance, following their old-time practices.

The main reasons for failure to join are really but three: First, the fear last above referred to; second, the fear of inability to finance their private enterprises for personal gain if their reserves with city correspondent banks are lessened; third, failure to receive interest on their reserve accounts with the Federal reserve banks. All of the other reasons suggested above are merely smoke screens to hide the real purpose mentioned in the first and second conclusions herein set forth.

While we have enumerated many of the reasons that are given for failure to become members of the Federal reserve system, we are satisfied that the real objection seems to be centered on the one question—reserves upon which they do not receive interest for daily balances. We have a number of State banks in this district that have been conducted in an unusually conservative manner for a number of years, banks whose liquidity, as well as their solidity, is of the highest type. Because of these factors in their management they have been able for the past four strenuous years to rely entirely upon their own resources without seeking outside assistance, or, if they found it necessary to seek outside assistance, because of their high standing and character of their paper they had no difficulty in procuring such assistance through correspondents in the large centers. The result of our inquiries as to why these banks do not join the Federal reserve system seems to be all centered upon the amount of reserve that they are required to carry with us upon which they do not receive interest for daily balances. They feel that the reserves which are carried with city correspondents, upon which they receive interest for daily balances, are just as good as any reserves which they might carry with the Federal reserve system. Because of this loss of interest on reserves and because our gratuitous services do not offset these losses they feel that membership is just an additional expense without a corresponding amount of benefits. There are, however, a number of State banks in this district that are members of the Federal reserve system, that are in good liquid condition, and that have never used our rediscount facilities. We believe that the active officers in charge of these institutions have looked upon the Federal reserve bank and their membership in a broad way, arriving at the conclusion that any loss in interest that they might take upon the reserve because of membership is more than offset by the indirect benefits they obtain because of support of the system.

There are also a number of banks in this district at the present time that are in an overextended condition but not in a particularly precarious condition. We believe that these banks realize what has been done for their competitors who are members of the Federal reserve system, and that as soon as their house is in order they will seek membership in the Federal reserve system; and when they do they will disregard any loss of interest that they will have to take on account of reserve balances and become members because they believe it is a good insurance against possible emergencies that may arise in the future.

There are also a number of State banks in this district that are technically eligible for membership, but we question very much whether an examination would disclose a condition that would permit the board to act favorably upon their application.

10. Bailey, Kansas City: First. The outstanding reason seems to be that they receive no interest on their reserve balances.

Second. The State laws are much more liberal in their administration of the State banks than those acting under national charter. In most States in the tenth district a State bank is permitted to loan to one person 20 per cent of their capital and surplus, whereas a national bank can loan only 10 per cent.

Third. The national banks are under a more rigid surveillance than are the the State banks. State banks examinations are less thorough, all of which appeals to the average State banker. The State laws generally allow them to loan a very much larger percentage on real estate than the national banks.

As a result of this looser administration, I will use the State of Kansas as an example: During the last year we have had one national bank failure in Kansas, and we have had 28 State bank failures, which is a complete answer to the question, "Which is the better system?" I think it is due very largely to want of understanding of the benefits to be derived from membership in the system. This bank has tried in every way to educate the nonmember banks to the advantages of the system and in our conversations with many of them they recognize all we tell them, but will turn around and say, "We are get-

ting all the benefits of the system without having to pay any of the expense," and we are conscious that a good many member banks, especially those in the large commercial centers, had advised against the average country bank joining the system, saying, "We are able to take care of you," undoubtedly the member bank fearing that if one of its customers should join the system, it would lose a part, at least, of his deposits.

11. McKinney, Dallas: (*a*) The fact that balances carried with Federal reserve banks are not interest bearing.

(*b*) Limiting participation by member banks in the earnings of reserve banks to 6 per cent per annum on their investments in the capital stock of the reserve banks, as now provided by law.

(*c*) Elimination of the opportunity afforded by State laws to use float as reserve, and the requirement of immediately available funds in payment of cash items cleared through the Federal reserve banks.

(*d*) Erroneous idea that transactions incident to membership involve too much "red tape" and in a general way ignorance of the requirements of membership.

(*e*) The fact that officers of many nonmember banks, for whom correspondent banks are carrying personal or individual loans against balances maintained by their banks, might experience some difficulty in floating their paper in the event their institutions were forced by membership in the system to concentrate their reserves with the Federal reserve bank.

(*f*) A disinclination on the part of many nonmember banks, in this district at least, to submit their affairs to examination by representatives of the Federal reserve system because of their fear that their assets will not be found in such condition as will entitle them to membership, together with an exaggerated idea of Federal supervision which many member banks believe is involved in membership in the system.

(*g*) Prejudice on the part of nonmembers resulting from propaganda and and misinformation promulgated by critics of the system.

12. Calkins, San Francisco: 1. Belief that membership would be unprofitable.

2. Apprehension of more "Government supervision" and curtailment of operations permitted by State laws.

3. Unwillingness to disturb or discontinue long established and comfortable relations with correspondents and depositaries.

4. Belief that membership would subject them to supervision and restriction by Comptroller of the Currency.

5. Lack of real understanding of the provisions of the law and operation of the Federal reserve banks, and reluctance to investigate and thoroughly consider advantages, largely due to prejudice and influence of antagonistic publicity.

6. In the case of many banks, some very large, whose business is mainly or largely savings business, the conviction that membership entails no advantages not obtainable from depositary banks, which pay liberal interest on balances. In some cases this conviction is not due to prejudice or disapproval, but is based on careful calculation and consideration.

7. In some agricultural communities bankers are influenced by the allegation that the Federal reserve system is responsible for the farmers' distress or by the fact that their farmer clients believe that allegation.

VI. ADMINISTRATIVE MEASURES TAKEN TO INCREASE MEMBERSHIP

1. Harding, Boston: Quite recently the Boston clearing house has inaugurated a movement to bring about a closer contact and keener interest on the part of member banks, believing that it is useless to attempt to bring in nonmember banks and State banks as long as there is an aloofness and lukewarmness on the part of member banks. Enthusiasm is contagious, and whenever member banks become active partisans of the system State banks will apply for membership.

It has been suggested that at the next annual meeting of the New England Bankers' Association one session be set aside for a meeting of the stockholders of the Federal reserve bank. This meeting will elect its own chairman and will call for such information as stockholders usually receive at meetings, and will also elect for the term of one year an executive committee of seven. This committee will receive complaints or suggestions from member banks and will

take them up with officers and directors of the Federal reserve bank. Being representative of the stockholders, conversations can be held with this committee by the officers of the reserve bank on questions of mutual interest without fear of the imputation of favoritism, which might be the case at present if the opinions of officers of two or three banks were sought. In view of the fact that the New England Bankers' Association does not meet until next June, the Boston clearing house has requested the president of the bankers' association to serve until the stockholders' meeting next June. The president of the Massachusetts Bankers' Association has appointed two members of the committee, and one member has been or will be appointed from each of the other New England States. This committee is expected to meet in the near future and will probably have some suggestions to make to the board before the meeting of Mr. McFadden's committee in October.

3. Norris, Philadelphia: We have constantly in mind those institutions which it would be most desirable to secure as members. When the traveling representatives of our bank relations department are in a town they always call upon the nonmember as well as upon the member institutions. The officers of this bank seek contacts with the officers of these desirable institutions at conventions, group meetings, or other visits to their neighborhood. We avail ourselves of every opportunity to show any courtesy, and whenever the opportunity offers, without seeming to unduly press the matter, we talk membership to them. We believe that if a large number of small or undesirable institutions became members it would have little or no effect—possibly a bad effect—upon the larger and more desirable institutions, but each time we get an institution of the latter class it makes it easier to secure ultimately such as we want of the former class.

4. Fancher, Cleveland: While we have no one actively engaged in direct solicitation of membership, our officers and our field men of our member bank relations department do not overlook an opportunity to develp prospects or to take advantage of inquiries from eligible banks to explain the various benefits of the system.

5. Seay, Richmond: Recent amendments to the Federal reserve act materially reduce the capital requirements of State banks. In this connection it is pertinent to point out that State banks have all the advantages of national banks as members of the Federal reserve system in addition to the broader privileges sometimes granted by a State charter. The matter of capital of the smaller banks is one of these, but it is one which the State banks have no right to feel strengthens their position. Beyond doubt there are too many small banking institutions—many of them not qualified by experience or otherwise for the proper conduct of the banking business. This is not intended to be the advancement of a theory but a statement of fact.

It is not believed to be desirable to directly and indiscriminately solicit membership of State banking institutions, but, rather, to set forth as well as may be done the advantages of membership in the system, the protection which the system affords to the banking business in general, and the vital necessity for the maintenance of the system for the conduct and growth and preservation against disaster of the banking business of the country, leaving the invitation to all qualified and eligible banks to enter the system.

If it is possible, it should be brought about that it be not made to the special interests of member banks to keep State banks out of the system on account of the value of their reserve accounts. All Federal reserve banks—or most of them, if not all—maintain special departments to cultivate the good will and understanding of all banks with which they come in contact (whether members or nonmembers) and to spread an understanding of the operations and benefits of Federal reserve banks. Further than this, which, indeed, is an important feature of the conduct of the Federal reserve banks, no administration measures in this bank have been taken to increase membership. Many State banks, at least in this district, while eligible so far as capital requirements are concerned, are far from eligible because of other conditions surrounding their management. It would be a considerable time before all State banking institutions technically eligible for membership could be admitted into the system.

6. Wellborn, Atlanta: Our bank has pursued an active policy, endeavoring to persuade and induce State banks in our district which are eligible to become members. We have had some success along these lines, but not as much as we expected and should have had, in view of the credit conditions existing in the district. At this date there are 1,680 State banks in the sixth (Atlanta) Fed-

eral reserve district. Of these only 147 are members. There are 148 State banks ineligible for membership on account of having a capital of less than $15,000, about 100 of them being in Tennessee and the balance of 48 scattered throughout Alabama, Mississippi, and Louisiana.

We have tried in various ways to obtain a larger membership of State banks. The officers of our bank regularly each year attend the various group meetings and State conventions of bankers, and have always in their addresses and in personal contact with State bank officials discussed with them the advisability of becoming members. On several occasions we have sent officers from our bank to make a direct canvass of the State banks which we thought could be induced by the proper presentation of the matter to become members. I will say, however, these methods have proven only partially successful.

What we have said and written may have put some of them to thinking, which later on bore fruit in the membership that we have obtained. I would say that a large majority of those who have joined our system have done so through imperative necessity to avail themselves of the rediscount privilege. Some few have joined primarily for the protection it offered and for advertising purposes.

7. McDougal, Chicago: The bank relations department of the Federal Reserve Bank of Chicago, with an experienced manager and a number of field men, visits all member banks from time to time, and, moreover, has at all times endeavored in so far as possible to keep eligible nonmember banks informed with respect to the facilities of the system, to answer all questions arising relating to prospective membership, and, where called upon, has endeavored to explain just how membership in the system would affect each individual institution.

8. Biggs, St. Louis: The officers of the Federal Reserve Bank of St. Louis have always made it a practice to, whenever called upon or whenever the opportunity was presented, explain the operations of the Federal reserve system, with the object of aiding prospective members in determining the question of membership. Care has been taken to have the prospective member thoroughly understand what membership in the system means from every angle, and to enable it to come to a correct conclusion as to membership. The officers have not, however, at any time urged banks to act contrary to their own views in the premises.

9. Young, Minneapolis: This bank has made an active campaign through the agents' department, also the officers of the bank, for membership. This campaign has covered personal letters, circulars, booklets explaining the advantages of membership, and personal calls of our officers upon State banks that are eligible for membership. We believe that the campaign should be continued, but do not know of anything else that we could do in procuring desirable members than we have already done.

11. McKinney, Dallas: Some years ago this bank waged an intensive membership campaign, both through the mails and by means of our traveling representatives. This resulted in a substantial increase in our nonmember banks as well as member banks, developed a rather extended condition—our activity in the solicitation of nonmembers somewhat abated. At the present time it is our policy to maintain through our member bank relations departmentand otherwise a relation of friendly contact with nonmember banks, taking advantage of every opportunity to educate them to a better understanding of the system and the advantages of membership generally.

12. Calkins, San Francisco: During the latter part of 1919 and the early part of 1920 a very exhaustive campaign for State bank membership was carried on in the twelfth district. The managers of the five branches visited the State banks in their respective communities and attended meetings of bankers for the purpose of explaining the workings of the Federal reserve system and the advantage of membership therein. In addition to the work of the branch managers there was employed at the head office for the period of one year an experienced man who not only cooperated with the branch managers but covered the banks in the home-office territory, as well as visiting many of the banks in other parts of the district. Being an experienced lawyer also he reviewed the laws of the various States, with the idea of having enabling legislation enacted making it possible or more desirable for State banks to joint the system. It was only after the enactment of these laws that banks in California (which now have resources aggregating $1,125,000,000) were able advantageously to become members.

VII. SUGGESTED CHANGES IN LAW AND REGULATIONS

1. Harding, Boston: I may say that there is a general feeling among the New England bankers that section 7 of the Federal reserve act shoud be amended; not with the view of depriving the Government of revenue but rather with the idea of making the system a mutual one. It is argued that as section 7 now stands, there is no reason why member banks should take any particular interest in the system. The dividends on their stock at 6 per cent per annum are cumulative and are a fixed charge on the net earnings, but the Government gets all the rest. Even the surplus will go to the Government in the event of final liquidation. It has been pointed out that Congress has been more liberal in this respect to the farm-loan banks than it has to the Federal reserve banks, for the capital of the farm-loan banks was supplied originally by the Treasury of the United States, although the joint-stock land banks have now relieved the Treasury of by far the larger part of its stock holdings in the farm-loan banks. Farm-loan banks are exempt from all taxes except as to real estate owned; their bonds as well as those of the joint-stock land banks are exempt from income taxes, and the earnings are applied to the payment of dividends to stockholders, to the creation of a surplus, and the remainder is distributed to borrowers as a rebate of interest.

In the case of the Federal reserve banks the capital was supplied entirely by the member banks, which also furnish the deposits. The Government's sole contribution was $100,000 which was appropriated to pay the expenses of the organization committee, of which amount $17,000 was turned back into the Treasury. The Government has received so far $135,000,000 from the Federal reserve banks as franchise taxes, and it has also had the benefit of their services as fiscal agents, the value of which would be hard to estimate. It is argued that the only real contribution that the Government makes to the Federal reserve banks is the Federal reserve note, and that is a contribution only to the extent to which the Federal reserve note is not specifically covered by a gold reserve.

There is undoubtedly a strong feeling throughout New England that there should be an equitable division of the profits, if any, of the Federal reserve banks. It has been pointed out that in the summer of 1913, the original Glass bill as it passed the House of Representatives, provided for 5 per cent cumulative dividends to member banks, the creation of a surplus equal to 20 per cent of the capital stock, and the division of any additional earnings between the Government and the Federal reserve banks in the proportion of 60 per cent to the Government as a franchise tax and 40 per cent to the reserve banks to be distributed by them to their stockholders in proportion to the average balances carried during the year. The Owen bill as it passed the Senate provided for 6 per cent cumulative dividends, the creation of a 40 per cent surplus, and the payment of 50 per cent of any earnings remaining as a franchise tax to the Government, and the setting aside of the other 50 per cent as a trust fund for the payment of claims against insolvent member banks. This introduced the principle of a guaranty of deposits and would have tended to put all member banks on the same footing. Bankers generally protested and the House conferees would not agree to this provision. The differences between the Senate and the House were comprised by the conference committee and the bill as reported by that committee, and which finally became a law, provided for 6 per cent cumulative dividends, the creation of a surplus of 40 per cent, and the payment of all additional earnings to the Government as a franchise tax.

In 1919, section 7 was amended so as to provide for a surplus equal to 100 per cent of the subscribed capital and the retention by the banks as a further addition to surplus 10 per cent, the remaining 90 per cent to be paid to the Government as a franchise tax. The surplus created, however, under the present law, goes to the Government when the banks are finally liquidated. I have made no effort to influence banking sentiment in this district but have taken some pains to ascertain just what the sentiment is. There is no disposition to change the character of the Federal reserve banks; in fact most of the banks are anxious that they should be continued as reserve banks and not as competing banks. There is no longer any general sentiment in favor of interest on deposits but there is a strong feeling that member banks should be accorded the benefits which usually accrue to stockholders.

I think that banking sentiment in New England is in favor of an amendment to section 7 which would provide: First, for the payment to the Government of a specific tax by Federal reserve banks—a tax based upon the uncovered portion of Federal reserve notes outstanding, which after all is the Government's real contribution to the system. I have heard suggestions made that this tax be fixed at 2 per cent, which is the same as national banks pay, and it has been pointed out that with this tax in effect in 1919, 1920, and 1921, the Government would have received a large return from it, and the Federal reserve banks would have been well able to pay it. In 1922 when the reserves were large the earnings were small, and the tax would have been small. I believe that New England bankers generally would like to see the 6 per cent cumulative dividends continued with no further additions to surplus, and that they would like to have excess earnings, if any, after payment of taxes and balances, distributed to member banks in proportion to their reserve balances. This principle was recognized by the Glass bill which passed the House of Representatives in 1913.

2. Case, New York: There are four ways, among others, to encourage increased membership in the Federal reserve system:

1. To compel membership by Federal law and undergo the test of the courts on the question of constitutionality. A possible precedent was the taxing out of existence of State bank currency when the national banking system was established. Such a plan would lead to endless controversy and to a type of unwilling membership of doubtful benefit.

2. To secure uniformity of reserve requirements for banks, both State and National. This means a modification of many State laws and possibly a modification of the Federal reserve act itself. The effect of such legal changes, however, would remove the penalty now attaching in some States to State banks becoming members of the Federal reserve system.

3. To educate systematically all eligible nonmember banks upon the value of membership, appealing both to their self-interest and to their public spirit. This would result in a voluntary membership of joint benefit to the banks and the system. It is necessarily a long process, but in certain districts has been successfully pursued.

4. To make membership more attractive financially. Should this prove to be possible, it would remove the main obstacle in the way of an enlarged membership of State banks of this district in the Federal reserve system. But any plan so designed should be framed so as to preclude the chances of inflation. Two of the plans sometimes proposed would lead inevitably to inflation in greater or less degree.

(*a*) Payment of interest on reserve deposits. This supposes greatly enlarged earnings by reserve banks in years of any but the most intense credit demand. At all times, slack or active, the reserve banks would have to keep their funds very generally invested. The result would be that the reserve banks would have to initiate competition with National and State banks, interest rates would be cut, and business be unhealthily stimulated as inflation advanced. It should be borne in mind that an investment by a reserve bank corresponds to the interjection of fresh gold into the money market, and funds so invested provide additional reserve upon which member banks can build deposits. In other words, an investment by a reserve bank is likely to be multiplied in the loan accounts of banks generally. And excessive investment would lead to excessive multiplication of bank loans.

(*b*) Reduction of the reserve requirements for country banks. To reduce reserve releases funds not previously available for investment. Unless the revised reserve requirements represented a fair average of all reserve requirements now effective on country banks both State and National, and unless there was fair assurance that a great majority of banks in States where reserve requirements are now lowest would apply for membership in the system and be admitted, a large volume of fresh funds would be released for investment. Or funds so released would be available as reserve for additional deposits. In either case inflation would result. When reserve requirements have been reduced in this country heretofore, loan expansion has followed.

A third plan may or may not be open to a similar objection, depending on how it is framed.

(*c*) Payment of additional dividends upon Federal reserve bank stock, when and if earnings warrant. Such a plan would result in a closer relationship

between the member banks and the reserve banks, and no doubt also in a fuller attention on the part of the member banks to the operations carried on by the reserve banks. But if from such a plan pressure resulted upon the reserve banks to make earnings, it would lead to inflation. In years of quiet credit demand the reserve banks are unlikely to earn more than their expenses, and in that case under the present law no return to the Treasury results. In years of larger credit demand, if additional dividends to the banks are to be allowed, and if pressure to make large earnings is resisted, the return to the Treasury would be less than under present law; in other words, some of the funds now derived by the Treasury would be shared with the banks.

6. Wellborn, Atlanta: It seems to me that the Federal Reserve Board has been very liberal in their rules and regulations favorable to the admission of State banks. I have no suggestions to offer as to altering or changing the existing rules and regulations. However, there is one feature in this connection that may be stated. It is that State banks as well as member banks feel that under the provision of the Federal reserve act, in the distribution of the profits of the reserve banks, that they are not treated fairly in such distribution. In other words, they think too great an amount of the earnings goes to the Government, while the member banks contribute fully or more than their share in furnishing capital to the reserve banks to operate upon. Along this line, my suggestion would be to amend the Federal reserve act so that after expenses of operation and losses are charged off, and the 6 per cent dividend paid to the stock-holding banks, that the net profits then be divided one half to the Government and one half to the member banks, provided that the 6 per cent dividend to member banks would be considered as a part of the 50 per cent of profits which they would receive. As an example of this contention, the Federal Reserve Bank of Atlanta paid to its member banks in dividends, for the year 1921, the sum of $245,861.62, and paid into the United States Treasury $4,480,251.19. If a more equitable division of the profits were given to the member banks, I feel that a long step would be taken in gaining membership of good State banks.

8. Biggs, St. Louis: Before further legistative or administrative action is taken it would, in my judgment, be better to devote our efforts to creating a better understanding on the part of the bankers, as well as the general public, of the purposes, the activities, and the accomplishments of the Federal reserve banks.

9. Young, Minneapolis: Should any change be made in the existing law or in the rules and regulations of the Federal Reserve Board? We do not think so. The present law is very liberal and the regulations of the Federal Reserve Board are such that any good, sound, well-managed institution can obtain membership without difficulty.

11. McKinney, Dallas: While several amendments to the Federal reserve act have been passed recently making membership in the system more attractive, and no doubt even further changes will be made or additional facilities provided as future operations and progress call for them, I can not propose at this time any specific amendment which would be economically sound and at the same time make membership in the system more attractive; except that it is my judgment that the present law should be modified by eliminating the requirement that member State banks bear the cost of examinations by Federal reserve examiners. In this district we have already had a number of complaints concerning this extra expense to which member State banks are subjected, and a few are reported to be seriously considering withdrawal from the system, giving the expense of our examinations as one of the principal reasons for their dissatisfaction.

12. Calkins, San Francisco: The existing law should be carefully revised for the purpose of clarifying its provisions and removing uncertainties and ambiguities and rendering it easily understandable and its application certain. This would involve no radical revision of underlying principles and should make it possible to minimize the regulations of the board, inasmuch as, if the provisions of the law were clear and unambiguous, much of what is now necessary in the way of interpretative regulation would be unnecessary.

The act should be amended to make provision for examination of all member banks by the Federal reserve banks without charge to the banks examined, except in those cases where it is necessary to make frequent examination, when the bank examined should be penalized by a charge.

The provision of the act governing reserves as applied to savings or time deposits should be amended for the purpose of making its intent clear.

The provisions of the act governing branch banking by member State banks should be amplified so that this subject might be fully covered by the law, rather than by regulation.

The regulations of the board should be condensed and minimized. With proper clarification of the law this could be accomplished with resulting improvement in operation of banks, as well as satisfaction to member banks, who find it difficult to follow the ramifications of more or less frequently changed regulations.

VIII. SUGGESTED CHANGES IN METHOD OF ADMINISTRATION

1. Harding, Boston: I have heard of no disposition whatever to seek to interfere with the administrative and regulatory powers of the Federal Reserve Board, and that banking sentiment here is not actuated by a desire for the actual profit but rather by a feeling that the present provisions of section 7 are not equitable in that the nonborrowing bank gets no direct benefit while its reserve is used often at a profit by banks which are borrowers.

5. Seay, Richmond: There are no comments other than contained in the foregoing with respect to changes in the method of administration to bring about in the agricultural districts a larger membership of state bank and trust companies. The trust companies as a rule are located in the larger cities, although these cities may be in a region whose chief interest is agriculture, and no provisions of administration conceived in the interests of agriculture would be any particular inducement to trust companies so situated. It is probable that recent provisions of law involved in so-called rural credit acts rather tend to keep state banks in agricultural sections or rural communities out of the system than to bring them in.

7. McDougal, Chicago: While as stated above this bank has consistently endeavored to inform eligible nonmember banks with respect to the benefits of membership, for two or perhaps three years we have not carried on an aggressive campaign of solicitation. I believe that interest in membership can be stimulated and the membership increased by educating banks and the general public as to what the Federal reserve system is and what it is not. This, in my opinion, is an important and necessary preliminary worthy of consideration.

11. McKinney, Dallas: I have no changes in administrative methods to suggest. As a matter of fact I do not believe that any of our member banks have had at any time just cause to criticise our administrative methods so far as they relate to the needs and demands of agriculture.

12. Calkins, San Francisco: So far as our experience goes in this district, no change in administration would result at this time in larger membership in agricultural sections, unless such change resulted in practices not contemplated in the act or consistent with sound banking practice.

IX. BRANCH BANKS

1. Harding, Boston: There does not appear to be any desire on the part of any New England bank to establish branches outside of its own town or city. In metropolitan Boston which embraces several municipalities, there are two or three national banks, as well as several trust companies, which have branches in various parts of the city and in the suburbs. The national banks which have branches have acquired them either by establishing them while they were operating under State charters as trust companies or else through merger with converted national banks which had established branches while they were trust companies. One or two other national banks are considering the question of establishing branches, but if they do, will probably acquire them through merger. So far I have heard no talk of any national bank surrendering its charter for the purpose of establishing branches as a State institution; although it is probable that one large national bank would have surrendered its charter had it been unable to establish branches in the manner above described. In many large cities it appears that the establishment of suburban branches is becoming more and more a necessity for a down-town bank.

5. Seay, Richmond: Branch banking is a very vexing subject, but a very vital one to the Federal reserve system so long as membership in the system consists chiefly of national banks. It has been pointed out that State bank members of the Federal reserve system have privileges more than the national banks because of the greater liberality or flexibility of State banking law. If State laws encourage branch banking in their own State banking institutions, then the situation must permit equal or like privileges to national banks in such States; otherwise, there would be offered as inducement to surrender national bank charters and take out State charters, even while retaining membership in the Federal Reserve System. It will be recalled that the privilege of withdrawal from the system which a national bank does not possess is accorded the State bank.

X. PAR COLLECTION

1. Harding, Boston: I have not heard of any sentiment whatever in this district against the par collection system, and everything that has been reported to me by our field representative indicates a favorable sentiment.

5. Seay, Richmond: The collection system is believed to be essential to the efficient operation of the Federal reserve banks in the service of the public. The bulk of the exchange of the country is conducted and settled through Federal reserve banks, and the final adjustments between districts in the ebb and flow and seasonal operations of trade are made by Federal reserve banks through the instrumentality of the gold settlement fund. The expenses of these operations are borne by the Federal reserve system, which under the present practice is the real maker of exchange, the benefit of which is ratized by nonmember and member banks alike, as well as by the public. There is no just reason, in view of this gratuitous service performed by Federal reserve banks, for the existence of exchange charges by any banking institution. The universal or country-wide par collection system would facilitate the entrace of State banks into the reserve system.

XI. ABOLISHMENT OF COMPTROLLER

1. Harding, Boston: I am advised also that there has been no general sentiment in favor of abolishing the office of Comptroller of the Currency since March, 1921.

5. Seay, Richmond: It is, of course, well understood that the Federal reserve banks are brought into very intimate relation with member banks, especially at times when the banks are borrowing, and supervision of the management and practices, particularly of the country member banks, has been proved by experience to be necessary on the part of the Federal reserv banks. In the case of a very considerable number of member banks, a Fedral reserve bank will be possessed of more intimate knowledge as to condition and management than the comptroller's office will often possess. It is believed that a close and cordial cooperation should exist between the comptroller's office and Federal reserve banks and between the examining forces of the comptroller and those of the Federal reserve banks, and that if this can not be assured at all times, because of separate organizations and functions, supervision over member banks should be lodged in the Federal reserve system.

XII. ADMINISTRATIVE PRACTICES AND POLICY OF SYSTEM

5. Seay, Richmond: The administrative practices and policies of the Federal reserve system have been developed by experience, and this experience during the major part of the existence of Federal reserve banks has been highly intensive. These practices and policies can only be developed and become more scientific and effective—flexible where flexibility is needed and rigid where requirements of law are at stake—in the course of time. It is believed that the highest ability and experience should be an essential requirement in reserve bank administration, and that inducements and rewards should be sufficient to attract and retain men of such capacity. Continuity of administration is vitally necessary to maintain efficient and satisfactory management of reserve banks.

XIII. ADMINISTRATIVE PRACTICES AND POLICIES OF THE OFFICE OF THE COMPTROLLER OF THE CURRENCY

None of the governors expressed any opinions on this subject.

XIV. INTEREST ON DAILY BALANCES

5. Seay, Richmond: If it were possible to pay member banks interest on their reserve deposits, as correspondent banks pay interest on their deposits, it is believed the way would be open for the entrance of a large number of State banks, and the feeling of dissatisfaction would be removed in the case of a very considerable number of member banks. The payment of interest on deposits, however, is not desirable nor is it possible. It would impair or undermine the usefulness and integrity of the reserve system. Member banks are called the stockholders of the Federal reserve banks, but their ownership and power are limited in all directions. When reserve banks were organized, it was not expected that their earnings would ever excite the cupidity of member banks, or that there would be any room for participation in earnings beyond the dividend provided they should have a greater participation in earnings and a greater ownership in accumulated and undistributed earnings. It is possible to liberalize the law in this respect without injury to the fundamental structure of the Federal reserve system.

XV. CONFLICT AND COMPETITION BETWEEN STATE AND NATIONAL BANKING LAWS

1. Harding, Boston. In this district there is little, if any, disposition to criticize the Federal Reserve Board or the administration of this bank, and except in the State of Connecticut local laws do not operate against State banks' membership in the system. In Connecticut, however, the law requires specific reserves to be carried by State banks and trust companies, and does not admit of any modification in favor of State bank members. Therefore, the few State banks and trust companies in Connecticut which are members of the system work under the handicap of carrying double reserves in order to meet the requirements both of the Connecticut law and the Federal reserve act. Efforts have been made repeatedly to induce the Connecticut Legislature to make the same concession as has been made in other States in favor of State bank membership, but due to the efforts and influence of one individual, the president of a trust company, who is also a State Senator, and chairman of the finance committee of the Connecticut Senate, these efforts have been unavailing. Further attempts will be made in the succeeding sessions of the Connecticut Legislature, which I hope will ultimately be successful.

Mr. WINGO. Is it your idea and the idea of the board that the Federal reserve banking system has the powers and the duties that have always been attributed to a central bank?

Governor CRISSINGER. I do not think the board has that notion; I have not had that idea.

Mr. WINGO. Is it your idea that it is part of your duties, as well as your powers, to regulate the price level through rediscounts?

Governor CRISSINGER. Absolutely not; that is not my idea about it.

Mr. WINGO. I notice a leading New York City socialist has expressed himself, and one of the criticisms he makes and lists as what might be one of the possible failures of the system is that you have not exercised the underlying functions of the central bank. Do you think it is any function of your board to undertake to keep a stable market in this country for a crop such as wheat or cotton?

Governor CRISSINGER. I do not think any man or set of men in the world can do it.

Mr. WINGO. Do you think any man of the superior wisdom that might be upon the board could survey daily and weekly all the different industries, such as automobiles, steel, cotton, wool, and

wheat and parcel out the credit that is necessary and arbitrarily allot it; do you know of any supermen like that in existence?

Governor CRISSINGER. I do not think there are any, and I know of none trying to do it.

Mr. WINGO. You have no ambition to try that?

Governor CRISSINGER. I should say not.

Mr. WINGO. For your information I will state that in the original draft of the Federal reserve act it was intended that the Federal reserve system should undertake to control and maintain a stable price level, but Congress refused to permit that.

Governor CRISSINGER. I think Congress was wise.

Mr. WINGO. This gentleman wanted us to do that and we refused, and in spite of the refusal of Congress to legislate that superpower as a governmental power he says, "You ought to have gone ahead and done it anyway."

Governor CRISSINGER. I do not think that would last long in the United States.

Mr. WINGO. You, as a matter of fact, do not believe in any financial socialism any more than you do in commodity socialism, do you?

Mr. STRONG. I understood you to say awhile ago when speaking of the branch banks here in Washington that where the branch banks have been established out in the suburb near the old bank that they both were benefited in matter of deposits?

Governor CRISSINGER. They both gained in deposits; yes, sir.

Mr. STRONG. Do you think that the establishment of branch banks will not be a menace to the small independent bankers?

Governor CRISSINGER. I think not in the cities. I only advocated it for the cities.

Mr. STRONG. You are going to seek to give the national banks in the cities the right to have branches, but not in the country?

Governor CRISSINGER. I think the national banks in the cities should have the right to have branches, but there is no occasion for branches in the country.

Mr. STRONG. Would not the banks in the county seats be benefited by establishing branch banks around the country?

Governor CRISSINGER. I do not know whether they would or not, Mr. Strong; I really have my very serious doubts about it.

Mr. STRONG. Will not that be the next demand if you open it up in the big cities?

Governor CRISSINGER. I think not. I think if Congress amends the law that it should be very specifically stated that it is limited.

Mr. STRONG. Out in our State the city bank would be seeking to establish a lot of little banks.

Governor CRISSINGER. Those are chain banks. You understand that chain banks are a hundred times worse than branches. Chain banks are the most dangerous kind of banking; they are entirely different, sir.

Mr. STRONG. It may be if I was a big banker I would want branch banks, but being a borrower only I am not in favor of them.

Governor CRISSINGER. You now have them in 22 or 23 States.

Mr. STRONG. Do you not really believe if we should pass the McFadden bill permitting the national banks to have branches in the

States which permit State banks to have branches that very soon all the States would permit State banks to have branches?

Governor CRISSINGER. I think it would work just the other way if Congress especially limits it to the States which have such arrangements.

Mr. WINGO. I have just been reminded of an objection one banker raised as to why they did not go into the system, being prohibited to handle paper that was based on speculative stocks.

Governor CRISSINGER. Did what?

Mr. WINGO. That while the law prohibits you making rediscounts on paper based on speculative stocks and bonds, etc., that indirectly the resources of the country were being used for the same old vicious purpose, as he expressed it, and that he did not care to come in and be a party to legalize one of the very evils which he said the Federal reserve system was created to eradicate. What have you got to say about that? Is there no indirect violation of the statute by Federal reserve banks in these centers financing stock speculations?

Governor CRISSINGER. I think not.

Mr. WINGO. While technically the paper they took is eligible, yet the proceeds of it, as a matter of fact, were used indirectly for the purpose of financing speculations on the stock market.

Governor CRISSINGER. That might be true of the country bank. You can not follow the use of the money, after you rediscount a little piece of paper, what is going to become of it.

Mr. WINGO. This gentleman said the board knew about it, because he pointed to the fact that the speculative market was running away with itself in New York, and Governor Harding went up there and produced a mild panic telling them they should have to stop financing these stock speculations.

Governor CRISSINGER. It is possible that money that is secured on eligible paper may ultimately be used in stock speculation, but I do not know how the board could know about that.

Mr. WINGO. Has the board made investigations to ascertain if there is any basis for that charge?

Governor CRISSINGER. There is an examination of these banks right along, twice a year.

Mr. WINGO. If that is true, is it not possible to decide and try to find out, and if it is true to rectify it by examination of the banks whether or not they are taking up eligible paper for the purpose of getting funds to loan to people to speculate on the stock exchange with?

Governor CRISSINGER. They could start an examination of that kind, but I am satisfied that if any governors of Federal reserve banks or Federal agents knew that that was being done they would not issue the notes.

I want to say, before I put these documents in, that the board has authorized me to state to the committee that they would furnish a man at any time to help your secretary arrange these exhibits, so that you will have them in proper order if you so desire.

I was asked to furnish these statements, and I am handing to the stenographer the following statement entitled "Earnings of Federal reserve banks from discount and other operations during 1922, and disposition made thereof."

Earnings of Federal reserve banks from discount and other operations during 1922 and disposition made thereof

Federal reserve bank	Earnings on—			All other earnings	Total gross earnings	Net earnings	Dividends paid to member banks	Transferred to surplus account	Paid to United States Government as franchise tax [1]
	Discounted bills	Purchased bills	United States securities						
Boston	$1,543,539	$591,647	$1,391,691	$14,436	$3,541,313	$1,097,402	$481,951	$76,568	$538,883
New York	3,970,210	1,619,512	5,227,488	524,109	11,341,319	3,721,593	1,652,138	206,946	1,862,509
Philadelphia	2,393,673	712,383	1,119,457	26,437	4,251,950	2,236,876	541,552	839,960	855,364
Cleveland	2,247,667	743,759	1,946,915	55,941	4,994,282	2,268,688	692,436	861,264	714,988
Richmond	2,569,887	74,655	95,378	93,024	2,832,944	867,448	333,321	53,413	480,714
Atlanta	1,951,695	164,704	189,390	46,947	2,352,736	672,730	256,618	41,611	374,501
Chicago	3,862,291	547,339	2,081,349	257,893	6,748,863	1,405,215	876,203	52,901	476,111
St. Louis	1,303,808	255,750	832,169	64,720	2,456,447	647,572	283,165	276,450	87,956
Minneapolis	1,451,659		383,531	134,058	1,969,248	782,695	213,774	56,892	512,029
Kansas City	1,492,657	8,828	1,408,738	184,437	3,094,660	783,036	275,655	50,738	456,643
Dallas	1,609,383	197,994	195,049	83,349	2,085,775	354,125	251,915	102,210	
San Francisco	2,126,654	712,385	1,811,317	170,846	4,821,202	1,660,356	448,306	121,205	1,090,845
Total	26,523,123	5,628,956	16,682,463	1,656,197	50,490,739	16,497,736	6,307,035	2,740,158	7,450,543

[1] Exclusive of $3,400,062 charged to surplus and paid as franchise tax for prior years.

I am handing you now a statement of "Daily average member banks reserve deposits of Federal reserve banks during 1922, interest thereon at 2 per cent, and net earnings of Federal reserve banks after paying dividends and making transfers to surplus authorized by the Federal reserve act." It shows that it would cost the system $35,622,440 to pay 2 per cent interest on reserve deposits of member banks.

Daily average member banks reserve deposits of Federal reserve banks during 1922, interest thereon at 2 per cent, and net earnings of Federal reserve banks after paying dividends and making transfers to surplus authorized by the Federal reserve act

	Daily average member banks' reserve deposits	Interest at 2 per cent	Net earnings after paying dividends and making transfers to surplus [1]
Boston	$118,563,000	$2,371,260	$538,883
New York	698,991,000	13,979,820	1,862,509
Philadelphia	105,795,000	2,115,900	855,364
Cleveland	139,725,000	2,794,500	714,988
Richmond	56,155,000	1,123,100	480,714
Atlanta	47,930,000	958,600	374,501
Chicago	254,867,000	5,097,340	476,111
St. Louis	64,994,000	1,299,880	87,956
Minneapolis	44,599,000	891,980	512,029
Kansas City	76,938,000	1,538,760	456,643
Dallas	47,665,000	953,300	
San Francisco	124,900,000	2,498,000	1,090,845
Total	1,781,122,000	35,622,440	7,450,543

[1] Represents the amount paid to the Government as a franchise tax in accordance with the provisions of the Federal reserve act.

The next is "Number of member banks in each Federal reserve district accommodated through discount operations, number not borrowing from the Federal reserve bank, and the number borrowing

in excess of basic discount line." This is a very illuminating statement and it would answer Governor Strong's question. It shows that during 1920 and 1921 there were 2,688 banks in the system that did not borrow any money from the Federal reserve banks and that in 1921 there were 2,426 that did not borrow any money, or about one-third. It is significant, if you will look at this statement, that a large number of banks that did not borrow anything were in the distressed districts in the United States during 1920 and 1921, which is a very wholesome observation.

Number of member banks in each Federal reserve district accommodated through discount operations, number not borrowing from the Federal reserve bank, and number borrowing in excess of basic discount line

	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco	Total
Number of member banks accommodated during—													
1920	342	536	484	450	437	372	1,124	386	704	826	702	578	6,941
1921	341	531	509	509	494	444	1,191	390	765	920	704	617	7,415
Number not borrowing from Federal reserve bank during—													
1920	94	247	214	421	173	90	297	185	305	261	148	253	2,688
1921	95	269	195	375	132	71	252	198	259	183	157	240	2,426
Number borrowing in excess of basic discount line during 10-day period ending—													
June 30, 1920	55	108	144	41	227	162	369	126	212	237	262	218	2,161
Sept. 30, 1920	40	95	115	33	232	236	439	149	319	326	401	262	2,647
Dec. 31, 1920	54	92	108	34	237	255	582	152	203	380	408	264	2,769
Mar. 31, 1921	58	88	112	22	218	256	579	133	349	348	411	272	2,846
June 30, 1921 [1]	62	92	139	50	258	282	596	149	442	327	448	309	3,154
Sept. 30, 1921 [1]	53	74	133	91	280	306	534	175	492	305	448	299	3,190
Dec. 31, 1921 [1]	50	93	138	117	252	294	558	168	406	359	349	192	2,976

[1] 15-day period ending on the date shown.

NOTE.—Figures shown in the first two lines represent the number of different member banks which borrowed from the Federal reserve banks during the year. Those in the second two lines represent the number which did not borrow at any time during the year. Therefore, on any given date the number of borrowers would be less than the figures shown in the first two lines, while the number of nonborrowers would be correspondingly greater than the number shown.

Here is the "Franchise tax paid to the United States Government by the Federal reserve banks." The table shows that the banks have paid $135,387,941; it also shows the surplus account of each Federal reserve bank up to October 9, 1923, which amounts to $218,369,000 in round numbers.

Franchise tax paid to the United States Government by the Federal reserve banks

1917	$1,134,234
1919	2,703,894
1920	60,724,742
1921	59,974,466
1922	10,850,605
Total	135,387,941

Surplus account of each Federal reserve bank, October 9, 1923

Federal reserve bank:	
Boston	$16,312,376
New York	59,799,523
Philadelphia	18,748,740
Cleveland	23,495,543
Richmond	11,288,078
Atlanta	8,941,553
Chicago	30,398,177
St. Louis	9,664,673
Minneapolis	7,472,947
Kansas City	9,488,300
Dallas	7,496,307
San Francisco	15,263,332
Total	218,369,549

I next submit a statement of "Gross earnings of the Federal reserve banks from the opening for business on November 16, 1914, to June 30, 1923." It shows the total of those earnings from the discount operations, open market operations, and all other as $572,959,319.

Earnings of the Federal reserve banks from the opening for business on November 16, 1914, to June 30, 1923

	Earnings from—		All other earnings	Total gross earnings
	Discount operations	Open market operations		
1914 (from Nov. 16)	$62,883	$107	$155	$63,145
1915	1,155,633	907,077	47,397	2,110,107
1916	1,025,675	3,678,829	513,433	5,217,937
1917	6,971,479	7,681,038	1,475,822	16,128,339
1918	48,343,853	16,055,125	3,185,439	67,584,417
1919	80,768,144	19,750,518	1,861,921	102,380,583
1920	149,059,825	29,160,773	3,076,740	181,297,338
1921	109,598,675	11,490,300	1,775,630	122,864,605
1922	26,523,123	22,314,984	1,652,632	50,490,739
1923 (to June 30)	14,247,906	10,253,034	321,169	24,822,109
Total	437,757,196	121,291,785	13,910,338	572,959,319

Senator GLASS. Are these earnings calculated as the earnings of a national bank are?

Governor CRISSINGER. They are the actual earnings for each year.

Here is a statement of "Current expenses of the Federal reserve banks, also expenses of the fiscal agency departments reimbursable by the Treasury Department." It shows the current expenses for the whole period of the system's existence to have been $153,406,791. This is exclusive of the reimbursable fiscal agency department expenses shown in the last three columns, which amounted to $47,357,724.

Current expenses of the Federal reserve banks, also expenses of the fiscal agency departments reimbursable by the Treasury Department

	Current expenses [1]			Reimbursable fiscal agency department expenses		
	Salaries	All other	Total	Salaries	All other	Total
1914 (from Nov. 16)	$101,721	$271,711	$373,432			
1915	858,277	1,103,505	1,961,782			
1916	1,108,464	1,350,975	2,459,439			
1917	1,886,250	3,579,406	5,465,656	(2)		$3,094,750
1918	4,768,449	7,409,489	12,177,938	$5,614,863	$10,641,826	16,256,689
1919	9,897,002	10,444,796	20,341,798	7,204,102	9,421,914	16,626,016
1920	15,383,535	14,505,772	29,889,307	4,142,643	2,072,713	6,215,356
1921	19,478,250	16,587,815	36,066,065	1,840,889	768,865	2,609,754
1922	18,812,640	10,746,703	29,559,343	699,144	484,671	1,183,815
1923 (to June 30)	9,583,971	5,528,060	15,112,031	915,056	456,288	1,371,344
Total	81,878,559	71,528,232	153,406,791			47,357,724

[1] Exclusive of reimbursable fiscal agency department expenses shown in the last three columns.
[2] Separate figures not available.

I would like to say to this committee on this item that the board has been advised recently that in the last appropriation act there was no appropriation made for the fiscal operation of the Government. This will require that the expenses of these operations for the Treasury Department be paid out of the earnings of the Federal reserve system, which, to my mind, is fundamentally unsound and amounts to pretty much the same as issuing German marks to run the Government. The last appropriation bill omitted the item.

Senator GLASS. Do you want the banks to do that work for the Government for nothing?

Governor CRISSINGER. They take the position that the banks are making a lot of money.

Senator GLASS. If the banks are making a lot of money—that is, the banks do not belong to the Government of the United States?

Governor CRISSINGER. No; and it is the wrong principle to ask the banks to pay these charges and not be reimbursed for them, because it would be fundamentally unsound.

The CHAIRMAN. Does this come to the Congress through the Budget Committee?

Governor CRISSINGER. No; I think it comes through the Appropriations Committee.

The CHAIRMAN. It is reported by the Budget Committee or by the Appropriations Committee. What is the amount involved there, Governor?

Governor CRISSINGER. This year it will be, in round numbers, two millions. There have been as high as $16,000,000 spent.

Senator GLASS. On that theory, if the banks should happen not to earn their dividends, the member banks owning these banks would not get any return upon their investment?

Governor CRISSINGER. It would be imposing an expense that might deprive the banks of dividends.

In order that the committee may have a general idea of the scope of the fiscal agency operations and the extent to which the expenses of carrying on such operations are now being absorbed by the Federal reserve banks, I am handing you the following statement

outlining the policy which has been followed in handling the expenses of fiscal agency operations:

REIMBURSABLE AND NONREIMBURSABLE EXPENSES OF THE FISCAL AGENCY DEPARTMENTS OF FEDERAL RESERVE BANKS

The Federal reserve banks were appointed depositaries and fiscal agents of the United States by the Secretary of the Treasury on January 1, 1916, in accordance with the provisions of section 15 of the Federal reserve act. Their operations in these capacities were, however, of a relatively small volume until the entry of the United States into the world war in 1917, and for that reason they were conducted by the Federal reserve banks without expense to the Treasury Department. After the Government began to issue certificates of indebtedness and Liberty bonds in order to finance the war, fiscal agency department expenses increased very rapidly, and provision was therefore made in 1917 for the reimbursement by the Treasury Department of practically all expenses incurred by Federal reserve banks in the performance of their fiscal agency functions. Federal reserve banks did not request nor have they ever received reimbursements for expenses incurred in the discharge of their depositary functions, which expenses now amount to about $750,000 yearly. This arrangement was continued until June 30, 1921, the amount of expenses directly chargeable to fiscal agency operations, incurred up to that date (all reimbursable) being as follows:

1917	$3,094,750
1918	16,256,689
1919	16,626,016
1920	6,215,356
1921 (to June 30)	2,360,509

Following a joint conference between the governors of the Federal reserve banks and the Treasury Department in the spring of 1921, the Federal reserve banks agreed not to ask for reimbursement on account of fiscal agency expenses during the fiscal year ending June 30, 1922, except for such expenses as were incurred directly in connection with the sale of new issues of Government securities. It was agreed that the cost of conducting all other fiscal agency operations would be absorbed by the Federal reserve banks during that period. This arrangement was a direct result of views then frequently expressed in Congress to the effect that in view of the large earnings of the reserve banks, Congress should not be asked to appropriate money to reimburse the banks for fiscal agency operations. The Federal reserve banks understood that the arrangement was of a temporary nature, and that they would be free at a later time to ask reimbursement for all fiscal agency expenses, should the exigencies of the situation make it advisable; and this understanding was confirmed by the Undersecretary of the Treasury. The same arrangement was continued during the fiscal year ended June 30, 1923, and it is in effect during the current fiscal year, 1924.

The Treasury Department has an indefinite appropriation, based on a percentage of the new securities issued, which enables it to reimburse Federal reserve banks for all expenses incident to new issues of securities. As to general fiscal agency work, however, which is not especially connected with new issues, the Treasury depends upon an annual appropriation from Congress for the support of the public debt service. The appropriation for the current fiscal year (1924) is covered by an act of Congress passed before the expiration of the last Congress on March 4, 1923. It is a limited amount, sufficient only to cover operations at the Treasury in Washington, and beginning with the fiscal year 1922 Congress has made it clear that it did not intend the Treasury to use any of this appropriation for making reimbursement to the Federal reserve banks. As a consequence, the Treasury has no funds at present from which to reimburse Federal reserve banks for conducting any fiscal agency work except that pertaining directly to the issue of new securities. All other fiscal agency operations, such as the redemption, exchange and conversion of securities, are conducted at the expense of the Federal reserve banks. This is in addition to the duties performed in their capacity as depositaries which, as already stated, have always been performed without expense to the Treasury Department.

The following statement shows the total fiscal agency expenses incurred by the Federal reserve banks from July 1, 1921, to June 30, 1923, the amount of such expenses reimbursable by the Treasury Department, and the amount not reimbursable:

	Total fiscal agency department expenses	Amount reimbursable	Amount not reimbursable
1921 (July 1 to Dec. 31)	$1,495,184	$249,245	$1,245,939
1922 (Jan. 1 to Dec. 31)	2,714,366	1,183,815	1,530,551
1923 (Jan. 1 to June 30)	2,013,278	1,371,344	641,934

The situation with respect to earnings of Federal reserve banks has changed materially since 1921, when the Federal reserve banks agreed to absorb the greater part of fiscal agency expenses, as will be apparent from the statement below:

	Gross earnings	Current expenses	Current net earnings
1921	$122,864,605	$36,066,065	$86,798,540
1922	50,490,739	29,559,343	20,931,396
1923 (to June 30)	24,822,109	15,112,031	9,710,078

Below is given a detailed statement of the operations conducted by the fiscal agency departments of the Federal reserve banks for which reimbursement is not received from the Treasury Department:

1. Denominational exchange of coupon bonds.
2. Exchange of temporary for permanent bonds.
3. Exchange of interim receipts for permanent bonds.
4. Conversion of 4 per cent bonds into 4½ per cent bonds.
5. Interchange of coupon and registered bonds.
6. Telegraphic transfer of securities.
7. Forwarding of registered bonds to the Treasury for transfer.
8. Shipment of canceled securities to the Treasury.
9. Redemptions of called or matured securities.
10. Government deposit accounts with depositary banks.
11. Custody of securities.
12. Purchase and sale of Government securities for Treasury account.

In addition, all Federal reserve banks act as depositaries for the general funds of the Treasury, and for this work they have never requested or received reimbursement. In this capacity, the reserve banks are required to perform the following operations:

1. Pay Government checks and warrants, rendering voluminous records of all transactions.
2. Pay coupons from Government securities.
3. Transfer funds by telegraph.
4. Withdraw Government deposits from banks in the district.
5. Collect checks and noncash items.
6. Lend clerks to collectors of internal revenue at the time that the quarterly installment of income and profits taxes are paid.
7. Carry on former subtreasury operations.

I was requested to give you the cost of bank buildings and grounds at the present time, and this exhibit will give the cost of bank premises of Federal reserve banks and branches to June 30, 1923, which amounts to a total of $63,636,088.

Senator GLASS. Paid out of the surplus?

Governor CRISSINGER. Paid out of the surplus.

Cost of bank premises of Federal reserve banks and branches to June 30, 1923

Federal reserve bank or branch	Cost of building site, net	Cost of remodeling bank buildings	Cost to June 30, 1923, of buildings in course of construction or completed	Total cost, exclusive of furniture and fixtures
Boston	$1,246,726		$4,204,760	[1] $5,451,486
New York:				
Banking house	4,850,210		7,944,950	12,795,160
Annex building	592,679		1,467,220	[1] 2,059,899
No. 10 Gold Street	[2] 91,715	$11,847		[1] 103,562
Philadelphia	[2] 607,501	1,520,333		[1] 2,127,834
Cleveland	920,490		7,136,393	8,056,883
Cincinnati	[2] 380,744			380,744
Pittsburgh	[2] 515,000	481,454		[1] 996,454
Richmond	202,025		2,441,854	[1] 2,643,879
Baltimore	[3] 452,216			452,216
Atlanta	283,000		1,451,980	1,734,980
Jacksonville	45,827		71,923	117,750
Nashville	83,704		201,013	[1] 284,717
New Orleans	201,250		676,443	877,693
Chicago	2,963,548		7,493,684	[1] 10,457,232
Detroit	650,000			[4] 650,000
St. Louis	1,286,088		200,668	1,486,756
Little Rock	85,007		13,358	98,365
Louisville	202,877	560		203,437
Minneapolis	600,521		985,975	1,586,496
Helena	[2] 15,000	162,399		[1] 177,399
Kansas City	495,300		4,169,042	[1] 4,664,342
Denver	101,263			[4] 101,263
Oklahoma City	65,021		443,851	508,872
Omaha	[2] 165,602	39,748		[1] 205,350
Dallas [5]	181,120		1,490,430	[1] 1,671,550
El Paso	39,003		119,204	[1] 158,207
Houston	66,312		342,005	[1] 408,317
San Francisco	417,181	238,613	2,405,376	3,061,170
Salt Lake City	114,075			[4] 114,075
Total	17,921,005	2,454,954	43,260,129	63,636,088

[1] Construction or remodeling had been completed.
[2] Including building.
[3] Including building; also site for proposed new building.
[4] Building site only.
[5] Exclusive of remodeled building sold in April, 1922.

I was also asked to furnish this statement, "Number of State banks and trust companies in each Federal reserve district on June 30, 1923," connected in any way with the Federal reserve system.

Number of State banks and trust companies in each Federal reserve district on June 30, 1923

Federal reserve district	Total	Member banks	Non member banks			
			Total	On par list—		Not on par list
				With clearing accounts	Without clearing accounts	
Boston	267	37	230		230	
New York	493	142	351	14	337	
Philadelphia	555	60	495		495	
Cleveland	1,201	117	1,084	1	1,083	
Richmond	1,574	69	1,505		932	573
Atlanta	1,651	147	1,504	5	375	1,124
Chicago	4,610	374	4,236	7	4,229	
St. Louis	2,736	124	2,612	64	2,389	159
Minneapolis	2,876	131	2,745	8	2,550	187
Kansas City	3,144	40	3,104	1	2,929	174
Dallas	1,267	199	1,068	1	1,002	65
San Francisco	1,169	204	965	80	857	28
Total	21,543	1,644	19,899	181	17,408	2,310

The statement shows a total of 21,543 banks, of which 1,644 are member banks and 181 are what they call affiliated banks carrying balances to offset items in transit held for their account by the Federal reserve banks.

Mr. WINGO. In other words, it shows the actual number of the banks, and then shows affiliated nonmember State banks?

Governor CRISSINGER. Yes; and it shows the number of nonaffiliated State banks to be 17,408.

And at this point I would like to call your attention to a statement often made that these par clearing banks other than those 181 have to carry funds with the Federal reserve banks, which is not true. They make no deposite at all. There are only 181 State banks, nonmember banks, that carry any funds with the Federal reserve bank. There was a total of 2,310 banks on June 30, 1923, that were not on the par list.

In the following exhibit you will find the total amount of money deposited with the Federal reserve banks by the 181 affiliated banks, amounting to $21,663,648, of which one bank in Cleveland——

Mr. WINGO (interposing). What district now are those banks in?

Governor CRISSINGER. Well, sir, Boston has no affiliated bank; New York has 14, with $15,937,782; Philadelphia has none; Cleveland has one, with $1,029,479 of deposits. They carry it across the road and leave it.

The CHAIRMAN. Most of those deposits are for safe keeping?

Governor CRISSINGER. No. They are funds deposited by nonmember banks under section 13 of the act to offset items in transit held for their account by the Federal reserve bank.

Richmond has none; Atlanta has 5; Chicago has 7, with $259,000, in round numbers. St. Louis has 64, with $508,000 in round numbers; Minneapolis has 8; Kansas City, 1; Dallas, 1; and San Francisco 80, with $3,687,000 in round numbers.

Balances maintained by nonmember banks having clearing accounts with Federal reserve banks

Federal reserve bank	Nonmember banks maintaining clearing accounts with Federal reserve banks on June 30, 1923	
	Number of banks	Amount of balances
New York	14	$15,937,782.29
Cleveland	1	1,028,478.70
Atlanta	5	16,873.26
Chicago	7	259,208.27
St. Louis	64	508,104.36
Minneapolis	8	198,898.81
Kansas City	1	10,649.98
Dallas	1	16,400.48
San Francisco	80	3,687,251.85
Total	181	21,663,648.00

Mr. WINGO. You say that is a district. All of them are really in cities, are they not?

Governor CRISSINGER. Oh, yes; practically all of them, I suspect. I really do not know where they are, but I think they are largely city banks.

We were requested to get you a statement showing how the net earnings of the Federal reserve banks during 1922 would have been distributed if member banks had been entitled to dividends at the rate of 9 per cent instead of 6 per cent, which shows that the net earnings for distribution are $16,497,736; the 9 per cent dividend would have amounted to $9,436,805. The transfers to surplus funds would have amounted to $2,295,723, leaving a net balance of $4,765,208 this last year to be paid to the Government as a franchise tax. It would have been just that close, while at 6 per cent the Government got as a franchise tax $7,450,543.

Of course, it shows pretty conclusively the necessity of going slow in loading upon the Federal reserve banks additional burdens in the way of costs. The Dallas Federal Reserve Bank, as you will note, did not have sufficient net earnings to pay 9 per cent dividends.

Statement showing how the net earnings of Federal reserve banks during 1922 would have been distributed if member banks had been entitled to dividends at the rate of 9 per cent instead of 6 per cent

	Net earnings	Dividends at 9 per cent	Amount which would have been—	
			Transferred to surplus	Paid United States Government as franchise tax
Boston	$1,097,402	$722,927	$52,470	$322,005
New York	3,721,593	2,478,207	124,339	1,119,047
Philadelphia	2,236,876	812,328	812,883	611,665
Cleveland	2,268,688	1,038,654	826,642	403,392
Richmond	867,448	499,981	36,747	330,720
Atlanta	672,730	384,927	28,780	259,023
Chicago	1,405,215	1,314,305	9,091	81,819
St. Louis	647,572	424,749	222,823	
Minneapolis	782,695	320,661	46,203	415,831
Kansas City	783,036	413,482	36,955	332,599
Dallas	354,125	[1] 354,125		
San Francisco	1,660,356	672,459	98,790	889,107
Total	16,497,736	9,436,805	2,295,723	4,765,208
Actual distribution of net earnings	16,497,736	6,307,035	2,740,158	7,450,543

[1] Only 8.43 per cent on average paid-in capital as net earnings were $23,748 less than the amount required to pay dividends.

We were requested to furnish statements showing interest which would have been paid on member banks reserve deposits if Federal reserve banks had paid the Government 2 per cent interest—this is made up at 3 per cent, but you can very readily see what it would have been at 2 per cent—on paper-secured Federal reserve notes in circulation in lieu of a franchise tax; that is, on Federal reserve notes not covered by gold. It shows that during the year 1922 we would have been able with a 3 per cent tax on these notes to have paid thirty-seven one hundredths of 1 per cent, or a little over one-third of 1 per cent. If it was based on 2 per cent tax it would have amounted to approximately four-tenths of 1 per cent. I had it figured for you. This is for 1922. I had the computation made up for the year 1921 also. In that year on the same basis the banks would have received 2½ per cent on their deposits in the Federal

reserve banks paying $20,000,000 to the Government and $40,000,000 to the member banks. So it pretty clearly shows that even that is a very dangerous experiment. The tables are accompanied by a memorandum prepared by our division of bank operations which has not been considered by the board.

(The memorandum and the two tables are as follows:)

On reading the letter received from Chairman McFadden of the Congressional Joint Committee of Inquiry on Membership in the Federal Reserve System, I note that one of the matters mentioned for consideration is the payment of interest on daily reserve balances of member banks. We have given some thought to what could be done along this line and have compiled certain tables which may be of interest in connection with the hearings before the committee.

If the note issuing function is assumed to be the prerogative of the Government and the notes are to be obligations of the United States Government, as is the case with Federal reserve notes, it would seem that the Government should receive a reasonable return on credit extended through note issues; i. e., through the issue of notes against eligible paper instead of against gold. The tables prepared, therefore, show the amount which would be available for interest on reserve deposits of member banks during 1921 and 1922, if instead of the present franchise tax the Federal reserve banks had been required to pay the Government an interest charge of 3 per cent on uncovered Federal reserve note circulation (i. e., on the amount of Federal reserve notes in circulation in excess of gold available as collateral security or as reserve for notes after setting aside the legal reserve of 35 per cent required against deposits).

In general it may be said to be inadvisable to permit reserve institutions enjoying the not issuing privilege to pay interest on deposits, primarily for the reason that a desire to pay a reasonable rate of return on deposits might lead the reserve bank officials to force out more credit through their open market operations than was actually required for the transaction of the business of the country.

To allow each of our Federal reserve banks to distribute its excess earnings to its own member banks would result in the reserve banks paying widely differing rates of interest. This would certainly create dissatisfaction among member banks, and the officials at those reserve banks with relatively low earnings would be strongly tempted to force out more credit than was needed in order to enable them to pay their own member banks as large a return on deposits as that paid by other banks with larger earnings.

It seems, therefore, if excess earnings of the reserve banks were to be distributed to member banks, that all excess earnings should be paid to the Federal Reserve Board and distributed by the board to all member banks in proportion to the average daily reserve balances maintained by them with their local reserve bank. This would result in the same rate of return being paid to each member bank whether in the Dallas district, which has not accumulated a surplus equal to 100 per cent of its subscribed capital, or in any other district. If this method of distributing excess earnings were adopted and the open market operations under section 14 of the act were controlled largely by the Federal Reserve Board, there should be little danger of the system permitting its credit operations to be influenced by any desire to make sufficient earnings to pay what might be considered a reasonable rate of return on reserve deposits of member banks.

It will be noted from the attached tables that the amount of earnings available for interest on deposits, after making allowance for the payment of 3 per cent interest to the Government on paper-secured Federal reserve notes, would have amounted to approximately 2.5 per cent for all banks combined during 1921 and about thirty-sven one hundredths of 1 per cent during 1922, with a maximum for any bank of 4.72 per cent in 1921 and of 1.15 per cent in 1922. In general it may be said that in normal times when discount accommodation is on a relatively low level, the rate of interest that could be paid by the 12 banks combined would undoubtedly be substantially under 1 per cent, although in times of heavy demands for credit the return might be very materially higher.

Statement showing interest which could have been paid on member banks' reserve deposits if Federal reserve banks had paid the Government 3 per cent interest on paper-secured Federal reserve note circulation in lieu of franchise tax, year 1921

[Amounts in thousands of dollars]

Federal reserve bank	Daily average figures of—			3 per cent interest on paper-secured Federal reserve notes shown in preceding column	Franchise tax actually paid	Available for interest on reserve deposits [2]	Daily average members' reserve deposits [3]	Interest rate which could have been paid on reserve deposits
	Gold available against Federal reserve notes [1]	Federal reserve note circulation						
		Total	Excess over gold available against notes					
								Per cent
Boston	$217,741	$245,950	$28,209	$846	$3,036	$2,190	$109,754	2.00
New York	627,300	703,566	76,266	2,288	20,702	18,414	656,141	2.81
Philadelphia	167,751	227,302	59,551	1,787	3,887	2,100	101,205	2.08
Cleveland	222,634	260,822	38,188	1,146	3,295	2,149	138,326	1.55
Richmond	58,893	125,312	66,419	1,993	3,378	1,385	53,477	2.59
Atlanta	65,320	145,447	80,127	2,404	4,480	2,076	43,987	4.72
Chicago	323,755	454,093	130,338	3,910	11,576	7,666	238,223	3.22
St. Louis	76,094	108,574	32,480	974	1,639	665	62,143	1.07
Minneapolis	29,520	62,557	33,037	991	2,451	1,460	42,168	3.46
Kansas City	50,689	83,320	32,631	979	2,301	1,322	70,817	1.87
Dallas	21,738	50,317	28,479	854	[4]	[4]	[4]	[4]
San Francisco	176,421	235,187	58,766	1,763	3,230	1,467	112,529	1.30
Total	2,037,856	2,702,347	664,491	19,935	59,975	40,894	1,628,770	2.51

[1] After setting aside a 35 per cent reserve against total deposits.
[2] If 3 per cent interest had been paid on paper-secured Federal reserve note circulation in lieu of franchise tax.
[3] Based on weekly statement figures.
[4] Bank has a surplus of less than 100 per cent of subscribed capital.

Statement showing interest which could have been paid on member banks' reserve deposits if Federal reserve banks had paid the Government 3 per cent interest on paper-secured Federal reserve note circulation in lieu of franchise tax, year 1922

[Amounts in thousands of dollars]

Federal reserve bank	Daily average figures of—			3 per cent interest on paper-secured Federal reserve notes shown in preceding column	Franchise tax actually paid	Available for interest on reserve deposits [2]	Daily average members' reserve deposits	Interest rate which could have been paid on reserve deposits
	Gold available against Federal reserve notes [1]	Federal reserve note circulation						
		Total	Excess over gold available against notes					
								Per cent
Boston	$175,355	$173,443			$539	$539	$118,563	.45
New York	869,148	617,372			1,863	1,863	698,991	.27
Philadelphia	186,525	189,954	$3,429	$103	855	752	105,795	.71
Cleveland	208,262	208,123			715	715	139,725	.51
Richmond	79,222	90,924	11,702	351	481	130	56,155	.23
Atlanta	109,060	116,453	7,393	222	374	152	47,930	.32
Chicago	425,273	379,472			476	476	254,867	.19
St. Louis	80,241	80,163			88	88	64,994	.14
Minneapolis	54,924	52,772			512	512	44,599	1.15
Kansas City	60,580	63,008	2,428	73	457	384	76,938	.50
Dallas	31,193	32,443	1,250	37	[3]	[3]	[3]	[3]
San Francisco	214,381	222,100	7,719	232	1,091	859	124,900	.69
Total	2,494,164	2,226,227	33,921	1,018	7,451	6,470	1,733,457	.37

[1] After setting aside a 35 per cent reserve against total deposits.
[2] If 3 per cent interest had been paid on paper-secured Federal Reserve note circulation in lieu of franchise tax.
[3] Bank has a surplus of less than 100 per cent of subscribed capital.

I think that if the committee would go over the tables they would then see some questions that they would want to ask in the future about it.

The CHAIRMAN. I will say to the governor that the committee will go over them, and if they want to have you later to analyze these documents they will call you.

Governor CRISSINGER. I am also submitting herewith, at the committee's request, a copy of the board's weekly press statement showing the condition of the Federal reserve banks at close of business on October 3, 1923.

CONDITION OF FEDERAL RESERVE BANKS

Further increases of $19,700,000 in the holdings of discounted bills, of $3,300,000 in United States securities, and of $800,000 in acceptances purchased in open market are shown in the Federal Reserve Board's weekly consolidated bank statement issued as at close of business October 3, 1923. Federal reserve note circulation increased by $24,500,000 and deposit liabilities by $6,200,000, while cash reserves show a further decrease of $4,700,000. The reserve ratio declined from 76.4 to 75.8 per cent.

The Federal reserve banks of Chicago, St. Louis, Kansas City, and Atlanta report increases of $18,200,000, $4,100,000, $3,700,000, and $3,600,000, respectively, in their holdings of discounted bills. Decreases of $7,200,000, $3,600,000, and $3,300,000 are shown for Philadelphia, Cleveland, and Dallas, and smaller changes for the five remaining banks. Paper secured by United States Government obligations decreased by $2,000,000 during the week, the total holdings on October 3 being $400,200,000. Of this amount $254,700,000 was secured by United States bonds, $129,400,000 by Treasury notes, and $16,000,000 by certificates of indebtedness.

All Federal reserve banks except those of Philadelphia and Cleveland report increased Federal reserve note circulation, the largest increases, by $5,500,000, $5,100,000, $5,100,000, and $4,400,000, being shown for New York, Dallas, Boston, and Richmond. The Cleveland bank reports a decrease of $6,200,000 in its note circulation, more than offsetting the increase of $5,300,000 shown for the preceding week.

Further decreases of $800,000 are shown in gold reserves, of $3,900,000 in reserves other than gold, and of $1,900,000 in nonreserve cash. The Federal Reserve Banks of Philadelphia, Minneapolis, and Richmond report increases of $9,100,000, $4,200,000, and $3,300,000, respectively, in gold reserves, while decreases of $6,800,000, $4,800,000, and $4,700,000 are shown for Chicago, Atlanta, and New York. Of the remaining banks four show increases in their gold reserves aggregating $3,500,000, and two a combined reduction of $4,600,000.

A summary of changes in the principal assets and liabilities of the reserve banks as compared with a week and a year ago follows:

	Increase (+) or decrease (−) in millions of dollars since—	
	Sept. 26, 1923	Oct. 4, 1922
Total reserves	−4.7	−25.0
Gold reserves	−.8	+26.6
Total earning assets	+23.7	−3.0
Discounted bills, total	+19.7	+447.5
Secured by United States Government obligations	−2.0	+243.9
Other bills discounted	+21.7	+203.6
Purchased bills	+.8	−62.6
United States securities, total	+3.3	−388.2
Bonds and notes	+1.9	−163.4
United States certificates of indebtedness	+1.4	−224.8
Total deposits	+6.2	+58.5
Members' reserve deposits	+32.3	+41.5
Government deposits	−26.2	+15.2
Other deposits	+.1	+1.8
Federal reserve notes in circulation	+24.5	−2.3

Resources and liabilities of the 12 Federal reserve banks combined

[In thousands of dollars]

	Oct. 3, 1923	Sept. 26, 1923	Oct. 4, 1922
RESOURCES			
Gold and gold certificates	357,185	359,664	270,158
Gold settlement fund—Federal Reserve Board	643,874	641,647	568,241
Total gold held by banks	1,001,059	1,001,311	838,399
Gold with Federal reserve agents	2,055,663	2,061,965	2,194,932
Gold redemption fund	59,108	58,325	55,949
Total gold reserves	3,115,830	3,116,604	3,089,280
Reserves other than gold	72,160	76,094	123,725
Total reserves	3,187,990	3,192,698	3,213,005
Nonreserve cash	72,354	74,248	(1)
Bills discounted:			
Secured by United States Government obligations	400,158	402,141	156,318
Other bills discounted	481,503	459,867	277,878
Bills bought in open market	172,902	172,124	235,458
Total bills on hand	1,054,563	1,034,132	669,654
United States bonds and notes	89,628	87,737	253,042
United States certificates of indebtedness	5,514	4,148	230,299
Municipal warrants	317	317	15
Total earning assets	1,150,022	1,126,334	1,153,010
Bank premises	55,173	55,023	44,522
5 per cent redemption fund against	28	28	3,852
Federal reserve bank notes	663,548	616,211	631,701
Uncollected items	13,116	13,717	14,604
Total resources	5,142,233	5,078,259	5,060,694
LIABILITIES			
Capital paid in	109,669	109,657	106,220
Surplus	218,369	218,369	215,398
Deposits:			
Government	30,065	56,279	14,901
Member bank—reserve account	1,884,046	1,851,790	1,842,508
Other deposits	22,126	22,004	20,288
Total deposits	1,936,237	1,930,073	1,877,697
Federal reserve notes in actual circulation	2,272,308	2,247,830	2,274,651
Federal reserve bank notes in circulation—net liability	485	492	44,726
Deferred availability items	583,742	550,527	518,334
All other liabilities	21,423	21,311	23,668
Total liabilities	5,142,233	5,078,259	5,060,694
Ratio of total reserves to deposit and Federal reserve notes liabilities combined	75.8%	76.4%	77.4%
Contingent liability on bills purchased for foreign correspondents	34,276	33,794	31,966

[1] Not shown separately prior to January, 1923.

Resources and liabilities of the Federal reserve banks as at close of business, October 3, 1923

[In thousands of dollars]

RESOURCES

	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco	Total
Gold and gold certificates	20,547	171,075	36,564	13,159	11,596	6,296	48,477	4,436	8,587	3,423	11,752	21,273	357,185
Gold settlement fund, Federal Reserve Board	68,882	159,252	37,556	95,482	38,213	13,368	95,508	18,551	23,461	34,190	16,821	42,650	643,874
Total gold held by banks	89,429	330,327	74,120	108,641	49,809	19,664	143,985	22,987	31,988	37,613	28,573	63,923	1,001,059
Gold with Federal reserve agents	192,325	634,833	171,268	207,619	28,006	71,830	401,380	35,171	38,692	42,085	26,455	205,999	2,055,663
Gold redemption fund	11,431	8,418	8,308	4,197	3,714	3,575	3,679	4,031	1,840	4,576	2,248	3,091	59,108
Total gold reserves	293,185	973,578	253,696	320,457	81,529	95,069	549,044	62,189	72,520	84,274	57,276	273,013	3,115,830
Reserves other than gold	3,558	16,834	12,080	3,787	2,190	4,304	8,740	9,241	917	2,542	6,131	1,836	72,160
Total reserves	296,743	990,412	265,776	324,244	83,719	99,373	557,784	71,430	73,437	86,816	63,407	274,849	3,187,990
Nonreserve cash	14,266	10,819	2,099	4,529	1,566	10,602	6,600	6,795	1,157	4,486	1,814	7,621	72,354
Bills discounted:													
Secured by United States Government obligations	19,489	136,459	33,442	29,044	28,925	17,332	53,002	23,250	7,584	20,465	4,067	27,099	400,158
Other bills discounted	34,522	67,517	18,396	22,732	47,120	53,545	52,284	52,507	26,841	30,042	22,803	59,194	481,503
Bills bought in open market	8,021	22,357	18,888	30,002	495	9,108	40,188	7	50	2,247	28,470	13,069	172,902
Total bills on hand	62,032	226,333	70,726	81,778	76,540	79,985	145,474	75,764	28,475	52,754	55,340	99,362	1,054,563
United States bonds and notes	3,657	10,424	17,367	9,953	1,341	222	6,826	3,668	13,617	11,588	1,780	9,185	89,628
United States certificates of indebtedness	903	3,150	41	336		53	853			178			5,514
Municipal warrants						51				266			317
Total earning assets	66,592	239,907	88,134	92,067	77,881	80,311	153,153	79,432	42,092	64,786	57,120	108,547	1,150,022
Bank premises	4,434	13,396	744	9,676	2,617	2,818	8,715	1,155	1,755	4,970	1,952	2,941	55,173
5 per cent redemption fund against Federal reserve bank notes											28		28
Uncollected items	61,769	147,181	61,496	63,802	63,237	24,953	82,114	37,672	15,672	35,247	30,854	39,551	663,548
All other resources	174	1,061	274	303	478	674	484	104	2,399	637	2,838	3,692	13,118
Total resources	443,978	1,402,776	418,523	494,621	229,498	218,731	808,850	196,588	136,512	196,942	158,013	437,201	5,142,233

Resources and liabilities of the Federal reserve banks as at close of business, October 3, 1923—Continued

LIABILITIES

	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco	Total
Capital paid in	7,867	29,289	9,865	12,242	5,734	4,428	15,195	5,018	3,521	4,560	4,189	7,761	109,669
Surplus	16,312	59,800	18,749	23,495	11,288	8,942	30,398	9,665	7,473	9,488	7,496	15,263	218,369
Deposits:													
Government	2,083	8,155	1,232	1,530	500	2,359	8,218	1,833	1,080	1,036	1,499	540	30,065
Member bank—reserve account	129,472	700,065	119,909	157,165	62,637	52,083	268,229	65,957	48,101	79,500	53,633	147,295	1,884,046
Other deposits	169	13,037	273	1,296	149	126	1,109	598	376	596	241	4,156	22,126
Total deposits	131,724	721,257	121,414	159,991	63,286	54,568	277,556	68,388	49,557	81,132	55,373	151,991	1,936,237
Federal reserve notes in actual circulation	229,712	474,894	213,198	241,581	92,738	131,892	415,011	74,717	59,219	63,063	56,737	219,546	2,272,308
Federal reserve bank notes in circulation—net liability											485		485
Deferred availability items	57,392	113,384	53,611	55,509	55,107	17,616	68,672	37,471	15,238	37,653	31,541	40,548	583,742
All other liabilities	971	4,152	1,686	1,803	1,345	1,285	2,018	1,329	1,504	1,046	2,192	2,092	21,423
Total liabilities	443,978	1,402,776	418,523	494,621	229,498	218,731	808,850	196,588	136,512	196,942	158,013	437,201	5,142,233
Ratio of total reserves to deposit and Federal reserve note liabilities combined, per cent	82.1	82.8	79.4	80.7	53.7	53.3	80.5	49.9	67.5	60.2	56.6	74.0	75.8
Contingent liability on bills purchased for foreign correspondents		11,950	2,949	3,703	1,783	1,406	4,766	1,509	1,165	1,474	1,234	2,337	34,276

FEDERAL RESERVE NOTES OUTSTANDING AND IN ACTUAL CIRCULATION

Federal reserve notes outstanding	245,463	730,173	232,776	270,232	99,815	147,128	461,423	91,626	62,898	73,129	61,574	260,263	2,736,500
Federal reserve notes held by banks	15,751	255,279	19,578	28,651	7,077	15,236	46,412	16,909	3,679	10,066	4,837	40,717	464,192
Federal reserve notes in actual circulation	229,712	474,894	213,198	241,581	92,738	131,892	415,011	74,717	59,219	63,063	56,737	219,546	2,272,308

Distribution of bills, United States certificates of indebtedness and municipal warrants by maturities

	Within 15 days	16 to 30 days	31 to 60 days	61 to 90 days	From 91 days to 6 months	Over 6 months	Total
Bills discounted	585,560	85,064	117,004	80,435	13,337	261	881,661
Bills bought in open market	57,237	32,222	39,403	39,500	4,540		172,902
United States certificates of indebtedness	4,053			361	1,100		5,514
Municipal warrants			266		51		317

Federal reserve agents' accounts at close of business, October 3, 1923

[In thousands of dollars]

	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco	Total
RESOURCES													
Federal reserve notes on hand	92,950	313,260	47,000	31,420	23,150	73,722	116,340	24,390	10,085	35,813	25,774	67,600	861,504
Federal reserve notes outstanding	245,463	730,173	232,776	270,232	99,815	147,128	461,423	91,626	62,898	73,129	61,574	260,263	2,736,500
Collateral security for Federal reserve notes outstanding:													
Gold and gold certificates	35,300	235,531	7,000	8,780		2,400		11,080	13,052		7,391		320,534
Gold redemption fund	14,025	28,302	12,879	13,839	4,211	4,430	9,736	2,091	2,640	3,725	3,564	15,226	114,668
Gold fund, Federal Reserve Board	143,000	371,000	151,389	185,000	23,795	65,000	391,644	22,000	23,000	38,360	15,500	190,773	1,620,461
Eligible paper—													
Amount required	53,138	95,340	61,508	62,613	71,809	75,298	60,043	56,455	24,206	31,044	35,119	54,264	680,837
Excess amount held	8,894	103,581	1,281	18,960	3,584	4,602	85,349	19,272	2,912	21,630	19,769	44,125	333,959
Total	592,770	1,877,187	513,833	590,844	226,364	372,580	1,124,535	226,914	138,793	203,701	168,691	632,251	6,668,463
LIABILITIES													
Net amount of Federal reserve notes received from Comptroller of the Currency	338,413	1,043,433	279,776	301,652	122,965	220,850	577,763	116,016	72,983	108,942	87,348	327,863	3,598,004
Collateral received from Federal reserve bank:													
Gold	192,325	634,833	171,268	207,619	28,006	71,830	401,380	35,171	38,692	42,085	26,455	205,999	2,055,663
Eligible paper	62,032	198,921	62,789	81,573	75,393	79,900	145,392	75,727	27,118	52,674	54,888	98,389	1,014,796
Total	592,770	1,877,187	513,833	590,844	226,364	372,580	1,124,535	226,914	138,793	203,701	168,691	632,251	6,668,463

Governor CRISSINGER. I was also requested to furnish the violations of the use of the word "Federal" and the word "reserve" the other day, and I forgot to hand it in, and I am just handing you that now. There is a list of them that came through the legal department.

The CHAIRMAN. We will now hear Vice Governor Platt.

STATEMENT OF HON. EDMUND PLATT, VICE GOVERNOR FEDERAL RESERVE BOARD

Mr. PLATT. I want to say that I agree absolutely with what the Governor has said about the necessity of giving national banks the same privileges the State banks have in relation to branches in cities. The showing made on these maps, it seems to me, is absolutely convincing.

The CHAIRMAN. Do I understand you are in favor of a state-wide system of branch banking?

Mr. PLATT. You are getting into a question of disagreement. A minority of the board believes very much as Senator Glass stated, that in making conditions for State banks to join the system we have authority to make conditions with relation only to banking conditions and not with reference to whether we think branch banking is wise or unwise; and our idea is that we ought not to nullify State laws by preventing soundly managed banks from opening branches if the people of the State want them..

The CHAIRMAN. Your idea is that branch banking is wise?

Mr. PLATT. I think it is more economical and serves both depositors and borrowers better than independent unit banks, as a rule.

Mr. WINGO. As I recall, you believe in branch banking sincerely?

Mr. PLATT. I do.

Mr. WINGO. Your judgment tells you it is the best?

Mr. PLATT. I think it is, generally speaking, the better system. I do not believe we should have nation-wide branch banking.

The CHAIRMAN. Do you think it would eventually interfere with the operations of the system?

Mr. PLATT. I do not. I think that if branch banking were confined to neighborhood groups or something of that sort it would be best. Many States already have it: that is, allow neighborhood branch banking. A few permit state-wide systems. I think it would make the Federal reserve system easier to work, because it would do away with the tremendous inequality between banks. Now, we have banks with $25,000,000 capital and other banks with $25,000 capital. There is no competition between them whatever and the policies that fit the big banks often do not work well with the small banks. In fact, there is no competition in this country between banks except in little groups, except for the big borrowers. Sears-Roebuck and Montgomery-Ward, the packers, the big millers, and others of that kind who keep accounts in New York, Chicago, and Boston, for example, can borrow in one city or in another where rates are lower. They can also sell their notes through brokers to many banks, but the small borrowers can not do that.

Mr. WINGO. Did I understand you to say there would be no competition if the bank with $25,000,000 capital were to put a branch

across the street from a bank with $25,000 capital in a small community?

Mr. PLATT. No; I said there is no competition now. There would be under those conditions.

Mr. WINGO. You believe in putting that branch there for the benefit of the borrowers'

Mr. PLATT. I think if it was put there under proper limits it would be a good thing.

Mr. WINGO. Your theory is that it would benefit the borrower if you permitted this larger $25,000,000 bank to put a bank across the street in a small village from the $25,000 bank?

Mr. PLATT. I think in many cases it would. In fact, it has been shown in California the branch banks reduced rates of interest from 8 per cent to 7 per cent in many places. There is some dispute about how far they did it. Local banks, however, have advantages not only in neighborhood support and loyalty, but they have the lower reserve requirement.

Mr. WINGO. What distinction do you make between chain banks and branch banks?

Mr. PLATT. Chain banks are organized as separate corporations, but with one control. I think chain banks are much more dangerous than branch banks, because they have all the disadvantages of branch banking without the advantages and responsibilities.

Mr. WINGO. Chain banks have to keep a local director?

Mr. PLATT. They have local directors. There are probably thousands of chain banks in this country and they have evidently been organized because of the prohibition of branch banking.

Mr. WINGO. Have you investigated what happened to the interest rate after the little bank quit business?

Mr. PLATT. The thing has not gone far enough to make it possible to investigate that very far, but it appears that where the rate has been put down it has never been put back again. People will tell you that branch banking results in collecting money in the country where there is no overabundance of funds and loaning it in the cities where money is plenty and the rates lower. That is not common sense. Why would bankers try to collect money where the rates are higher and loan it in the cities where the rate is lower. In my neighborhood, up in the Hudson River Valley in New York, we have low money rates, because there is more money deposited than can be loaned, and it is loaned outside, some of it, so far as they can do it, without the branch system. The most of the surplus, I think, is sent to New York to be loaned on Wall Street.

Mr. WINGO. Do these large banks put out branches for the altruistic purpose of aiding the community?

Mr. PLATT. Absolutely not.

Mr. WINGO. What benefit do they get out of the interest on those loans?

Mr. PLATT. Take California, which is the storm center. Los Angeles is one of the greatest depositing neighborhoods in the United States, next to the Hudson Valley and Boston. People flock into Los Angeles from all over the country, bring their money with them and deposit there. It can not all be loaned there, and they loan it out among the citrus fruit growers and other similar agricultural

activities. The branch banking people showed us that they have larger loans in town after town that the total deposits in those towns. No independent banking system can do that.

Mr. WINGO. You think the fears of these local independent banks are unfounded; that is, their fears of the effect of competition of the branch banks?

Mr. PLATT. Why, it is partly unfounded; but if the branch banks give better service they might absorb them in the course of time.

Mr. WINGO. In your opinion, why do these small bankers object to big banks placing branches across the street?

Mr. PLATT. Take the Northwest Savings Bank here in the city, for instance——

Mr. WINGO. I am not talking about the city. Let us get out in the country. Go out to Kansas or California.

Mr. PLATT. The independent bank fears the competition of the larger bank; there is no doubt about that.

Mr. STRONG. If you had spent 25 years building up a business in a bank in a reasonably fair sized town or city, would you want the Government to permit the big bank down town to put a branch alongside of you and go out to your customers and say, "We can give you better service, because we have a big bank"?

Mr. PLATT. I certainly would not; but the interest of the community is of some importance. The fight is between the bankers. The people have never been consulted in the matter. If you go to the people of California, particularly the cooperative marketing associations, and ask them about it they would tell you that branch banking has been beneficial to them.

Mr. STRONG. After the big banks wipe out all the little independent banks, they are going to control the banking system from down town, and eventually you will have a monopoly of the banking system of the country in the hands of a few big bankers.

Mr. PLATT. Not unless you permit it.

Mr. STRONG. How can you get around it if you keep extending the branch system all the time?

Mr. PLATT. In California, for the sake of argument, there are 79 banks with 449 branches. Certainly no monopoly there yet. There is no competition now in the neighborhoods where there are only neighborhood banks, except between those small banks and such competition rarely, if ever, lowers interest rates.

Mr. STRONG. If those 79 fellows wanted to get together and say, "We will just squeeze the people" they could do it mighty easy?

Mr. PLATT. That could be prevented. They do not do it. Look at Scottland, which has the best banking system in the world, perhaps.

Mr. WINGO. Your theory is that the large bank has the smaller overhead and that it can still with profit extend privileges to those communities that the local independent bank can not; is that your idea?

Mr. PLATT. That is, of course, true.

Mr. WINGO. Just what are the elements in that?

Mr. PLATT. Of course, the large bank gives its depositors not a guarantee of a capital $25,000 but a guarantee perhaps of $25,000,000 capital. His deposit is that much safer; and they have the larger

loaning limit. Every country town has some men who can not borrow at the local bank because the local bank has not the loaning power to accommodate them.

Mr. WINGO. You say they loan at a lower rate. Why are they enabled to do that?

Mr. PLATT. Because they gather money where it is deposited in the cities, and they can spread it around and keep it employed all the time, instead of sending it to Wall Street. A local bank can not even safely loan all its deposits in the neighborhood.

Mr. WINGO. Is it not comparable to this, or is there the same element—I am not trying to controvert; I am just trying to analyze the elements that enter into your argument—we will take a large wagon factory or automobile factory. Henry Ford has a lower unit of cost than a plant that turns out a smaller quantity, does he not?

Mr. PLATT. He does, undoubtedly.

Mr. WINGO. Does that enter into banking plants, too—larger capital and larger banks have lower units of cost because the operation is less and therefore they can make a profit on narrower margins?

Mr. PLATT. It does if they do not go too far in competion with each other. With an equal number of officers the overhead of branch banking is much less than the overhead of unit banking. They have not so many officers to pay and they have fewer employees.

The CHAIRMAN. You cite the California situation as providing more loans for the locality than the deposits that are received. Is it not true that in some instances branches are established for the principal purpose of getting the deposits?

Mr. PLATT. In the city; yes.

The CHAIRMAN. In that locality, and transferring them to another locality where they have more demands for loans?

Mr. PLATT. There is more money deposited in Los Angeles than can be loaned there, except possibly on real-estate development, and instead of sending the surplus to New York and San Francisco they loan it out in the country through their own branches. Your bank probably loans money in the country, but it is harder to do it when you can not have a local agent to look after it.

Mr. WINGO. At Little Rock there was a large bank, and they had a branch established at my town. Your theory is that in addition to the deposits in the locality they would send down deposits and swell the loans in that community?

Mr. PLATT. Their loans would not be limited to the deposits of that locality at all.

Mr. WINGO. Is not that true of the independent bank; does it not go out and get rediscounts for the purpose of getting additional capital?

Mr. PLATT. Yes, but it has to pay a rate of interest.

Mr. WINGO. For that reason it has to charge a higher rate; is that one of the elements?

Mr. PLATT. That is undoubtedly one of the elements.

Mr. WINGO. If you were a merchant in one of these small communities, you would naturally go to the branch bank that charged a lower rate of interest, would you not?

Mr. PLATT. I think probably I would. They do not always do that, and the independent bank is not going to be driven out of business under any circumstances right away.

Mr. WINGO. What fixes rates?

Mr. PLATT. Competition and the supply of money.

Mr. WINGO. Do you think the average bank is any more altruistic than anybody else, and if he could get 6 per cent he would not let money go at 5?

Mr. PLATT. I think not.

Mr. WINGO. If a merchant can sell shoes at $5, he is not going to sell them at $4, is he?

Mr. PLATT. I think not.

Mr. WINGO. The altruistic merchant does not last very long, nor does the altruistic banker, and the natural tendency of human nature is to take all the traffic will bear.

Mr. PLATT. With due regard to future customers, etc.

Mr. WINGO. In other words, selfish interest will load the traffic as much as can be done not inconsistent with keeping the business going. The banker is not any more altruistic than anybody else.

Mr. PLATT. Not a bit.

Mr. WINGO. Do you think a big banker would be any more altruistic than a small one?

Mr. PLATT. I think not.

Mr. WINGO. You think if the competition of the local banker is removed he would still give the lower city rate in that community that had scarcity of capital?

Mr. PLATT. He might not if you had only one bank with branches. But, as a matter of fact, you have more competition under branch banking than under independent banking.

Mr. WINGO. General banking with branches has driven out and decreased the number of independent banks wherever it has been tried?

Mr. PLATT. Generally speaking, yes; so far mostly by purchase or consolidation.

Mr. WINGO. Wherever in any country or community they tried branch banking it has had a tendency to centralize and make larger units and decrease the number of banking units, has it not?

Mr. PLATT. Yes.

Mr. WINGO. That is one of the economies claimed for the branch-banking system, that it does away with useless organization and works out in the economy of having a large central organization—smaller units with less overhead.

Mr. PLATT. That is undoubtedly true.

Mr. WINGO. Is not that the reason why wherever they have tried branch banking it has destroyed independent banking?

Mr. PLATT. That is undoubtedly true.

Mr. WINGO. Do you not think the banker's opinion, based upon the experience of other people, is entitled to considerable respect?

Mr. PLATT. I do. But I think that the depositor and borrower are also entitled to consideration.

Mr. WINGO. That is the argument that was used in permitting the Standard Oil to go into independent oil territory and by reason of lower overhead and by reason of being able to recoup loss at one town

in another town thus was enabled to drive the independent man out, because he said he was giving lower-priced gasoline. You expect the price of gasoline in the Northwest to rebound after the tumult and the shouting dies?

Mr. PLATT. I think that probable; but if you want to know how branch banking works where it has been going a great many years all you have to do is to go to Scotland and Canada and Australia and other countries.

Mr. STRONG. Do you think the borrower has the same personal and sympathetic relations with the manager of the branch bank that he would have with the manager-owner of the local bank?

Mr. PLATT. No; I do not; I think the local bank has the advantage in that respect.

Mr. STRONG. Then why is it not a good thing for the borrower to patronize the local bank?

Mr. PLATT. Sometimes it is and sometimes it isn't. I once lived out in the West. I knew the local banker. He was a personal friend of mine. He said: "You come in and borrow some money. Why do you not borrow some money and buy some of this real estate? Everybody else is making money in real estate." I held off a good while, but finally concluded to borrow some money and make a first payment on a piece of real estate. I did so, and I have that real estate yet, and it took me nearly 10 years to pay off that loan, and I do not think that banker was doing me any favor.

Mr. STRONG. Suppose you were not buying real estate but were borrowing some money to buy cattle to feed. Suppose some fellow would say to you like they did in 1920, "We can not loan money for people to buy corn to feed cattle. You sell the cattle unfinished and sell your corn for 28 cents." That is what they said to us in 1920 in Kansas.

Mr. PLATT. That was done in the middle West by independent banks; it was not done in California, by branch banks, so far as I know.

Mr. WINGO. May I take you from Kansas back to Canada You remember the disastrous bank failure up there not so very long ago, do you not—in the last few years, where they had a big failure in a bank that had numerous branches?

Mr. PLATT. There has not been until this year a failure in Canada for, I think, 10 years.

Mr. WINGO. It was last winter. Did they not have a big failure up there?

Mr. PLATT. One or two banks were absorbed by other banks but nobody lost anything except the stockholders. Depositors lost nothing and knew nothing about the difficulties until the consolidation had been made. If the stockholders lose money, what difference does that mean to the average man or the community. I will say there has not been a failure in Canada since 1913 (except this year in August—the Home Bank failure) in which depositors have lost anything or even had their money tied up.

Mr. WINGO. I think there was a failure.

Mr. PLATT. My recollection is that something over a year ago the Merchants Bank of Canada was absorbed by the Bank of Montreal and several months later—rather recently—the Bank of Hamilton,

whose reserves were impaired, was taken over by the Canadian Bank of Commerce. Such consolidations to avoid failure or closing are much more common in our own country, and I do not know how many of them are in progress now. There have been eight bank failures in Canada since 1895, and according to the record I have here depositors have been paid in full in all cases except that of the Bank of Vancouver, which occurred in 1913, and is marked still "in course of liquidation." How the recent Home Bank failure will come out remains to be seen. The preliminary statement just made seems to show the liabilities more than two million greater than the assets, with capital and surplus wiped out.

Senator GLASS. Mr. Platt, as a general proposition, I might say in 99 cases out of 100, is a bank loan sympathetic or acquisitive? A bank loans, does it not, because it wants to make a profit?

Mr. PLATT. Certainly, it wants to make a profit.

Senator GLASS. The argument made here awhile ago was in favor of the independent local bank because it would be sympathetic with its customers.

Mr. PLATT. Once in awhile that is so. But I think that sympathy isn't often a factor in banking.

Senator GLASS. I want to ask you a question while you are here, because you are not a lawyer and I am not a lawyer. We are both newspaper men. But I did have something to do with the construction and passage of the Federal reserve act, which you are charged with the duty of interpreting. Your counsel, as I understood him—I may have misunderstood him—undertook to base the right of the Federal Reserve Board to exclude from the system a State bank having branches upon this provision of section 9 of the act:

> The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such Federal reserve bank.

That taken and interpreted by itself might mean just that; but the law provides that such banks and the officers, agents, and employees thereof shall also be subject to the provisions of and to the penalties prescribed by section 5209 of the Revised Statutes, and it shall be required to make reports of condition and of the payment of dividends to the Federal reserve bank of which they become a member.

> Not less than three such reports shall be made annually—

Those are the expressed requirements of the statute. Do you think under this first sentence I read the Federal Reserve Board would have any authority to prescribe a condition which would be contrary to the language that "such banks and the officers, agents, and employees thereof shall also be subject to the provisions of and to the penalties prescribed by section 5209 of the Revised Statutes"——

Mr. PLATT. I think certainly not.

Senator GLASS. Then, if it has not any right to do that, what right has it, in the face of this provision of the statute to exclude a State bank because it has branches? Under the same section I read:

> Subject to the provisions of this act and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal reserve system shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State—

If the State of California or State of Virginia or any other State in the Union in its charter of a State bank gives it the right to establish a branch bank, what right has the Federal Reserve Board to take it away?

Mr. PLATT. The act says the Federal Reserve Board "may," does it not? I do not think it says "must."

Senator GLASS. I am not a lawyer; but all lawyers know it means "shall."

Mr. PLATT. I believe the board has no right to deny a branch if the bank is in sound condition.

Senator GLASS. If it does not mean "shall" the statute is not worth the paper it is printed on.

The CHAIRMAN. What have you to say with regard to the Clayton Act—that is, the Kern amendment to it—about interlocking directorates?

Mr. PLATT. You know that is a national bank proposition more than anything else, because State banks can be in the system and can have such interlocking directors as the State laws allow. If you bring in one national bank, then you may have to break up the directorate, which is sometimes a serious matter. We have had some trying conditions where if we enforced the law as literally as we apparently have the power to do we would actually penalize competition, which is exactly what I think Congress did not want us to do.

There are trust companies in Philadelphia which before the war did no commercial business whatever. For patriotic reasons during the war they came into the Federal reserve system and bought some commercial paper, so as to have something they could rediscount if they had to rediscount. Then they were gradually forced to take up certain lines of commercial business. People were seeking credit wherever they could get it. That, theoretically, brings them in competition with the national banks. These trust companies, some of them, were founded by the national banks, and evidently the directors representing the national banks had not prevented competition. It was perfectly clear whatever competition there was was not restricting credit. Yet, if we enforced the law literally, we could take the national bank directors out of the trust companies and break up the boards of directors of the trust companies or force their directors to leave the national banks. The law does not require us to do that where permission has already been given, but it gives us the power. It has been the cause of a certain amount of friction. We have allowed men to serve where they have been serving, but we apparently have no power to allow new men to come in, which seems inconsistent. If the law could be amended so as to define the words "substantial competition," it would help greatly.

The board believes the law should be amended so that we could grant permission for interlocking directors in not to exceed three banks where there was no evidence of restriction of credit. It certainly can not do any harm where there is no evidence of restriction of credit, and I will say that so long as I have been in the Federal Reserve Board I have not heard any complaint of restriction of credit in any of the hundreds of cases submitted to us for permission to serve more than one bank.

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The CHAIRMAN. You are familiar with the Kern amendment to the Clayton Act and the proposed amendment to it. Does that cover the situation?

Mr. PLATT. Yes; the proposed amendment I think very desirable. If you will pass that bill, it will prevent injustice and help in the enforcement of the law, and I believe if you explained it to the House there would not be much trouble passing it. The Clayton Act committee of the board made a report recommending the amendment which the commission may have if desired.

I do not know that there is anything further I can say, except this: On the main subject of the inquiry, why more State banks do not join the reserve system. There are a certain number of States which keep their States banks out of the system. Connecticut is one of them.

Senator GLASS. We can not affect that situation.

Mr. PLATT. But we can, through our reserve banks, continue to use such arguments as we can to get those State laws changed. A great many of them have been changed. There are, I believe, some 18 State laws yet that interfere considerably, but Connecticut, I think, is one of the worst. Gradually, I think, those laws will be changed.

Then it ought to be recognized, I think, that there are a certain number of State banks that have no very good reason for joining. They do mostly a trust or an investment business. They are on the border line, where it is pretty hard to see why they should join. For example, there was a bank in California that came in during the war. It was mostly a savings bank. There was no particular reason why it should be in the Federal reserve system, and it has since withdrawn.

If you will look the map of the country over, you will see that most of the bank failures, where most of the trouble with agricultural credit has existed, occurred where the least number of State banks are in the system.

The CHAIRMAN. Reports made by the War Finance Corporation indicates that 80 per cent of their loans were made to nonmember State banks and trust companies in the agricultural sections of the country where the greatest hardships prevail, and only 20 per cent to national banks?

Mr. PLATT. Yes.

The CHAIRMAN. Do you think if those State banks and trust companies had been members of the Federal reserve system they would have been in a stronger position to take care of the situation?

Mr. PLATT. Undoubtedly they would. Here is another point that you will find among the statements of the reserve bank governors that were put in by Governor Crissinger. One of the banks makes the point that if we had more State banks in the system there would be a higher standard of banking. The standard of banking among some State banks is low. If we could have them in the Federal reserve system it would mean that we would visit them and require them to have paper that is eligible, which means that some of them would have to stop loaning all their money on demand notes and get their business in some sort of shape so that some of it will be liquid. If we get more State banks in it means a higher standard of management in making loans.

Mr. WINGO. I wonder why they do not fail.

Mr. PLATT. They do fail. A thousand of them failed in three years, and a great many of them failed by bad management.

Mr. WINGO. What particular bank—what was the particular fault of management that ran through these failures?

Mr. PLATT. Excessive loans to officers and directors; loans on real estate during real estate booms, loans on "blue-sky stocks," and various kinds unsound loans, besides the legitimate loans on produce that fell in price. Sometimes State banks have had loans away off from their neighborhood.

Mr. WINGO. You do not object to that, do you, as a banker?

Mr. PLATT. Not necessarily, but the small banks often have no way of knowing whether they are good or not. If you could look over the bank statements you would see what I refer to.

Mr. WINGO. If that condition prevails, you do not want to amend the system, but you would have to reform them after you got them in.

Mr. PLATT. As Governor Crissinger says, if all State banks were to present themselves for admission, we would find a great many we could not admit immediately. We would find in their statements a whole lot of excess loans. Many States allow 20 per cent of the capital and surplus to be loaned to one individual, and sometimes we find loans as high as 40 per cent.

The CHAIRMAN. If all these banks come in, do you think the Federal reserve system could function better in taking care of the needs of the public than it now does?

Mr. PLATT. So far as the system is concerned it doesn't need them, and I think it is almost an even question as to whether all of them ought to come in. I believe that a good many of the very small banks are probably better off outside, but I do think that in many of those communities they might have larger banks by moderate consolidation, and then if they did join the system they would borrow directly instead of having to take several jumps through city correspondents.

The CHAIRMAN. Do you view with concern the statement that national banks are believed to be going out of the system because of keen competition of State banks?

Mr. PLATT. With some concern; yes. I think that so far as possible the national bank act ought to be amended so as to give the national bank privileges so far as they are sound which are as good as those accorded State banks. Governor Crissinger has told you that the national bank act has been very little amended. We have amended it a little, but not much.

The CHAIRMAN. Do you think it will be possible, with the amendment which you would approve to the Federal reserve act and the national bank act to make it so attractive that those banks would stay in, when you take into consideration the fact that State banks and trust companies have greater advantage in the matter of reserves and several other things which many of us feel should not be given to the national banks?

Mr. PLATT. I suppose as long as some States allow unsound reserves to be kept, the national banks will be at a disadvantage in those States, and we can not help it. That, for instance, was one of the things Mr. Hazelwood spoke of in Atlantic City. One thing

that keeps banks out of the Federal reserve system is State laws, not only State laws like that obtaining in Connecticut, but State laws which are unsound. I do not believe that we should ever amend the national bank act to compete with that sort of thing, but I believe personally in what Governor Crissinger recommended very strongly, a sort of departmental banking. It seems to me that is one thing in the California act, by the way, that is rather superior to the national banking law. They require savings deposits to be segregated and to be invested in a certain way, separately from the commercial department investments. Then, after being so segregated, you can loan a larger percentage on real estate with safety, on mortgages and bonds, etc.

Mr. WINGO. Have you talked pretty strongly to nonmembers in order to find out what their objections are to coming in?

Mr. PLATT. I have talked to a good many of them.

Mr. WINGO. In what part of the country?

Mr. PLATT. In all parts of the country, to people who have been drifting in to see us, as well as on railroad trains, etc.; many of them are very friendly to the system, but they simply do not think it would pay them to go in.

Mr. WINGO. Has the board here agreed on the regulations covering par collections and the decisions of the Supreme Court?

Mr. PLATT. Practically.

Mr. WINGO. When do you think you will get out the changed regulations?

Mr. PLATT. Probably in a few weeks. We put out a few weeks ago some regulations which we think are sound, but perhaps a little too stringent and have suspended a part of them. As a matter of fact, we are not collecting checks over the counter.

Mr. WINGO. I have not gone into that, because I thought it was better to wait until you get out the new regulations and then see where we are.

Mr. PLATT. But, as Senator Glass says, inasmuch as nearly all the State banks are remitting for their checks at par, those same banks remitting at par can not give that as a reason for not coming into the system. Membership would make no difference in that respect.

Mr. WINGO. Are there any steps which have been taken by the board regarding par collections?

Mr. PLATT. We have gone into that more or less.

Mr. WINGO. We have not got par collections; we have par remittance.

Mr. PLATT. The law, of course, allows charges for collections. We think they are too high in some parts of the country.

Mr. WINGO. The collection charge is larger than it used to be, it has been my experience, because there is not any par collection; it is par remittance.

Mr. PLATT. Oh, yes; there are par collections. You ordinarily are not charged collection on checks. If you have a bank account in Washington, you could take most any check and deposit it and they would collect and not charge you for collecting. I do not know whether the great majority of checks are collected without charge, but very many are.

Mr. WINGO. You know the reason? The reason they give is that under the old system they had correspondents who gave them immediate credit. "We could cash your check, then, as a matter of accommodation, because we immediately got credit, but," they say, "Mr. Wingo, it takes three days now on your check and it is practically a loan." I am not complaining. My bank has to remit at par, but I have to pay for the cashing of the check, whereas before I did not have to pay.

Mr. PLATT. I do not think I have paid a charge on any check. I think outside of cities where the clearing houses compel it, it is not a very general practice, unless it is in the case of a stranger. Of course, if a stranger comes in and has to be identified and he has not an account, a charge may be made.

Mr. WINGO. I know a case where a president of a bank lost a good hat on a wager. He said, "It is all right; I know this gentleman." And he was charged 25 cents by the paying teller on a $25 check; and so the Member of Congress won a hat off of the president of the bank.

Mr. PLATT. It is done, but it is not universally done.

Mr. WINGO. The reason he gave was that the Federal reserve par collections compelled the bank to do it. He said he was not entitled to immediate credit.

You have talked to a great many country bankers, and you know a great many of them think they ought to have immediate credit. That is one of the bones of contention.

Mr. PLATT. So far as the checks they send to the Federal reserve bank for collection are concerned, most of us are rather inclined to think that the country banks might be allowed to deduct them from deposits before they reckon the amount of reserve required, but "immediate credit" means a reserve of float and is certainly unsound.

Mr. WINGO. They say our correspondents always carried it before the Federal reserve system was established and our correspondents are carrying it now, and we do not understand why. Can you tell them why, so that an ordinary statistician can understand?

Mr. PLATT. If they will look at the size of the figures of the float they will see what the result would be if it was all put in as reserve.

Mr. WINGO. How do you know what it would do if you never tried it out?

Mr. PLATT. We have the figures right there. We have the "deferred availability" item in our statement every week—$550,000,000 on September 26.

Mr. WINGO. How do these correspondent banks afford to do it?

Mr. PLATT. What they simply do is to make the country bank carry enough balance to make it profitable. If the city bank pays exchange to the country bank, it makes it keep a bigger deposit, and if it carries float for a country bank the deposit must be large enough to make it pay.

Mr. WINGO. What I am trying to get at is the altruism of those country banks.

Mr. PLATT. The city banks do not do it for nothing.

Mr. WINGO. They pay interest on the balances?

Mr. PLATT. On collected balances, but not on uncollected balances, as a rule.

Mr. WINGO. The answer was given just now that they require them to keep balances. They pay interest on the balances?

Mr. PLATT. On the collected balances, yes; but it is pretty small interest compared with what the city banks can loan the money out for.

Senator GLASS. As a matter of fact, does any bank transact business for philanthropic considerations?

Mr. PLATT. Certainly not.

Senator GLASS. Does not every well-conducted bank—95 per cent would be well within the limit, I assume—require its borrowers to keep a certain percentage on deposit, most of them 20 per cent of their borrowings?

Mr. PLATT. Do you mean individual borrowers?

Senator GLASS. I mean, if I am a business man in my town and if I keep an account with my bank, and I want to borrow $10,000, do they give it all to me at once; do they not require me to carry 29 per cent of it as deposit in the bank?

Mr. PLATT. Some banks may do that.

Senator GLASS. Ninety-five per cent of them do it.

Mr. WINGO. The thing I can not understand is why it is impossible for the Federal reserve to carry the float and the corresponding bank carries the float. They do it for profit, because 95 per cent are in it for the profit.

Mr. PLATT. The deposits in the reserve bank are supposed to be actual gold or lawful money reserve, and they are not allowed to do business for profit.

Mr. WINGO. We have made a collection agency out of them. We have turned them from what the original philosophy of the Federal reserve act was, that they should be cities of refuge in time of financial distress, and a rediscount market that was more or less open and which would mobolize the reserve for service.

The CHAIRMAN. The joint committee will recess, until to-morrow morning at 10.30 o'clock, when we will have before us the Comptroller of the Currency.

(Thereupon, at 4.35 o'clock p. m., the joint committee adjourned to meet to-morrow, Wednesday, October 3, 1923, at 10.30 o'clock a. m.)

INQUIRY ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM

WEDNESDAY, OCTOBER 3, 1923

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE OF INQUIRY
ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM,
Washington, D. C.

The joint committee met at 11 o'clock a. m., Hon. Louis T. McFadden (chairman), presiding.

The CHAIRMAN. Mr. Dawes, we will hear you now. As indicated in the invitation which I sent you, this committee is engaged in an inquiry as to why more State banks and trust companies are not members of the Federal reserve system and what effect this has on the agricultural sections of the country, etc.

I understand you want to proceed without interruption?

STATEMENT OF HON. HENRY M. DAWES, COMPTROLLER OF THE CURRENCY

Mr. DAWES. I would appreciate it very much if I could. I have picked out the two things that I am more competent to speak about, and they are highly controversial subjects.

The CHAIRMAN. If any members of the committee desire to ask you questions, I suggest that they make notes and ask them when you have completed your statement.

Mr. DAWES. I would appreciate that very much. I want to get the whole argument, and particularly with reference to branch banking questions, before you, and because I have tried to articulate it very closely I would like very much to discuss it without interruption.

The CHAIRMAN. You may proceed in your own way.

Mr. DAWES. I am afraid it is a little bit long.

You have invited me to express my views to your committee, doubtless for the reason that as Comptroller of the Currency I have general supervision over the national banks. I wish to state clearly at the outset that the statements which follow are made by me solely upon my responsibility as Comptroller of the Currency. They are not intended in any way to represent the views of the Federal Reserve Board, of which I am a member ex officio.

With your permission I shall confine my discussion primarily to the subject of branch banking—the outstanding problem in our banking system today. On the side of the National Government this question is simultaneously before the Federal Reserve Board

and the comptroller; before the board in the matter of the extension of branch banking by the State member banks in certain States and before the comptroller as a question of preserving the integrity of the national banking system in those States. Since the national banks constitute the backbone of the Federal reserve system, it becomes necessary, therefore, for me as comptroller, in this discussion, to refer to the situation before the Federal Reserve Board.

The organization of the Federal reserve system was possible because of the power of the National Government to enforce the cooperation of the national banks. At its inception it was primarily an instrumentality of coordination, imposed upon the existing national system. At the present time, of the 31,000 banks in the United States, 9,916 are members of the Federal reserve system, and of the members of the Federal reserve system, 8,292 are national banks. The assets of the national banks as of June 30, 1923, were $21,511,766,000, as compared with the assets of the State member banks amounting to $12,293,124,000.

The national bank act does not permit national banks to engage in the exercise of general banking functions beyond the limits of the municipalities in which they are located. They can not, therefore, enter the general field of branch banking.

These elementary facts are stated in order to bring out the obligation of the Federal reserve system to the natinoal banks, and the extent to which the Federal reserve system is dependent upon the national banking system. Except for the national banks the Federal reserve system could not have been organized, and if a condition is permitted to develop which would seriously and permanently cripple the national banking system it would be a direct and possibly fatal blow to the Federal reserve system.

The development of the American banking system has been an evolutionary process, and the preeminent strength which it possesses in the world finance at the present time is in large measure due to the fact that it took its form in a gradual and orderly way, meeting by practical adjustment conditions as they developed. It is distinctly not an adaption of any foreign system, nor is it a structure conceived and built by any individual or group of individuals at a given time involving the rigid enforcement of a ready-made theoretical plan. Under our system of banking, the most stable and most rapid economic development that the world has ever seen, has taken place.

From time to time efforts have been made to substitute for the old machinery a system which might seem to be theoretically and technically more perfect. The frontal attacks of the proponents of foreign banking systems have invariably broken down without, in any substantial manner, permanently modifying or affecting the general principles of American banking. The genius of the American people for independence in matters of local self-government is thoroughly ingrained and will never succumb in any clean-cut issue where the choice rests between centralized control and personal and community independence.

At the present time no direct or open attack is being made on these traditional principles. The danger which confronts our present banking system lies in an insidious and gradual undermining influence which is not so much the outgrowth of a conscious effort to introduce a new system as it is the result of a natural desire

to secure temporary benefits for particular individuals and banking institutions without consideration being given as to the ultimate effects on the highly complicated and efficient machinery of American finance and exchange. It is peculiarly a time when these indefinite tendencies should be precipitated into their essential elements.

If a new system and theory of banking is in progress it should be determined whether or not it is a desirable system, and if a desirable system it should be encouraged, fostered, and put into effect as rapidly as possible. If it is not a desirable system that fact should be develeoped and steps should be taken now to eradicate it before a condition has developed which would involve a great national disturbance and injustice to individuals and communities.

The above remarks are intended to apply to the general subject of branch banking. By branch banking I mean an association of banking houses operating in one or more cities or towns but all under the discretionary control of the board of directors of a parent bank and upon the capital of such parent bank.

Unless the State member banks enter into branch banking there is in my judgment no material divergence of interests between the State and National banks. If, however, State member banks engage in unlimited branch banking it will mean the eventual destruction of the national banking system and the substitution for it, and eventually, for the Federal reserve system, of a privately owned and highly centralized financial control of the banking machinery of the United States.

It is this belief which impels me to discuss at some length present tendencies in branch banking, and if the interest of your committee is largely centered on the status of nonmember banks it is proper to say that these nonmember banks are almost entirely independent unit banks and any substitution for the present system would have as vital an effect on their future as it would have upon the member banks and on the old independent unit banking operations of the national banking system.

In support of the general contention that the principle of branch banking has been carried to such an extent as to constitute a definite trend in certain localities the following facts are submitted:

Branch banking is permitted with various modifications in the following 18 States: Arizona, California, Delaware, Georgia, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, New York, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee, and Virginia.

The laws of some of these States restrict the establishment of branches to the city or county of the location of the parent bank, while others permit branches to be established in any part of the State. In California, for example, 82 of the State banks are operating a total of about 475 branches. In that State, one bank operates 28 branches, one bank 19 branches, another about 71 branches in 48 different cities, another about 72 branches. Four banks in California operate a total of 190 out of the 475 branch banks in the State. In the State of Massachusetts, chiefly in the vicinity of Boston, State banks and trust companies are operating several hundred branches. In the State of Michigan upward of 300 branches

of State banks are in operation. In the city of Detroit 14 banks are operating about 200 branches and there are in Detroit only three national banks left in operation. In the State of New York about 251 State banks are operating branches. In the United States to-day it is reported that 517 State banking institutions have in operation 1,675 branches.

The figures used above are not intended to be authoritative or complete, and are used only for the purpose of illustration. They are, I believe, sufficient to indicate that the issue has long since passed the theoretical stage and has reached the status of a practical condition.

Granting that a State legislature may properly enact legislation permitting the local State banks to engage in branch banking, the larger questions remain, first, as to the effect of such legislation upon the national banks operating in such States under the national bank act as administered by the Comptroller of the Currency and, second, the effect upon the Federal reserve system of admitting to or retaining in membership such State banks engaged in branch banking.

In view of the facts stated above I may safely say that branch banking already exists in the United States, and that it is distinctly a practical and not a theoretical issue.

The discussion of branch banking seems naturally to divide itself into three main questions:

First, is a reserve system, either governmentally or privately controlled, necessary?

Second, can the present Federal reserve system survive the imposition upon it of large and powerful chains of branch banks which, in practice as well as in theory, are privately owned and privately controlled reserve systems?

Third, can a general system of branch banks exist simultaneously with a system of independent unit banks?

If it should be concluded in the consideration of these questions that the Federal reserve system is necessary and that it can not survive the strain upon it of systems of branch banks, and that branch banks will mean the elimination of independent banks, it will then, I believe, be a logical and necessary conclusion that the issue is a clean-cut one as to whether the country prefers a system of privately owned branch banks or a reserve system under Federal control.

As to the first question, namely, the necessity for a reserve system, it seems hardly necessary, in view of the record of the existing organization, to enter into any extended arguments, but it would perhaps be well to state some of the basic considerations on account of which it was given its present form. The principle of a central bank has been a controversial one for over a century. In deference to the widespread and thoroughly American distrust of the centralization involved in a single Government bank 12 banks were established in different sections of the country in order to secure the closest possible contact with the local member banks and a thorough understanding and adaptability to community conditions. Through the operations of the 12 individual units a proper sympathy with and understanding of local conditions and needs is secured; while at the same time, through the Federal Reserve Board, a liaison between the districts is secured and the detachment necessary for a

proper compromise between local interest and national policy. Through the Federal reserve system the transfer of funds from points of surplus to points of deficit is accomplished with the primary purpose of promoting the best interests of the whole country and not with a view to enabling individuals or sections to reap a financial advantage at the expense of others. If it were assumed that the instrumentality for the transfer of funds could be provided by a private reserve system, such as a branch banking institution, it could hardly be fairly contended that the controlling influence would be other than profit. Necessarily, in adjustments of this kind the interests of a branch bank or individuals must be private profit and not public welfare.

The whole Federal reserve system bears a very striking analogy to the general principles which underlie the American Government, being founded upon a system of checks and balances calculated to preserve local independence under centralized and coordinating control. It would be so distinctly a step backward and so manifestly a dangerous proceeding to destroy the regulated cooperation of banking facilities that it seems to me entirely unnecessary to discuss further the necessity for some sort of a reserve system; and the issue is, Should it be done by governmental coordination or private centralization?

The second point referred to, as to the ability of the Federal reserve banks to survive the imposition upon the system of large privately controlled reserve systems, is a practical one which at the present moment faces the Federal Reserve Board. The question as to the duties and rights of the board to interfere in the extension of a system which in the opinion of many might contain the seeds of a development which will mean the eventual destruction of the Federal reserve system is by no means a simple one, either legally or from the standpoint of policy. The board, however, clearly has the moral and legal right to refuse admission to the system of any institution which either because of its financial condition or the method of its operation is unsound, and it has the same right to deny the privileges of the Federal reserve system to a member bank under similar conditions. It is reasonable to assume that a bank, for administrative purposes, might safely control 10 branches; but the same bank under American conditions might not, in safety to its depositors and general creditors, operate a thousand branches.

If the Federal Reserve Board takes a neutral position on the general issue of branch banking and refuses to sanction the admission to the system or request the withdrawal of banks which are operating more than a safe number of branches they will be faced continually with decisions of a highly controversial nature, and which are not susceptible of reduction to elemental formulæ. Perhaps I should clarify that. I mean by that that if in the handling of the branch banking situation they consider the establishment of each individual branch as a separate question, they will then be faced with this situation: They will have to investigate the local situation, the personal equation, the temporary financial conditions, and a thousand and one conflicting influences will have to be balanced and considered in every application for a branch. However wise their decisions the board will, of necessity, frequently appear to be arbitrary and

improperly partisan. The publication of their reasons for action in particular cases would frequently be productive of injustice to the individual applicant and disturbance to the financial community. If the reasons for decision in these matters were not made public, in my opinion, the system would be subjected to such attacks and insinuations as would eventually seriously impair its standing and be destructive of its dignity and influence. In order to avoid these consequences the board has it in its power to adopt a general policy of clarification and control.

The elementary considerations which I have stated above and purpose to elaborate further seems to me to justify a decision on the part of the authorities to limit definitely the extent to which member banks may indulge in the establishment of branch banks.

As a practical consideration, aside from the broader aspects of the case, it must be constantly borne in mind that the Federal reserve system can only be successfully maintained if the administrative authorities have an adequate knowledge of the conditions of the member banks. This necessitates examination, which, in the case of the national banks, is provided by the Comptroller of the Currency. National banks cannot engage in banking beyond the limits of the city in which the institution is located. In the examination of State banks the Federal reserve system is compelled to rely on its own examiners and of course the State examiners and such incidental and voluntary assistance as it can secure from the various State officials.

The examination of an institution with branches and subsidiaries is a very difficult one. The interdepartmental relationships vastly complicate it. It is more difficult to examine ten institutions of a given size which are associated in a branch banking system than it would be to examine 10 independent institutions, as all of the transactions between the different branches have to be investigated and eliminations and adjustments made to produce a composite picture and prevent the improper manipulation or shifting of assets. This can not be done satisfactorily without a simultaneous examination of parent bank and each one of the branches. This may be construed as an ex parte statement, but it bears the weight not alone of my individual opinion but of the employees of the comptroller's office who have been engaged in the examination of banks for many years. Bank examination involves very much more than a mere scrutiny of figures. Questions of moral character, of local reputation, of valuations of securities, of conformity to local laws and rulings—these and many other elements enter into a proper examination. In the case of the examination of a very large bank, say with 75 to 100 branches, it would be impossible to mobilize a force of examiners of the ability to make an intelligent analysis of the situation in each individual community even if it is to be assumed that the character of the banker is not a factor in the condition of the institution.

The last stated considerations are incidental as compared with the more important one which involves the ability of the Federal reserve bank to meet the mobilization demands of an association of institutions under the control of a single interest having the power to concentrate the requirements of all of the separate institutions into one demand. This demand might be made practically without

notice in a period of stress on account of necessity or perhaps with a desire to produce a certain condition in the community which might be opposed to the general interest, but, of course, favorable to that of the particular institution. To say that if a large proportion of the banking interests of a State are centralized in the hands of five or six or a dozen branch banking institutions and that these institutions will not combine, either as a result of direct conferences or agreement or of mutuality of interests, is to ignore the fundamental basis of human action. If any lessons are to be drawn from the development of large industrial enterprises in the United States, it is that the principle of centralization when once inaugurated will proceed, unless interfered with by governmental action, to a point of complete concentration in an individual or a group dominated by an individual. Should a situation of this kind develop in any Federal reserve district, the Federal reserve bank would either be eliminated as a factor in the financial community or be virtually under the control of such a group.

As to the question of whether or not it is possible for independent unit banking systems to exist and operate in conjunction with a branch banking system, very definite conclusions may be drawn from the results of the operations of branch banking systems in other countries.

Branch banking is in vogue in England, Scotland, Ireland, Canada, Australia, New Zealand, France, and other parts of continental Europe. I understand it is also in operation in the Latin American countries. According to figures published in the Bulletin of the American Institute of Banking for July, 1923, in 1842 there were in England 429 banks and in 1922 only 20 banks. Of these 20 banks 5 controlled practically all of the banking of the nation. There are about 7,900 branches in operation. In Scotland there are only about 9 banks, with about 1,400 branches, and in Ireland about 9 banks, with about 800 branches.

In 1885 in Canada there were 41 independent banks. Under the operation of branch banking the number was reduced to 35 by the year 1905. I am informed that in Canada to-day there are only 14 banks, operating about 5,000 branches. There are no independent unit banks in western Canada; in fact, none west of Winnipeg. Banking control through the branch banking system is concentrated in the cities of Montreal and Toronto.

It has been authoritatively stated that there are only 6 unit banks in New Zealand and 20 in Australia. (See Statesman Year Book for 1923.)

Experience in other countries definitely indicates that independent unit banks do not exist parallel with branch banks. As indicating that this is not necessarily due to conditions which exist abroad but might not exist in the United States, the following points are adduced, which to my mind show that there are such inherent antagonisms between the two systems that they could not under any circumstances long survive together in the same country.

Branch banking is, in its essence, monopolistic. The financial resources of a number of communities are put under the control of a single group of individuals. Funds liquidated in one community may be used to develop other communities at the discretion of

the officers of the central bank. The economic development, therefore, of a given territory under the control of a branch would depend upon the policy of the bank. The bank would have the power to retard or to encourage the development of a given community or individual enterprise. In this connection it has been well said that if the sudden creation of great branch banking systems shall result in withdrawing funds from the support of rural communities in order that they may be invested in self-liquidating commercial paper originating elsewhere, then it will be true that sound abstract banking principles will have been applied, but at a cost to the future development of the rural communities that will far outweigh any advantages that may be gained.

In a system of independent unit banks the bank which best serves the community is the bank which is most certain to live the longest and be the most profitable to its stockholders. Since the type of man who starts a bank in a small community is essentially constructive, his natural associations and sympathies are with men of constructive type, and he extends the facilities of the bank most liberally to them. His loans take into account as a first consideration character and moral responsibility. He is naturally inclined to encourage young, aggressive, and enterprising individuals who will, in the course of time, bring business to the institution as he succeeds, and will develop commercial and industrial enterprises and be a factor in the creation of corporate and private undertakings, all of which will be feeders to the bank. As this type of individual is usually not the possessor of high-class collateral at the beginning of his career, the banker is dependent in a large measure on the character, of which he can only be sure by personal contact and acquaintance.

The distinctive accomplishment of the banking system of the United States is its contribution to enterprise and its stimulation of growth; its criterion is service. The European standard is safety first, last, and all the time.

It can well be said that the rapid economic development of America has been largly due to the policy of the pioneering unit banks which recognized this principle of service. It is inconceivable that the representative of a nonresident board of directors should be granted the authority and the discretion to make a type of loan which is based on character, knowledge of local conditions, and ultimate benefits to be realized by the community and by the banks. While it requires a high order of ability to make this class of loan, the banking history of the United States would show, in the main, a surprisingly small mortality. These loans, however, on account of their small size in individual cases, and difficulty of ascertaining their intrinsic value, do not afford a basis for discount with other banks in case of stress, and no bank could exist if it were dependent entirely upon them. If across the street from the unit bank making this sort of loan were the agent of a great branch banking institution, this agent would very quickly acquire the larger and from the narrow banking standpoint the desirable business of the town. This he could do by offering lower rates of interest on loans and higher rates on deposits than local conditions would ordinarily justify, and, in the nature of the case, all of these advantages would probably be withdrawn as soon as the independent unit banks of the town were

finally eliminated. This is a process which has been pursued in the evolution of our great industrial enterprises, which have had to be curbed by the action of the Sherman antitrust law and other governmental action.

The opportunities for coercion on the part of large institutions with branches scattered over a whole State are very great. This coercion might take any one of a number of forms. The connection of the branch banks with out-of-town customers of the institutions of a community permits of pressure being readily brought.

Under the Federal reserve system and through his relations with his correspondents the competent unit banker is able to secure for the larger customers of his town facilities which are beyond the abilities of his own institution to grant. The branch banker can, in the case of very large customers, grant these facilities more directly and to that extent is rendering a special service to the community, but the ultimate result of these influences is to give the easiest obtainable and most desirable business to the branch bank, leaving the unit bank to take care of the enterprises of the town which have not already reached a condition of independence.

The expression has been used as applied to one State where branch banking exists on a large scale that the branch banks skim the cream and the unit banks are left with the skimmed milk, the result being that the unit banks have gone out of existence and the borrower, who is a good moral risk but can not produce a certain form of collateral, is left to depend on the good graces of a representative of a branch bank, who is frequently the possessor of all the discretionary powers of the local railroad agent and no more.

One of the monopolistic influeces exerted by the branch banker is the ability to secure, by the payment of higher salaries, the transfer to other points of the efficient employees of the unit banks. A general procedure in the creation of branch-banking systems in one of our American States has been the absorption of local unit institutions. During the first few years the operations of these local unit institutions have in many cases been sucessful because the enterprising and pioneering talent that created the absorbed bank is still retained in an official capacity; but men of this type will not long consent to hold positions which are in their essence merely advisory, and there is soon substituted therefor the type of employee who must be bound by rigid instructions and is capable of interpreting them in only a mechanical way. In case of an acute financial disturbance demanding immediate action it is necessary for the representative of the branch bank to refer back to the head office for instructions as to his course of action, and a delay is occasioned by red tape, which frequently makes it impossible for them to help in an emergency, even when they have the desire.

The relations of the national bank to operations in branch banking have been the subject of a very widespread misunderstanding. In order that the situation might be clarified and defined, the present comptroller requested through the Secretary of the Treasury an opinion of the Attorney General, which has just been handed down. A previous opinion given by Attorney General Wickersham was to the general effect that a national bank might not de novo establish a branch bank. The present opinion from the Attorney General

makes it clear that none of the major or important incidental functions of a national bank may be exercised beyond the limits of the city in which the parent institution is located. This opinion also indicates that certain functions of a national bank incident to the banking business may be carried on at fixed points within the city limits and outside of the four walls of the banking institution. This opinion is not inconsistent with that of Attorney General Wickersham, and the practical application which will be made of it will be that certain national banks will be permitted to establish what are virtually tellers' windows in places more or less removed from the banks, but in the city limits, where they may take deposits and cash checks. The discretionary powers which are inherent in such transactions as making loans, purchasing securities, and similar activities will not be permitted to be carried on in such offices located at a distance from the parent institution.

It seems to me unnecessary at the present time to do more than make the above bare reference to the legal situation. The force of the opinion of the Attorney General just handed down as a practical matter removes the national banks from the branch-bank controversy, since a national bank can not engage in the banking business outside of the city limits of its location, and inside of the city limits it may under certain conditions perform only limited functions at a distance from the banking house.

I am of the opinion that the comptroller could not properly permit the establishment of these outside activities by a national bank, such as tellers' windows, in any locality where the State laws or practices prohibit the State banks from rendering similar services.

Authorization to national banks to establish such additional offices will be of great advantage in certain localities where the State banks are already extending their services in this manner. In such cities as New York, Cleveland, Detroit, and California, the national banks will be able to reach their customers in the matter of making deposits and cashing checks in the same way that their competitors do in this single important aspect of the banking business. At the present time in the city of Cleveland there are only three national banks and in the city of Detroit only three. This will enable the national banking system to really enter these two great cities, from which they have previously been excluded, perhaps not on equal terms, but at least on a living basis.

It is my opinion that the major question of branch banking is not in any way affected by this differentiation of the functions of the tellers' windows except to mitigate the handicaps that at present exist in some great cities and that it can not by any possibility be used for the extension of the principle of branch banking. The banking arrangements of any individual city are distinctly a matter for local determination. When the extension of branches passes the city lines and becomes State wide a condition such as I have previously described is created, under which the whole balance of the Federal reserve and unit banking system of a large section of the country is disturbed and the fire will, in my opinion, very quickly jump over State lines.

If the branch banking movement can not use the Federal reserve system as an instrumentality for its extension, it will, in my opinion, never become a great menace, and with the national banks extended

a reasonable measure of facilities for self-protection within the limits of the municipalities in which they operate the national banking system and the Federal reserve system can be mantained in their present status.

The office of the Comptroller of the Currency is one of the most independent in the Government service. It is a part of the Treasury organization, but the comptroller reports directly to Congress, and his appointment is made by the President on the recommendation of the Secretary of the Treasury, to be confirmed by the Senate, and his term is not necessarily or usually concurrent with that of the Secretary of the Treasury. This arrangement was made with the obvious purpose of protecting the national banks with a leadership which would be independent of undue influence from other governmental authority. The Comptroller of the Currency should, in the governmental organization, be the representative and, in my opinion, the partisan of the national banks.

The suggestion for the abolition of the office of the Comptroller of the Currency or the transfer of the essential functions of that office to the control of the Federal Reserve Board would at one stroke deprive the national banking system of its independent representation in the fiscal plan of the Government. In spite of the fact that in the number of banks and in total assets the Federal reserve system is more National than State, and the fact that the compulsory membership of the national banks was the basis for the organization of the Federal reserve system, it is now proposed to deprive them entirely of their independent status.

The operation of the national banking system is under the most rigid supervision. When a group of individuals subject themselves to this strict supervision and to the laws requiring a rigid observance of fixed principles, it is to be presumed that they should receive some compensating advantages and that such privileges as they receive should be of a permanent nature and not be taken away from them in a summary manner. The independent representation in the Government fiscal scheme by the national banks was part of the original contract, and while, for the good of the country at large, the compulsory entrance of the national banks into the Federal reserve system can be justified, nothing can justify their reduction from their former independent status to one of complete subserviency to an institution which is, in its nature, part privately and part governmentally controlled. The honor of the Government is involved in the observance of all of the implications of any contract which it makes.

Assuming that the powers of the Comptroller of the Currency should be transferred to the Federal reserve board, or that the comptroller or some one acting in a similar capacity should be under the direction of the board, the anomalous condition would be immediately created by which a trustee relationship would be entered into in which the trustee would have a preferential claim against the trust which was administered. With the powers of the Comptroller of the Currency exercised under the direction of or by the Federal Reserve Board we would have a Federal reserve system composed of one group, the State banks, entirely relieved of super-

visory regulation, and another group, the national banks, subjected to the supervisory regulations of its principal creditor.

With his present independent status the Comptroller of the Currency has a primary duty toward the national banks. If he were under the direction of the Federal Reserve Board he would be obliged to direct the operation of the national banks in the interests of their greatest creditor. The national banks would be compelled to carry on their affairs under the supervision of this sort of a creditors' committee, while their competitors, the State banks would operate independently. While the whole principle is wrong, the discrimination would be so unfair and so vicious that the only possible way to restore equity as between the two types of banks would be to subject State banks to the same supervisory regulation as the national banks. This would probably be impossible for legal reasons, and if legally possible, would result in the withdrawal of the State banks from the system.

In addition to the injustice of the violation of the direct implication of a contract and the unfair discrimination as between the two classes of banks, this proposal would violate the fundamental principle of trusteeship, which is that a trustee must not have interests which conflict with the interests of his trust, neither must he have conflicting duties as between different classes of interests.

The authority and powers of the Comptroller of the Currency over national banks is both judicial and supervisory, and if he were under the control of the Federal Reserve Board, in passing judgment and directing operations he would do so in the position of one who had an interest apart and often opposed to the interests of the institutions under his direction. He would be under constant pressure to direct the operation of the national banks in the interest of the Federal reserve banks, which are their potential and usually actual creditors.

As the Comptroller of the Currency has responsibility for putting banks into the hands of a receiver and for the operations of the receiver, a dual relationship between the insolvent banks and the Federal reserve banks would be even more impossible and reprehensible than in the case of operating institutions. The Federal reserve banks are in most cases the secured creditors of banks which fail. They have a claim on the selected paper of the bank, and their interest would be to press this paper for payment as rapidly as possible, regardless of the effect which such action would have upon the depositor, who is a general creditor. In many cases it is found that the Federal reserve bank has practically all of the good assets and some of the doubtful ones to secure its claim. Quick action frequently destroys equities which are very valuable to the depositors and to the other subordinate creditors.

Bankers of the United States are trained to the point of view of proper administration of trusteeship. It is, to my mind, inconceivable that they should for one moment without protest permit a relationship to develop which would clearly result in the creation of a trustee who would not only have a dual relationship toward his trust, but a dual relationship for obviously conflicting interests. It would be a national calamity to the depositing classes of the United States if their interests were not to be represented by authority

independent of their greatest preferred creditor, the Federal reserve banks.

The unadvertised but chief function of the office of the Comptroller of the Currency is keeping banks from failing, and not operating receiverships. To accomplish this the Federal reserve system is the most valuable instrument conceivable, but to use this instrument for the protection of the banking situation the comptroller personally and through his examiners frequently approaches the Federal reserve banks as an applicant for the extension of credit. Can the comptroller in this situation successfully sit on both sides of the counter and represent the needy bank and protect the assets of the Federal reserve bank from which he is trying to borrow? It may be possible to find a few men who are of such a judicial nature that they can fight aggressively on both sides of an issue of this kind; and if so, they could satisfactorily fill this position, but it is my observation that the type of good fighting examiner who saves banks which are in difficulty is not always judicial as regards the protection of creditors of the institution which he is struggling to save. In my brief tenure of office I have found that this situation often produces conflict between the representatives of the comptroller's office and the representatives of the Federal reserve bank. I am glad that this is so. Each has interests to protect, which interests are not absolutely identical. The results of this healthy partisanship have been good. Any troubles that have grown out of it are incidental and minor as compared with what would happen if the Federal Reserve Board were charged with entire responsibility of relieving distress and conserving the assets without the stimulating pressure of independent governmental influence. Where effective cooperation between the examiner and the Federal reserve bank is not established under the present method it is, to my mind, a justification for the removal of either the comptroller or his examiner, or of the responsible official of the Federal reserve bank. The present relationship is healthy and natural and would not be improved by the type of hybrid comptroller that would be under the orders of the Federal Reserve Board.

The principal arguments adduced in favor of the abolition of the office of the Comptroller of the Currency are that duplication would be avoided and that a force of examining all of the member banks would be more economically administered than one force under the comptroller, examining the national banks, and another under the Federal Reserve Board examining the State banks. It should be thoroughly understood that under the present arrangement the examination of the Comptroller of the Currency is for supervisory purposes as well as for credit purposes. Examination of the State member banks by the Federal Reserve Board is necessary for credit purposes primarily. The reports of examinations of national banks are available at the present time to all Federal reserve banks, and while I naturally think they are good, I also believe that by consultation and cooperation with the officials of the Federal Reserve Board and banks it will be possible to effect material improvement along the line of credit information and promoting the general liaison between the member banks and the Federal reserve banks. It is quite possible that the large organization now maintained in the office of the Comp-

troller of the Currency might be increased so that it could, with economy and perhaps equal efficiency, carry on the credit investigations and examinations now being conducted by the Federal reserve banks. I do not, at the present time, advocate this, but it would effect the desired economies with much less violence to the fundamentals of the American banking system than would the abolition of the independence of the Comptroller of the Currency. This would possess the advantage of an examination which would be very independent, but it would possess the disadvantage of depriving the individual Federal reserve banks of control and knowledge of local conditions through their direct representatives.

At the present time the most cordial relationship exists between the office of the Comptroller of the Currency and the management of the Federal reserve banks. The Bureau of the Comptroller of the Currency is, in times of emergency, always anxious to assist the Federal reserve banks by the loan of examiners or otherwise, and meets with complete reciprocity from them.

The assumption in the above is that the Federal Reserve Board would possibly appoint, and certainly have under its control, a single individual exercising powers to a certain degree analogous to those at present attaching to the office of the Comptroller of the Currency. An arrangement of this kind seems to me the only one which is conceivably practical. The suggestions, however, usually take the form of having the Federal Reserve Board, as a board, assume the functions of the Comptroller of the Currency. All of the arguments against the type of comptroller who would act in such a capacity would apply with equal force if the board attempted, as such, to perform these duties. There are, however, additional reasons why it would be impossible for the board, either directly or through a subcommittee, to act in this capacity. The office of the Comptroller of the Currency has been in existence for 60 years, with all of the responsibilities and duties vested in a single person. Around this office have grown up traditions, customs, and precedents based upon rulings and decisions. These have become so fundamentally integrated with the operation of national banks and with the person of the comptroller that it would be impossible, as a practical matter, to attach them to the board or to a committee of the board. Many of the precedents have been established through opinions of the Supreme Court of the United States.

The court has referred to the comptroller as a person possessing a quasi judicial status. What would become of these precedents and decisions if the office of the Comptroller of the Currency were abolished? In other words, if the opinions of the Supreme Court and the rulings of the comptroller's office are based on the general theory that the comptroller is a single person exercising quasi judicial as well as executive powers, and it were attempted to transfer those powers to a board, would not these precedents and rulings be destroyed? Whoever takes over the powers and duties of the Comptroller of the Currency must, as a legal and administrative necessity, also take over the status of the comptroller as evolved by customs and precedents and as interpreted by the courts. This can only be done by an individual. The office itself, therefore, could not be abolished or be transferred to a group of individuals without repealing the fundamental purpose of

the national bank act and thereby disrupting the national banking system.

The office of the Comptroller of the Currency has to be organized for quick and summary decisions. A mob of depositors is never complacent enough to await the deliberations of a town meeting. If the Federal Reserve Board is composed of the type of men of ability and force of character that has typified this board in the past, each member, in self-respect, will insist on expressing himself and impressing his personality on any proposed methods for relief, and the fire wagon, if it arrives at all, will approach in orderly and dignified fashion long after the last wisps of smoke have floated away and the ashes cooled. Please understand that this statement would still be made if absolute assurance could be given that the ablest men in the world would always sit on this board. "Boards is boards."

I can not resist a feeling little short of resentment that so many suggestions and so many tendencies seem directed along lines prejudicial to the national banking system. If we are to have a national banking system over which the Government exercises supervisory control, that control must be in the hands of an independent executive and not the representative of a preferential creditor. The only fair and only logical thing to do is either to continue the present system with an independent comptroller or abolish the system entirely. A man can not serve two masters, and a trustee who will act for two conflicting interests is ipso facto incompetent either mentally or morally.

This committee, of course, is sitting primarily to discuss the reasons why nonmember banks do not voluntarily join the Federal reserve system, and my expressions have been largely confined to the relationship of the national banks who are compulsory members of the system rather than to the direct objects of your investigations. I am convinced that this committee would not, in pursuit of its more direct purpose, desire to take any action which would place improper burdens upon the national banks or leave undone any possible measure for their protection. On this account it has seemed to me necessary that this somewhat negative presentation should be made. No measure which injures the national banks can be essentially helpful to the Federal reserve system.

The general conclusions which I should like to have drawn from my arguments are:

First, that the development of branch banking, unless curbed, will mean the destruction of the national banks, and thereby the destruction of the Federal reserve system and the substitution of a privately controlled reserve system for a governmental system of coordination.

Second, that if the Federal Reserve Board has not the power to refuse the admission of institutions engaged in general branch banking and to curb the further extension of this principle by member banks, they should be given that power.

Third, that the abolition of the office of the Comptroller of the Currency would destroy the independent status of the national banking system in governmental finance, and that the real issue presented by this movement is the abolition of the national banking system, as it can not be subjected to the supervisory regulation of an

interested creditor. If the national banks are not entitled to independent supervision, they should not be supervised at all.

Senator GLASS. Mr. Dawes, it might interest you to know that the most bitterly contested proposition, and the question at last decided at 4 o'clock in the morning by the conferees of the two Houses of Congress to reconcile the disagreeing votes, was this very question that you have last discussed, of the membership of the Federal Reserve Board ex officio of the Comptroller of the Currency and the practical abolition of the office of the Comptroller of the Currency and the consolidation of his duties with those of the Federal Reserve Board. As I have indicated, it was the very last question determined, and we were from early in the afternoon of one day to 4 o'clock in the morning of the following day determining the question, the House having made the Comptroller of the Currency a member ex officio of the board in its bill and the Senate having eliminated him, and but for the secrecy of that conference I would imagine that you had plagiarized my speech in conference.

Mr. DAWES. I thank you for the compliment.

The CHAIRMAN. Mr. Dawes, I am going to suggest that you place a copy of the opinion of the Attorney General on this branch-bank question in the record. Can you do that?

Mr. DAWES. Yes. I have not got it yet; it has just been rendered.

The CHAIRMAN. If you will furnish that, it can be incorporated in the record of the hearing.

Mr. DAWES. Yes; I can get it in a day or so. The Secretary of the Treasury has it now, I suppose.

(The opinion referred to was subsequently submitted by Mr. Dawes and is as follows:)

DEPARTMENT OF JUSTICE,
Washington, October 3, 1923.

SIR: I have your letter of August 30, 1923, requesting my opinion on the power of national banking associations to open and operate offices at places other than their banking houses for the performance of such routine services as the receipt of deposits and cashing of checks for their customers. You request to be advised whether—

(1) Assuming that a national banking association is without power to establish and maintain a branch bank for carrying on a general banking business, has it the corporate power to open and operate an office or offices at a place or places other than its banking house, for the performance of such routine services as the collection of deposits and cashing of checks for its customers?

(2) If a national banking association has the corporate power to open and operate such an office or offices, must they be located within the city limits of the place designated in the organization certificate of the association as the place where its operations of discount and deposit would be carried on?

The statutes relating to national banking associations, so far as they are material to our present inquiry, are sections 5133, 5134 (par. 2), 5136 (pars. 6 and 7), and 5190, R. S. The material parts of said statutes read as follows:

"SEC. 5133. Associations for carrying on the business of banking under this title may be formed by an number of natural persons, not less in any case than five. They shall enter into articles of association, which shall specify in general terms the object for which the association is formed, and may contain any other provisions, not inconsistent with law, which the association may see fit to adopt for the regulation of its business and the conduct of its affairs."

"SEC. 5134. The persons uniting to form such an association shall, under their hands, make an organization certificate, which shall specifically state—

* * * * * * *

"'Second. The place where its operation of discount and deposit are to be carried on, designating the State, Territory, or district, and the particular county and city, town, or village.'

"SEC. 5136. Upon duly making and filing articles of association and an organization certificate, the association shall become, as from the date of the execution of its organization certificate, a body corporate, and as such, and in the name designated in the organization certificate, it shall have power—

* * * * * * *

"'Sixth. To prescribe, by its board of directors, by-laws not inconsistent with law, regulating the manner in which the stock shall be transferred, its directors elected or appointed, its officers appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed.

"'Seventh. To exercise by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidence of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes, according to the provisions of this title.'

"SEC. 5190. The usual business of such national banking associations shall be transacted at an office or banking house located in the place specified in its organization certificate."

The provisions of section 5190 R. S., as to the place at which the usual business of the bank shall be transacted, refers to the city or town in which the bank is located and not the particular place within the city. (McCormick *v.* Market National Bank, 165 U. S. 538, 549.)

National banks have only those powers specified in the national banking acts, and such other powers as are necessarily incidental thereto. (McBoyle *v.* Union National Bank, 122 Pa., 458; First National Bank *v.* National Exchange Bank, 92 U. S. 122, 127; Logan Co. National Bank *v.* Townsend, 139 U. S. 67, 73; Bullard *v.* Bank, 18 Wall, 589, 593.)

In Bullard *v.* Bank, supra, the Supreme Court said:

"The extent of the powers of national banking associations is to be measured by the act of Congress under which such associations are organized."

In Logan Co. National Bank *v.* Townsend, supra, the court said:

"It is undoubtedly true, as contended by the defendant, that the national banking act is an enabling act for all associations organized under it, and that a national bank can not rightfully exercise any powers except those experssly granted by that act, or such incidental powers as are necessary to carry on the business of banking for which it was established."

It is to be observed that section 5190, R. S., relates to the "usual business" which, in my opinion, is to be construed the general banking business usually conducted by national banks. There is no statutory requirement that all the business of a national bank shall be transacted at the general office or banking house of the association.

In my opinion, a national banking association may establish in the city or place designated in its certificate of organization an office or offices for the transaction of business of a routine character, which does not require the exercise of discretion, and which may be legally transacted by the bank itself. It may not, however, establish a branch bank to do a general banking business such as is usually done by national banks. The establishment of such a branch would be illegal, and subject the offending bank to the forfeiture of its charter. (29 Op. 81.)

It seems to be the intent of the national banking act that the business of banking ordinarily transacted by a national banking association shall be performed in the city or place designated in its organization certificate.

It has been held that a national bank can not make a valid contract for the cashing of checks upon it, at a different place from that of its residence, through the agency of another bank. (Armstrong *v.* Second National Bank, 38 Fed. 883,886.)

While national banking associations may exercise all the powers expressly given them by the statute, and such additional powers as may be necessary to carry on the business of banking, the manner in which the powers may be exercised are subject to the supervision of the Comptroller of the Currency. Should the comptroller, in the exercise of his supervisory powers over national banks, ascertain that the directors or officers have knowingly violated, or are violating the national banking laws. he may proceed against such association,

its officers and directors as provded by section 5239, R. S., which reads as follows:

"If the directors of any national banking association shall knowingly violate, or knowingly permit any of the officers, agents, or servants of the association to violate any of the provisions of this title, all the rights, privileges, and franchises of the association shall be thereby forfeited. Such violation shall, however, be determined and adjudged by a proper circuit, district, or territorial court of the United States, in a suit brought for that purpose by the Comptroller of the Currency, in his own name, before the association shall be declared dissolved. And in cases of such violation, every director who participated in or assented to the same shall be held liable in his personal and individual capacity for all damages which the association, its shareholders, or any other person, shall have sustained in consequence of such violation."

Answering your specific questions I have the honor to advise you as follows:

First. National banking associations have the power to open and operate offices at places other than their banking houses, within the place specified in their organization certificate, for the performance of such routine services as the receipt of deposits and the cashing of checks for their customers.

Second. National banking associations have no authority to open offices for the purpose of receiving deposits, paying checks, etc., outside of the limits of the city or place designated in the organization certificate as the place of its operations of discount and deposit.

Respectfully,

H. M. DAUGHERTY, *Attorney General.*

The SECRETARY OF THE TREASURY.

Senator GLASS. Just for information, do you recall whether the Attorney General in his opinion undertook to exactly describe what activities of a national bank might be performed within the city in which it was located and what activities would be excluded?

Mr. DAWES. I believe, Senator, that I had better get Mr. Collins to answer that. I am not a lawyer.

Senator GLASS. Neither am I.

Mr. DAWES. I might give you what I wanted, rather than what it was; and so I will get Mr. Collins to answer that question.

Mr. COLLINS. I have just glanced over the opinion; and my impression is that the Attorney General there made a distinction between the discretionary powers of the bank as exercised by the board of directors and certain incidental powers which a bank would have, which were necessary to carry on the banking business. These incidental powers, since they do not involve the exercise of discretion, might be exercised away from the banking house.

The CHAIRMAN. That would be by the receipt of deposits and the payment of checks almost exclusively, would it not?

Mr. COLLINS. Yes; I think so.

Mr. DAWES. That is our inference from it. I think that is what he said.

Senator GLASS. Yes. I would like to see the opinion, because it is inconceivable to me that the Attorney General would undertake to say that a national bank might, through the medium of a branch, exercise a particular function and be denied the right of another particular function—the legal right, I mean, and not the administrative regulation of the comptroller.

Mr. COLLINS. I think the distinction was that a national bank could not operate more than one bank under the same board of directors.

Mr. WINGO. In other words, Mr. Collins, the Attorney General made the distinction between having an outlying office for purely administrative actions, and the exercise of discretionary banking

powers that are incident to the primary operations of a national bank?

Mr. COLLINS. Yes.

Mr. WINGO. In other words, the purely administrative acts that do not call for discretionary powers and decisions that are incident to the parent institution?

Mr. COLLINS. That is, they are denied the right to have a branch bank as an institution capable of carrying on a general banking business coordinate with the parent bank.

Senator GLASS. Well, I still find myself confused in the matter. The comptroller in his very strong argument in opposition to branch banking has explicitly said that it is impossible for a branch bank to effectively perform discretionary powers. At all events, I would be glad if the opinion of the Attorney General was put into the record, so that we may see what it is.

Mr. STEAGALL. I do not see how a distinction can very well be made between the collection of checks and the receipt of deposits and any other function of banking, and any exercise of power by the officials of the bank. If they open an office in one corner of the town simply to take deposits and to pay checks, it will be banking in all its greatest essentials.

Mr. DAWES. I would not call it the greatest essential.

The CHAIRMAN. A decision was made in Pennsylvania along that line; because I remember when the first downtown bank in Philadelphia opened uptown offices, they were confined to that very proposition.

Senator GLASS. Were they confined to it by statute, or were they confined to it by the banking authorities of the State?

The CHAIRMAN. My understanding is that it was an opinion of the banking commission of the State.

Mr. Dawes, I thought we all recognized the fact that there is a complicated situation to deal with on this question of branch banking, as it has grown up or been permitted to develop. I judge from what you have said here that you have a pretty definite idea as to the future of this situation, if the Attorney General's opinion holds good?

I do not think that the opinion of the Attorney General has any great bearing on the great question of branch banking, except just this: That in some of the great cities—I have mentioned in my statement Detroit, Cleveland, New York, and some California cities—the national banks are being put out of business because they can not get to their depositors. I do not want to make too broad a statement; but my conclusion from what the best bankers have told me is that they do not like the branch banking idea; and that the bankers of New York, Detroit, and Cleveland do not want to go into branch banking; that they do not want to have the discretionary powers of banks extended outside their banking houses even in the city limits. They do not want such a thing to happen as I heard of in one case: An individual went down to the parent institution, and made an application for a loan of $40,000, which was refused by the officers of the bank. He got in his car and drove to the branch of that bank in the same city, applied for the $40,000 loan there, got the $40,000, and the bank lost $40,000.

Now, that is the difference between a branch bank and an agency. But I think that in those towns where they have that congestion, on account of the automobiles and the topography of the country, they simply want to get places at which theier depositors can get to them easily to make deposits and cash checks. And I do not think that that can be used for the extension of branch banking, so long as it is perfectly clear that they can not extent those facilities beyond the city limits—I do not think that can possibly be used as an entering wedge to go into the branch banking business; but I do think it will preserve the national banks from extinction in those cities where the State laws permit branch banks. But as I have said, I am not a lawyer——

Mr. STEAGALL (interposing). Let me ask you a question right there: How can the opinion of the Attorney General limit the rights of national banks to establish branches, within the purview of his opinion, in States where State laws allow State banks to have branches, and not permit national banks to have that right in all the States? If the national banking law carries with it the power to organize branches, they must have that power in every State of the Union, regardless of what the States do. That seems to me clear.

Mr. DAWES. I am glad you asked that question, because I was going to answer it; but that clarifies the situation.

This right that the Attorney General recognizes is only a minor incidental right of a bank to exercise certain limited functions where they are necessary. It is based on the incidental functions necessary to the operations of the bank. Now, if anybody can tell me why it should be necessary for a national bank in—well, I will name Kansas City; I do not think the issue is up there—why it should be necessary for a national bank to establish these branches there, where none of the State banks find it necessary to do so, and where the State laws, perhaps, forbid it, I would like to know about it. I can not see how it possibly could be necessary.

Mr. STEAGALL. I should say that clearly they might desire to extend their branches for the purpose of accommodating their customers, as well as for the purpose of meeting competition. It would certainly not be a violent assumption that the banks would be actuated by a purpose to accommodate their patrons as well as to meet the situation from the standpoint of competition.

Mr. DAWES. Yes, certainly; but somebody——

Mr. STEAGALL (interposing). I can not for a moment see how it would be anticipated that the exercises of this right would be limited to States where State banks are doing this. If it is recognized that they have the right to do it at all, it would seem to naturally follow that in any large city where it would be necessary in order to accommodate their customers, they would resort to that method.

Senator GLASS. I believe it has been testified here that there is but one national bank nemaining in the city of New Orleans. If that bank should deem it necessary to its very existence to establish branches in that city, do you take it that it would be prohibited from doing so by the opinion of the Attorney General?

Mr. DAWES. No; I think the Louisiana laws permit the establishment of branches. I think in that particular case the State law would permit it.

Senator GLASS. Well, the State law can not permit the establishment of a branch of a national bank?

Mr. DAWES. No. I would like to take another shot at it, because I think none of you have got my point.

The Attorney General says that a national bank—that is my construction of his opinion—that a national bank may exercise certain functions which are incidentally necessary operations, beyond the walls of the bank; and I would assume that if those functions were not necessary they would not be legal; they could be stopped.

Mr. STEAGALL. But you assume that they will not be necessary, or will not be deemed necessary, except in States where the State law permits State banks to establish branches. Whereas, it seems to me that it would quite naturally follow that a national bank, regardless of what the State law provided, in any large city might very readily conclude that it would meet the requirements of their customers to have branches.

Mr. DAWES. You can state my position, and you can state the answer to it very easily. I will re-form that statement——

Mr. WINGO (interposing). I presume, Mr. Comptroller, that your statement of what the Attorney General decided is purely your first impression; but your final conclusion as to what you can permit under the law and the opinion of the Attorney General would be reached only after close scrutiny of the law and the opinion, and after considering what your legal advisers informed you was the legal effect of the opinion.

Mr. DAWES. I think I might go a little further, Mr. Wingo, and that I can make it clear that the power to exercise any of these functions outside of the walls of the bank is due entirely to the fact that these functions must be incidental and that the necessity must exist. Now, if the necessity exists in Kansas City, all right. But I do not think, Mr. Steagall, that very many Comptrollers, or very many courts, would hold that it was necessary for a national bank to do a thing of that kind in a city where none of the State banks did it, and where their State laws did not permit it.

Senator GLASS. Well, but necessity and legality are two separate propositions.

Mr. DAWES. I do not think they are.

Senator GLASS. Well, I do. I may think a thing was very necessary, but the court might say it was illegal.

Mr. DAWES. That discretionary power in all other cases, and I suppose in this, is with the comptroller.

Senator GLASS. Yes; that is just what I am trying to do, Mr. Comptroller, to separate what you may do administratively from what the Attorney General says may legally be done; that is what I am trying to do. If it is legal to establish a branch of a national bank in one city, it is obliged to be legal to establish a branch of a national bank in another city.

Mr. STEAGALL. Absolutely.

Mr. DAWES. I do not think so.

Senator GLASS. It may be that the comptroller in his discretion—and he has a discretion by law—might say that it is necessary to establish a branch of a national bank in one city, and it is not necessary

to establish a branch of a national bank in another city; but that is a entirely different problem.

Mr. DAWES. Well, I will repeat again: I want to give it exactly as I read the opinion. In the first place, the comptroller has great discretionary powers, I am quite certain, along those lines.

Senator GLASS. Yes.

Mr. DAWES. The opinion is, I think, based on precedent, and the law that the comptroller may exercise discretion in the decision as to what are necessary incidental functions.

Mr. WINGO. I think there is no question but that Senator Glass has expressed, in very happy language, the legal principle. If the First National Bank of New Orleans has the right to do a thing in the city of New Orleans, every other first national bank, and every other national bank anywhere has the same right.

Mr. DAWES. Under the same conditions.

Mr. WINGO. No—the power. We are not talking about the conditions

Mr. WINGO. The power, rather. As to your discretion—I think possibly there is where you are about to fall into error, and I want to correct you. I think in the main you are going to adopt the common sense view, and the fundamental principle view, instead of yielding to expediency and necessity. I do not want you to go off into that. Necessity knows no law, and the law does not know necessity. It is either the law or it is not.

Now, your discretion will have to be exercised within the confines of the law that has been laid down; and I think that on mature reflection and examination, you will find that there is nowhere any decision that it would be legal for a national bank in one city to do something that it will be illegal for a national bank in another city to do, even though the conditions might be different. I think you will find that, however desirable it might be.

Now, if it is desirable to do that, I think there will have to be a clear, explicit authority of law to permit you to meet the conditions, which are purely based upon the old expediency argument of meeting competition. If it is necessary for the life of a national bank that discretionary powers should be lodged with the comptroller to permit branch banks to meet competition in certain cases, I think that power ought to be given to you. I do not think there is any question but that Senator Glass has explained clearly the legal principle: It is either the law or it is not; and if it is the law for one bank, it is the law for all of them.

Mr. STEAGALL. And if it is the law in one State, it must be the law in all States, regardless of State enactments.

Mr. WINGO. And may I suggest this to you? That this whole controversy arises out of the fact that at the time the national banking act was enacted—and the courts will try to arrive at what the intent of the legislative body was in reaching a decision—at that time using the expression "exercising certain powers as might be necessary" was merely intended to cover powers which it was necessary to have and as they are declared by law; and it was in the light of conditions that existed at that time that it is to be construed; and no legislative body contemplated that a situation might arise where it would be wise

to authorize discretionary powers to be exercised purely as a competitive club.

For illustration, in the tariff laws, Congress had to tell the customs authorities that they might use the reciprocity principle. The Secretary of the Treasury had no authority, in order to protect American trade, and to build up American commerce, to say, "I will make reciprocity agreements with other countries," however desirable he might think it to be. That question was one for the legislative body to decide.

And I think that is an illustration that is comparable to the power of the comptroller here. It may be desirable. But I want to repeat—I am one who is very happy to find that you in your position are one who is going to go back to the fundamentals and the principles, and not yield to expediency, and rule that you can do as you please to meet a situation that might arise in one locality and not arise in the other. I think you would get yourself into trouble if you started on that road.

Mr. DAWES. I tell you, Mr. Wingo, that we have studied this question all the summer; and I think we have some pretty good attorneys. I would like to have Mr. Collins, who is a very good attorney, give you his views about that.

Mr. WINGO. Do not misunderstand me. I want to express great appreciation of what you have said this morning. I have been delighted with your expressions. We find many witnesses who do not give us any information whatever, even with considerable pumping. You have made a very gratifying witness to me personally, whether we agree with you or not—which we are not always sure of as to other gentlemen who have been before our committee in the last three or four years.

The CHAIRMAN. Would you like Mr. Collins to make a statement, Mr. Dawes?

Mr. DAWES. I would like Mr. Collins to make a statement, because I have made a very poor effort to explain the legal situation.

Senator GLASS. The opinion of the Attorney General, if put into the record, will be conclusive of all of this discussion.

Mr. WINGO. Yes; and I do not think you have made a poor argument, Mr. Dawes. As I said a moment ago, you have simply given your first impressions of the opinion. I have an idea that a man of your mental processes, as indicated by what you have just read, when you have scrutinized that opinion closely—and you will probably call upon Mr. Collins and your legal advisers several times for their views in order to enable you to arrive at a conclusion of what your powers are under the opinion of the Attorney General—will reach the correct decision.

Mr. DAWES. As I have said, we have studied this thing ever since I have been in office and we have reached our conclusions after mature deliberation. So we have considered it in all its aspects. This opinion is no surprise to me. I would be very glad, however, to have Mr. Collins give his views on the question.

The CHAIRMAN. We will be very glad to hear from Mr. Collins.

What is your full name, Mr. Collins?

STATEMENT OF MR. CHARLES W. COLLINS, DEPUTY COMPTROLLER OF THE CURRENCY

Mr. COLLINS. My name is Charles W. Collins.

The CHAIRMAN. Just what is your position?

Mr. COLLINS. Deputy Comptroller of the Currency.

The point presented is whether, even though it were legal for a national bank to establish an agency of this kind, it could be established without the approval of the comptroller—whether, in the exercise of his discretionary powers, his general power of supervision over the national banks, he could pass upon the question of the necessity for the particular exercise of this incidental power in each instance.

That is to say, whether the discretion rested solely in the board of directors to say whether it was necessary for a particular bank to open up this office in this locality, or whether it had to go one step further and involve the authority of the comptroller to pass upon the question of the necessity.

Now, the comptroller's position is that the act is not complete until he has passed upon the question of the necessity for each particular operation.

Senator GLASS. Well, nobody questions that. That is not in controversy at all. It is legal to establish a national bank, but it is not legal to establish a national bank simply because somebody wants to establish it; it can not be established unless the comptroller assents.

Mr. COLLINS. Well, then, Senator, a national bank in a city makes application for one of these offices to the comptroller——

Senator GLASS (interposing). And the comptroller has to pass on it?

Mr. COLLINS. He has to pass on it.

Senator GLASS. Well, nobody questions that for an instant.

Mr. COLLINS. He may disapprove it.

Senator GLASS. Well, nobody questions his right to do that.

STATEMENT OF HON. HENRY M. DAWES, COMPTROLLER OF THE CURRENCY—Resumed

Mr. DAWES. Well, Senator, this has brought out just what I thought. You have misunderstood me. I do not take the position that because a State law does not permit branch banking I could not grant a right to a national bank; but a condition will be produced by the lack of State laws—or the State law forbidding a thing—which would, in my opinion, in every case I could conceive of, make it unnecessary to have a branch bank there. That is just what I meant.

Senator GLASS. Well, Mr. Comptroller, in my humble judgment all of this is perfectly extraneous and foreign to the purpose of this committee. I think you yourself in your statement recognized the fact that your very forceful argument against the establishment of branch banking institutions and your, in my judgment, conclusive argument against the abolition of the office of the comptroller are not the things that this committee was instituted to determine.

Mr. STEAGALL. I think, Senator, that this much is pertinent, however, as you will agree: Yesterday we had a statement to the effect that some State banks had been denied admission to the Federal reserve system.

Senator GLASS. Yes; that is what I am coming to.

Mr. STEAGALL. Because of the fact that they do have branches; on that account it was deemed unwise to admit them into the Federal reserve system. Now, that part of the discussion would all be pertinent for us to deal with.

Mr. STRONG. We had a lot of argument for branch banks also.

Senator GLASS. Yes. Having that in mind I want to ask the comptroller this question bearing immediately upon our mission, and that is, Mr. Comptroller, whether you think the enactment of a law by the Congress giving the Federal Reserve Board the right to exclude from membership in the Federal reserve system a State bank having branches would result in excluding more State banks than it would bring in?

Mr. DAWES. In the first place, I am not sure, Senator, that I exactly understand your question.

Senator GLASS. Let me repeat it, then: Should Congress empower the Federal Reserve Board to exclude from membership in the Federal reserve system State banks having branch banks, what would be the effect of that upon the Federal reserve system?

Mr. DAWES. I do not know the exact facts; but my impression is that there would not be so very many State banks with branches that are not in the system now. I do not think there are.

Senator GLASS. Well, would not all of those banks immediately retire from the system?

Mr. DAWES. You mean a law which would compel the withdrawal of banks with branches?

Senator GLASS. Well, practically that.

Mr. STEAGALL. No; he means a law which would authorize the board so to rule and regulate.

Senator GLASS. Well, if we were to enact a law explicitly that State banks having branches are not eligible to membership in the Federal reserve system, would not all the State banks now in the Federal reserve system which have branches immediately withdraw?

Mr. STRONG. They would have to do so.

Senator GLASS. And would any of the larger State banks which have or might contemplate having branch banks join the Federal reserve system?

Mr. DAWES. I will have to split that question: First, I think the great big banks with branches would withdraw. Personally, if you want my opinion, I would not favor any legislation which would compel the withdrawal of any of these banks which are in now; but I would favor some act to stop the extension of branch banking right here. I am not talking about intracity arrangements, but when they go outside of the city where their banking house is.

Senator GLASS. Well, would such an act conduce to bringing State banks into the system, or repel them?

Mr. DAWES. I do not think it would have any effect. I think that if the policy of the Federal reserve system were to stop right here

on this branch banking, you would not lose any banks. At least the issue would be precipitated.

The CHAIRMAN. Would it be fair to stop there and permit some banks to maintain branches and others not to do so? Would not that be an inequitable proposition? It would be a preference to those banks that are already in, would it not?

Mr. DAWES. I do not think it would work any hardship. They had an opportunity to go into the system and they have not done so. I would not worry very much about that. It is unwise, considering the general good of the country. I would consider that as only an incidental question. I think the greatest chains of branch banks in the country would talk about withdrawing from the system if they were compelled to limit their extensions, but I do not think they would actually withdraw.

Mr. WINGO. Well, on the proposition of that being pertinent to this inquiry, may I suggest that one State banker not only gave as his reasons for not coming into the system but has reasons for even declining to answer our questionnaire. In a personal and confidential talk with one member of the committee, he said, "I am not going into the Federal reserve system, because it is dominated by men who are in favor of the extension of the branch banking system, and that the leader of that movement is one of the dominating members of the advisory council;" and he says "I do not propose to put my head into the lion's mouth."

So I think it is very pertinent. I think this drive for the purpose of destroying independent banking and substituting a branch banking system, such as that of Canada and England, is one thing that is keeping State banks out, because they believe that the Federal reserve officials are leaders in this branch bank movement.

Mr. DAWES. Well, all of them are not. [Laughter.]

Mr. WINGO. Yes; I have discovered that.

Senator GLASS. Well, suppose all of them are. Suppose you were to reverse your position on branch banking, and all other members of the board regularly appointed, or ex officio, would be in favor of branch banking. How could this banker who stays out improve his condition by staying out? He would not prevent branch banking by staying out, nor could he secure branch banking by coming in. What has that to do with it?

What we are trying to find out, Mr. Comptroller, is why State banks do not join the Federal reserve system, and what may be done to induce them to join. We are not trying to find out exactly whether branch banking is the right thing or whether the independence of the comptroller's office ought to be maintained. I agree that it ought to be maintained. I do not know whether branch banking is a good thing or not. But what I want to know is why State banks do not come in, and what we can do to induce them to come in?

Mr. DAWES. Well, I do not know, Senator; and perhaps I am getting away from what you want here——

Mr. SEAGALL (interposing). Before we leave the branch banking question, let me ask this question. I thought if the comptroller was going into a general discussion, before he left the question of branch banking, I would like him to answer one question.

Mr. DAWES. It will not take me one minute to finish. All I want to humbly do is to suggest that you do not pay too high a price to get some of these nonmember banks into the system.

Senator GLASS. But what we want you to tell us is what to do to get them in?

Mr. WINGO. Well, if some of the State banks will come in if you stop this branch banking business, that will appeal to you as a pertinent proposition, will it not?

Mr. DAWES. Yes; I think we would get as many as we would lose.

Mr. WINGO. Take the State of Missouri, for instance: I know there are some State banks out there that have great respect for the members of the advisory council in Missouri—and he is a leader in the branch bank movement. Are you familiar with the litigation that arose out there?

Mr. DAWES. Yes.

Mr. WINGO. And they are not going to come into the Federal reserve system because they think it is dominated by the branch bank leaders; and they frankly say so.

I happen to know this by personal conversations, in Missouri.

Mr. STRONG. It may be true of the bankers of Kansas also.

Senator GLASS. Well, sir, it may be stupid. But I would like for the comptroller to tell me how coming into the system or staying out of the system because of branch banking effects the banking business of the man who refuses to come in and insists upon staying out?

Mr. DAWES. You mean the individual?

Senator GLASS. Yes.

Mr. DAWES. Well, I will tell you: Take the individual out in California who feels that the individual unit national bank is slipping; he feels that he is slipping——

Senator GLASS (interposing). The national banker?

Mr. DAWES. The national banker; and I presume the independent-unit State bank also. And please do not forget the national bank, because he has got to do what you tell him to.

Senator GLASS. Well, but would the independent State banker slip any farther if he should become a member of this system—of the Federal reserve system? Would he slip any more quickly? Would he relieve himself of the competition of the branch banks or would he incur it more? Would he slip any faster?

Mr. DAWES. Yes; he would ruin himself.

Senator GLASS. If he would come into the Federal reserve system?

Mr. DAWES. I will have to answer the whole question. I can not answer that categorically.

Senator GLASS. All right.

Mr. DAWES. If the independent-unit State banker will join the Federal reserve system, and all of them in the country join, and the Federal reserve system permits branch banking, yes, he is ruining himself. They see that in the offing. They feel that they are fighting for their lives in one State, and they do not want to connect themselves with an organization which will help the general system of branch banking. Now, you want to get them in. They will not be convinced by generalities; but they want to know that they would be joining a system that would be comfortable for them, and they feel that a system with branch banks is working against them.

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Senator GLASS. Mr. Dawes, can Congress prevent State banks from establishing branches?

Mr. DAWES. I do not think it can. But I do not think that is necessary for Congress to take action. If the Federal reserve system is not used as an instrumentality for establishing branch banks, I think you will find that the States will drop it.

Mr. STEAGALL. I want to ask you a question right there: Do you hold that under the Federal reserve act the Federal Reserve Board has a right to exclude a State bank from membership in the Federal reserve system because of the fact that the State bank is engaged in branch banking?

Mr. DAWES. Mr. Wyatt is here. He is the counsel of the Federal Reserve Board. I do not know whether he wants to express himself on that point.

Mr. STEAGALL. Well, I am asking you that question.

Mr. WINGO. Well, let us have the whole thing. That question was raised yesterday in Mr. Dawes's absence. There was a controversy among the members of the committee as to whether or not the language used in the act with reference to the admission of State banks upon conditions fixed by the Federal Reserve Board gave the board the power as one of the conditions to say, "You shall not engage in branch banking," or, "We will not admit you because you have got branch banks." Now, one group contends that under the law, the language used—but you may not remember it, so that I will read it to you.

Here is the language in controversy, so that you can answer the question fully. It says:

> Subject to the provisions of this act and the regulations of the board pursuant thereto, any bank becoming a member of the Federal reserve system shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted to it by the State in which it was created, and shall be entitled to all the privileges of such bank.

And that condition clause is this:

> The Federal Reserve Board, subject to certain conditions as it may prescribe, may permit the applying bank to become a stockholder in such Federal reserve bank.

Now, the isue is over the interpretation of that language. And Mr. Steagall wants to know your opinion on that issue—as to the legal effect of that language?

Mr. DAWES. My opinion is that the Federal Reserve Board can exclude the State bank having branches. But I think you will find very much more competent witnesses to advise you on that. That is a legal question.

Mr. STEAGALL. The reason I am asking you the question is, not only because I have a respect for your opinion, but because you are one of the men who are exercising the power on that point; and it is well for Congress to know where we are with reference to that provision of the Federal reserve act.

Mr. WINGO. It is not a question of the wisdom; it is a question of the power.

Mr. DAWES. Well, Mr. Wyatt is here, and he knows about that.

Senator GLASS. Mr. Wyatt gave his opinion yesterday.

Mr. STEAGALL. I asked you because you are one of the members of the Federal Reserve Board. And your attention has been directed to it.

Mr. DAWES. From the analysis I have seen of the thing, and from what I have read of the law, I think they have the power.

Senator GLASS. Then is it your opinion, Mr. Dawes, that under this language of the Federal reserve act, "The Federal board, subject to such conditions as it may prescribe," may or may not admit an applying bank to membership in the Federal reserve system—that the board can prescribe a condition under that language which would be absolutely contrary to the specific provisions of the law?

In other words, the law says now:

All banks admitted to membership under the authority of this section shall be required to comply with the reserve and capital requirements of this act.

Suppose the board under this broad grant, "Subject to such conditions as may be prescribed by the board," were to prescribe a condition that a bank might be admitted that did not have the capital requirements: Would that regulation be valid?

Mr. DAWES. I should think not, if I understood you correctly. You were asking me——

Mr. STEAGALL (interposing). Senator, suppose you read him the other language in the act?

Senator GLASS. Very well, then. Here is another provision that says:

Subject to the provisions of this act, and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal reserve system shall retain its special charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted to it by the State in which it was created.

Do you think the Federal Reserve Board has a right to make a regulation that would nullify that provision of the act?

Mr. WINGO. Well, Senator, have you read any provision on branch banks?

Mr. DAWES. You are stating the question and reading sections of the law, and then asking me if I think the Federal Reserve Board has a right to break the law. No, I do not think it has.

Senator GLASS. Neither do I; but your lawyer does. [Laughter.]

Mr. WINGO. May I ask you a question there, Mr. Comptroller? May I present the other side, in fairness to you, so that your opinion will not appear to be predicated upon an error?

Mr. DAWES. I do not set up for a lawyer.

Mr. WINGO. I know that. The Senator called your attention to the provision with reference to reserves. The law fixes the reserve requirements?

Mr. DAWES. Yes.

Mr. WINGO. So the board has no discretion with reference to the amount of reserves, and can not include the amount of reserves in its conditions——

Senator GLASS (interposing). And so the law fixes what a State bank may do with respect to the exercise of its State franchise when it becomes a member——

Mr. WINGO (interposing). Will you permit me to finish my question?

Senator GLASS. Yes; certainly.

Mr. WINGO. I challenge the Senator to show me one single provision of the law on branch banking. It is not in there. So if the board should rule that a State bank could not come into the system if it is a bank that has branches, it would not be contrary to law, because the law has said they might prescribe conditions. Those conditions can not nullify the law; but if the law has not undertaken to cover any question, then it is within the discretion of the board to prescribe conditions covering the things not covered by express statute or by reasonable interpretation of the statute.

I presume, in fairness to the Senator's position, that he considers that this provision, that after they become members they may exercise all their franchises and rights as a State corporation, permits them to establish branch banks.

But Congress has said, as a condition precedent to a State bank coming in, that "subject to the provisions of this act and to the regulations of the board made in pursuance thereto."

And what are they? "Made pursuant thereto," by fixing conditions. Conditions to do what? To do something covered by express provisions or reasonable interpretations of the statute—a power that is expressly given or that is carried by reasonable interpretation of the statute?

No. Nowhere did Congress cover the branch-banking question. It did not say whether they should be admitted if they had branches or how many branches.

But this exercise of franchise power is not an absolute power. The grant of Congress with this condition precedent is to be construed so that they can exercise these powers, subject not only to the law but to the regulations and the conditions that are laid down. That is a legal proposition, and I am sure the legal mind of my friend, the Senator from Virginia, will readily grasp it.

Mr. STEAGALL. "Conditions and regulations made in pursuance of this act." What does this act say? That when they come in they shall exercise all the powers and rights given them by the States to do business.

Senator GLASS. Mr. Dawes, the State of Viriginia and the State of California by law give to their State banks a corporate franchise and charter to exercise certain corporate powers. Among those corporate powers and rights granted by the State of Virginia and the State of California to their State banks is the right to establish branch banks.

This Federal statute says:

> Subject to the provisions of this act and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal reserve system shall retain its full charter and statutory rights as a bank or trust company.

Do you think that the Federal Reserve Board has a right to make a regulation imposing upon the State banks of Virginia, or of California, a condition that they shall not have branch banks, in order to become a member of the Federal reserve system? And if it may establish a regulation denying the right of the Virginia or California banks to establish branches, which is among their corpo-

rate powers granted by their respective States, has it the still further right to deny the Virginia and California banks the privilege of exercising any other or all other corporate rights granted by the State of Virginia and the State of California?

Mr. DAWES. Well Senator, may I ask you a question?

Senator GLASS. Yes; if it will illuminate this subject.

Mr. DAWES. Suppose it were to be conceived that the development of branch banks meant the destruction of the Federal reserve system?

Senator GLASS. Suppose it should what?

Mr. DAWES. Suppose we were to conceive—suppose some of us believed that it would mean the destruction of the Federal reserve system, is the Federal reserve system then compelled to invite into it—it is a voluntary system—people who were going to operate in such a way as to result in its eventual destruction?

Senator GLASS. I will answer you in this way: The Federal reserve act provides that Federal reserve banks shall not pay interest on deposits, does it not?

Mr. DAWES. I do not know. I think so. I will take your word for it.

Senator GLASS. Well, you understand that the Federal reserve banks are not permitted to pay interest on deposits?

Mr. DAWES. Yes.

Senator GLASS. That was the judgment of Congress, enacted into law. Suppose your Federal Reserve Board were to conceive (as is not without reason) that the refusal to pay interest on deposits by Federal reserve banks will ultimately destroy the system. Do you hold that the Federal Reserve Board may defy the judgment of Congress and substitute its own judgment for the judgment of Congress?

Mr. DAWES. Certainly not.

Senator GLASS. But that is what you propose here.

Mr. DAWES. No, Senator; I do not propose anything of the kind. I do not see just how to make this plain. I say, if you have got a condition here, and the condition which you describe is such as will result in the destruction of the Federal reserve system, then I say it behooves Congress to——

Senator GLASS (interposing). Oh, if you talk about what Congress can do, that is a different question. But I am talking about what must be done under the existing statute. Suppose it should be the judgment of the Federal Reserve Board, as it is the judgment of some of the most experienced bankers and scientific authorities in this country, that State banks should not be permitted to become members of the Federal reserve system. You would not contend that under this particular language here the Federal Reserve Board could make a regulation that would exclude State banks from membership in the Federal reserve system, would you?

Mr. DAWES. No, Senator; I would never contend that the Federal Reserve Board or any other board should break the law or go contrary to the law. I am simply making a plea against the branch banking system now. What is the feasible way or the possible legal way to get at that I am not entirely competent to say. From reports that I have received of the legal situation I am inclined to think that the Federal Reserve Board can legally take such action as would prevent the establishment of any more branches by member banks——

Senator GLASS (interposing). Well, do you think, then, that the board could establish a regulation——

Mr. DAWES (interposing). I would like to answer one question at a time.

Senator GLASS (continuing). Do you think that the board could establish a regulation that would take away from an applying State bank any other corporate power that its franchise may give it and all others—because if it may take away one it may take away all. If it may pass a regulation that a State bank shall not exercise this specific corporate power granted to it—if it has authority to do that, it has authority to pass a regulation that a State bank may not exercise any of its corporate powers, and therefore will not be admitted as a member bank at all—make it impossible?

The CHAIRMAN. Pardon me, Senator, but would that act on the part of the Federal Reserve Board have the effect of depriving that bank of membership? It would simply apply for membership into the Federal reserve system. The Federal Reserve Board would not have the power of removing from that bank the right to continue any of those franchise powers, would it?

Senator GLASS. No; but it would deny the State bank the right of admission to the Federal reserve system.

The CHAIRMAN. Yes.

Senator GLASS. And what we are here for is to devise ways and means of having them become members of the Federal reserve system and not to repel them.

Mr. DAWES. Well, Senator, I take it that you are asking questions that you would like to have me express an opinion about. I certainly do not believe in the board breaking the law. I am not competent to pass on laws.

Senator GLASS. Neither am I; I am not a lawyer. But there is the English language; I do understand that.

Mr. DAWES. But I do want to say this, which I should have said before: I think that almost every bank that has come into the system has voluntarily signed the agreement to let the Federal Reserve Board pass on the establishment of any branches.

Senator GLASS. Well, they may have volunteered to let the Federal Reserve Board do anything; but I am talking about what the Federal Reserve Board has a right to do under the law.

Mr. DAWES. That is a practical consideration. I do not know what the limits of the rights of the Federal Reserve Board are. If they have a right to stop the branch banks, I should like to see them stopped.

Senator GLASS. It never was intended to give that right. That language was put into the law to induce State banks to join the system, in order that the Board might be enabled to say to State banks: "We are not going to interfere, and can not under the law interfere, with any of your corporate rights." It was not put in there to enable the board to practically nullify the laws of the States under which State banks operate.

Mr. DAWES. Well, I would like to give my own feeling on the matter: If the board is not authorized to take that action, I would like to see them given that power.

Senator GLASS. Well, that is different. Perhaps I might agree with you; I do not think I would.

Mr. Dawes. Well, that is all I have contended for.

Senator Glass. I am always open to conviction.

The Chairman. Mr. Comptroller, is it clear in your mind that it is of particular advantage to the State banks to become members of the Federal reserve system?

Mr. Dawes. I think it is. I do not know that it is to the advantage of particular individuals who control those banks.

The Chairman. Do you think it is necessary to the successful operation and continuance of the Federal reserve system that State banks and trust companies be members of that system?

Mr. Dawes. My feeling about that, Mr. Chairman, is that it is more or less of a local issue. I think in a great many localities the facilities of the Federal Reserve Board get to all of the banks in a way that is reasonably satisfactory, through their corresponding member banks. There are some sections of the country where I do not think saturation is sufficiently complete to get that service.

The Chairman. Do you think it is fair to the national banks, that they shall maintain a system here for the protection of all the banks in the country, and not share with others the expense and responsibility of the upkeep of that system?

Mr. Dawes. I do not think it is; and that is why I am making a plea that nothing should be done which would diminish the rights of the national banks at the present time—the privileges of the national banks at the present time.

The Chairman. There is now strong competition between the State banks and trust companies and the national banking system—that which you have indicated. Does not the membership in the Federal reserve system of the State banks tend to strengthen their position in competition with national banks?

Mr. Dawes. It does; I think it does, that is the reason why a great many of them join.

The Chairman. Then do you think that in this controversy the Federal reserve system should continue to take into that system these banks——

Mr. Dawes (interposing). Who are exercising——

The Chairman (continuing). Who are exercising these powers which are in competition with national banks?

Mr. Dawes. I think you will weaken your system if you supbject the national banks to the competition of State banks which have special facilities that the national banks have not got, and then let them use the Federal reserve system as a means by which they can increase the difficulties of the national banks. In other words, if you are going to establish the branch banking system—if you are going to allow the Federal system to be used to help the further extension of this branch banking system, I think you are going to ultimately destroy your national banks.

The Chairman. Well, when the Federeal reserve system was organized, the question of reserves was made a paramount issue—and that they should be real reserves. Do you care to express your views about the kind of reserves which are maintained by State banks?

Mr. Dawes. No; I really ought to study that situation more than I have before I can say anything that would be of value to you.

Mr. WINGO. Mr. Chairman, I was called out of the room; while you were discussing this section 9 of the act, and the question of the power of the board on admitting members; and I would like to have the record also show another provision in that same section 9.

You understand that I am not taking any position with reference to the wisdom of the law. It is what the law is. In the same section 9, second paragraph, Senator.

Senator GLASS. I have read that. I am perfectly familiar with it.

Mr. WINGO. It says:

> On said application the Federal Reserve Board shall consider the financial position of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with this act.

If the Federal Reserve Board believed that the exercise of the corporate powers of a State bank to have a branch bank is not consistent with the purpose of the Federal reserve act, then not only have they the power but it would be their duty to deny membership to that bank, would it not?

Mr. DAWES. I should think so; yes.

Senator GLASS. Can you point out anything in any section of this act—any provision or any sentence in it—that would indicate that branch banking is inconsistent with the provisions of this act?

Mr. DAWES. I think the general provisions of the act are to build up and fortify the American banking system.

Senator GLASS. Yes.

Mr. DAWES. And I think that the system of branch banks that we have now is contrary to our whole theory of banking under the Federal reserve law.

Senator GLASS. There is not any provision of this act which says anything about building up the American banking system. What I asked you to do—or ask anybody to do—is to point to a single provision of the Federal reserve act that intimates any antagonism to branch banks.

Mr. DAWES. I feel perfectly safe on the general tenor of the act and the intent of the act. As to whether they have embodied it in a special provision, I do not know.

Senator GLASS. As a matter of fact, there is a provision that indicates that it believes in branch banking——

Mr. WINGO (interposing). I would like to resume, Senator, when you get through.

Senator GLASS. I supposed that you were through.

I call your attention, Mr. Comptroller, to the fact that the act specifically authorizes the establishment of branch banks of the Federal reserve banks and of branches in foreign countries.

Mr. WINGO. I believe I stated a while ago—and agreed with the Senator—that there is absolutely no question of any specific provision in regard to branches of member banks, which, of course, is a different thing from branches of the Federal reserve banks.

Now, the point I want to get at is that Congress did, by clear, specific provision—which I think unwise, but it is there—say, as a condition precedent, that you could pass upon the exercise of a corporate power that a bank had under State laws, a State bank. You have

no right to change the State law. You have no right to deny a State bank the exercise of any corporate power.

But the board does have the power—and it is expressly provided that it can do so—to say that you will not admit a State bank that is exercising corporate powers under a State franchise that that board in its judgment believes is inconsistent with the purposes of the Federal reserve act. In other words, Congress did clearly lodge with the board the discretion to say that in admitting these State banks, if they under the charter of their States and under their corporate powers have the right to do certain things that the Federal Reserve Board believes are contrary to the purposes of the Federal reserve act, then you have a right to absolutely shut the door in their faces, which is clearly a different thing from controlling them in the exercise of their power if they get in. If they let them get in, they have got to let them do everything that they have permitted them to do under the conditions that were laid down on their admission, conditions both of express statute and of the rules and regulations of the Federal Reserve Board, which is a clear distinction.

I want the record to show the legal proposition, because I suspect that there will be some legislation. I think there ought to be some legislation. I do not think that power should be lodged there.

But I thought your legal adviser was correct as to the power—not the wisdom—of that; and I as one member of the committee believe that branch banking is inimical to the very fundamental purposes of the Federal reserve act.

Mr. DAWES. I do not know that it is inimical to any specific provision of the act; but I feel very strongly that it is inimical to the purposes of the act.

Mr. WINGO. The national banking system is the backbone of the Federal reserve system. And I think our intention in letting in the State banks was that we recognized that the State banks are a part of the general banking system of the country; and one of the primary purposes of the Federal reserve act was to coordinate the general banking of the country—to impound the general banking reserves in a safe reservoir, and to have free rediscount markets, that were proof against panics; and we thought that purpose would be carried out by admitting State banks into the same privilege as we did national banks.

But if by admitting State banks that have branches, you believe that branch banking system will destroy the basis of the Federal reserve system—to-wit, the national banks—then you, in the discharge of your duties, would feel bound to try to keep them out?

Mr. DAWES. I would. I believe it would destroy the national banking system and the Federal reserve system also.

Senator GLASS. The Federal reserve act, in its numerous provisions, indicates its own purposes; it does not leave them vague or uncertain.

To give a single example, it would be inconsistent with the purposes of the act—or would have been until recent action by Congress—to admit into the system a State bank with a capital of less than $25,000, although the State might authorize such a bank to do business within the State. That would be something inconsistent with the purpose of this act, because the act itself says the State

bank must have a minimum capital equal to the minimum requirements of the members of the Federal reserve bank.

And in provision after provision, the purpose of the authors of this law, and the intent of Congress, is disclosed by the provisions of the act itself. Although branch banking in States was existent at the time of the enactment of this law, there is not an intimation in the law anywhere that such a corporate power was inconsistent with the spirit and purposes of the Federal reserve act. We were aware—the Congress was thoroughly well aware—of the fact that, in many States at that time, branch banking was permitted and prevailed to a great extent; and if it had been the intent of Congress to declare that branch banking was inconsistent with the purposes of this act, why it would have so specifically declared.

Mr. DAWES. I think, Senator, that there has been a great change in the branch banking situation in the last two or three years. I think there has been such a development of it that the conditions that exist now had not manifested themselves then—or tendencies had not manifested themselves then as they have now.

Senator GLASS. That may be true. I think that is true. But you can not relate that back to the purposes of Congress in 1913.

The CHAIRMAN. Mr. Dawes, one of the practical considerations in deciding this matter, as I understand, is the question of the examination of these branch banks.

Suppose there was in New York City a State bank, and it had 2,000 branches, and that State bank made application to the Federal Reserve Board for admission. Do you not think the Federal Reserve Board would be justified in refusing the admittance of the bank on the ground that you would have to revamp your whole examining force if you admitted it?

Mr. DAWES. I do not think you can make an intelligent examination, a thorough examination, unless it is a simultaneous examination; and that would require a great many very high class men. I have tried to elucidate that in what I have written; and, I think, as a practical matter, you would not be able, in the case of branch banks, to make that examination. If it were a question of going to the tellers' windows, it would be possible; but if it were a question of examining all the branch banks, it would be impossible, if there were 2,000, to give them a simultaneous examination. You see, on the question of interrelations, with the examination of securities——

The CHAIRMAN (interposing). The point I raised is: Would not that be a situation that would require discretion on the part of the Federal Reserve Board, and would not they have the power to deal with a situation of that kind, without coming to Congress?

Mr. DAWES. I do not think there is any question about that.

Senator GLASS. There is a very great question about it. For an hour I have been raising the question. There is a very great question whether the board has the authority. Just because the situation exacts more work on the part of the board and requires it to employ more examiners, and requires those examiners to work harder—does that afford a substantial basis for the board to exercise a power that the law does not confer upon it?

Mr. DAWES. Not as you state it; no. But if a situation develops where you have got to maintain a force of 20,000 or 30,000 examiners

in this country, then it has got to the practical situation where it is impossible to do it.

Senator GLASS. Well, take this bank referred to by the chairman: Would your examiners have to examine the parent bank and all of its activities, or would it have to examine each individual branch unit?

Mr. DAWES. They would have to examine every department of the bank—all at the same time.

Senator GLASS. Every department of the bank, yes; but would they have to physically go and examine every branch office of the bank?

Mr. DAWES. Yes, sir; every branch bank that was operating. Because, Senator, you see they could shift their assets. If it were not done simultaneously, you could take the same one dollar bill and circulate it around through all of your branches, and count it a thousand times. It is the same way with your securities.

I would like to ask Mr. Pole a question about that, if you do not mind. He is one of our oldest national bank examiners, and his opinion about that would be of value. I do not think there is anybody in the country that knows more about that as a practical question than he does.

Senator GLASS. Well, I think it all leads up to the question of the existing power of the Federal Reserve Board. The board either has under the law or it has not the power to exclude a State bank upon the ground that it has branches. If it has not that power, it has no right to exercise it. If it is desirable for it to have that power, that is a different proposition, which Congress would have to consider.

Mr. DAWES. Well, Senator, it has the power to exclude any bank that is not properly conducted, has it not?

Senator GLASS. Undoubtedly. The law gives it that power.

The CHAIRMAN. In that case——

Mr. DAWES (interposing). Pardon me, Mr. Chairman. Then I contend—I may be wrong in my opinion; but it is my opinion—that it is possible for a bank to have such a number of branches that it can not be properly conducted.

Senator GLASS. Well, of course, if the bank is unsound and is not properly conducted, the board is explicitly authorized by law to exclude it from membership, and you as Comptroller of the Currency, if it is a national bank, are authorized by law to close it up.

Mr. DAWES. Well, if a bank with 2,000 branches were to apply for membership, we should exclude it, not because I knew that that bank was not in bad condition, but because I did not know that it was in good shape. Now, I could not find out; with 2,000 branches scattered all over the United States, nobody would know.

The CHAIRMAN. Take another instance. In Pennsylvania some of the old charter rights of trust companies and State banks permit them to do almost anything. For example, there are same charters of State banks in Pennsylvania which would permit them to run a sawmill or a water power or a railroad. Suppose some of those institutions having a charter right like that should enter the Federal reserve system, and should so divert their line of business that, while they were members of the system, they were running the sawmill or

the water power, and doing no banking business. Do you think it would be proper to continue an institution of that kind in the Federal Reserve Board, and would not the Federal Reserve Board have the power to exclude that institution from membership?

Mr. DAWES. I should say it was contrary to the purpose of the act and impossible.

Senator GLASS. I should say so too.

Mr. DAWES. Another thing which may have a practical bearing on the situation is that I understand that in California, where they have a great many State banks, the State bank examiners have discontinued simultaneous examinations, on account of the difficulty of making simultaneous examinations.

The CHAIRMAN. Mr. Comptroller, I suggest that it is now 1 o'clock, and if you will come back we will recess now. Mr. Strong desires to ask you some questions, and there may be other questions to be asked by members of the committee; and I suggest that we recess until 2 o'clock or 2.30.

Mr. WINGO. Mr. Chairman, it is possible that I may not be able to be here this afternoon. May I ask the comptroller some questions predicated on the thought that some nonmember banks may read the record of this hearing, and some of them may decide not to come in because of reading certain views of certain members of the board as to the powers of the board and of the system?

Some of the State banks that are speaking out think that the board has an idea that it is part of their function and duties to untertake to parcel out credit. In other words, if they think the price of cotton or potatoes is a little too high and there is too much speculation in it, that they will tighten up on credit so as to stabilize the price level—on that socialistic theory that some man here has made up.

What is your view about that, Mr. Dawes? Do you think it is a part of the function of the Federal Reserve Board or the Federal reserve banks so as to regulate the volume of credit as to maintain prices at a high or a low lever or any level at all?

Mr. DAWES. That is a question that is hard to answer categorically. No; I do not think so. I do not think that the Federal reserve banks should be used as an instrumentality for the maintenance of prices or for the reduction of prices.

Mr. WINGO. I intended to bring with me a letter that I had from one of the State bankers upon this subject.

He says that there are two theories with reference to the Federal reserve system. One is that it was created for the purpose of coordinating the banking business of the country and to provide safe reservoirs for the reserves and a rediscount market, and to serve the banking system; that is, the individual member banks of the system.

The other theory is that it was to consist of a group of supermen, first at Washington and then at each reserve reservoir, who would sit on a watch tower and survey the field of business—automobiles, steel, cotton, wheat, potatoes, etc.—and parcel out the volume of credit that they thought was necessary. If they thought potatoes or wheat was going too high, they would say, "Well, we will by the exercise of our powers sqeeze that down. We will undertake to control the business of this country through the credit agencies."

And that gentleman has an idea that the board as at present constituted was wedded to what he calls the "Lenin and Trotski view;" and he said that he did not propose to go into a system of that kind.

Now, to which school of thought do you belong?

Mr. DAWES. I belong to the coordinating school.

Mr. WINGO. I thought so.

Senator GLASS. Well, the Lenin and Trotski view is not confirmed to Lenin and Trotski; but it permeates Germany and, to a lesser extent, some of the other European countries; under that theory, all you have to do to furnish credit is to keep the printing presses going.

Mr. WINGO. But there are some men in this country, for whose financial opinion I have great respect, who really believe it is wise to have a Government-controlled agency to fix the price of wheat and the price of cotton and everything else; in other words, destroy all individual initiative, not only of the manufacturer, but the banker and everybody else—in other words, a happy state in which everything will be run publicly and human judgment will be absolutely correct.

Mr. DAWES. And the law of supply and demand will be repealed.

Mr. WINGO. They think the law of supply and demand is a mere incident, when you run up against it.

Senator GLASS. I am sorry my colleague from Arkansas has any respect for the financial opinion of such men as that.

Mr. WINGO. Well, I am compelled to have, because he comes here with such high indorsements—especially 10 years ago, when I first came here to try to find out what the Federal reserve act was. [Laughter.]

(Thereupon, at 1.05 o'clock p. m., the committee took a recess until 2 o'clock p. m.)

AFTER RECESS

(The joint committee reconvened at the expiration of the recess.)

The CHAIRMAN. Now, Mr. Dawes, Mr. Strong has some questions he wanted to ask you.

Mr. STRONG. One of the principal objections brought out here to the State banks coming into the system is the matter of the reserves on which they draw no interest. A banker was in town this morning and came in to see me and that seemed to be his principal reason he advances. He said that in figuring up what reserve he would have to place with the Federal reserve system it would be a loss to him of about $72,000, and he wondered why the reserves in his bank that he had to keep there all the time, about $40,000, could not be deducted from these reserves. He wondered why it was necessary to keep $40,000 reserve from his deposits in his own bank and deposit $72,000 in the Federal reserve system, making a loss of $132,000 from his interest acount. Now, we all know that the requests of some of the bankers, for interest on the deposits can not be complied with. But, could not the amount of reserves be cut down? Could not a part of the reserves required to be carried by the banks be carried by the banks be considered a part of the required reserve of the Federal reserve system?

Mr. DAWES. It seems obvious that the amount of the reserves in the banks is based on the assumption that these other reserves would

be carried in their vaults so that is virtually equivalent of asking that the total reserves be cut.

Mr. STRONG. Yes. And lessen the piling up of immense reserves with the system, which takes the money out of the small communities and little banks.

Mr. GLASS (interposing). May I call your attention to a fact you can consider: That when we created the Federal reserve system, in fixing the reserves in the Federal reserve act we very materially reduced the reserve requirements.

Mr. DAWES. Having this in mind.

Mr. GLASS. Yes; and that is one of the reasons, as I recall it, that ultimately at that time we reduced the amount of reserves. Whether or not your banker can tell you how much reserve he would have had to have kept under the old system, even if he had been permitted to keep half in vault, would be interesting to know. Would he not still have to put in more in the Federal reserve bank than the law now requires if we had not lowered the reserve?

The CHAIRMAN. Under the latter amendment we took into consideration particularly the local requirements, leaving it optional with the bank to act.

Mr. STRONG. What I am after is information as to whether this objection made by the State banks can not be met. This, frankly, was stated to be one of the reasons why this banker would not come into the Federal reserve system: That he loses so much interest on his deposits, and the question is whether the amount of the reserves could not be cut down to the extent of considering the reserve on hand in the bank part of the Federal reserve system requirement.

The CHAIRMAN. The reserve requirement of many of the States is much more favorable for their own banks than is the Federal reserve system, because in keeping their reserves they can get immediate credit. That is, the banks give them immediate credit and thereby create a more favorable condition, whereas the Federal reserve system is in itself a real reserve, while much of the reserves maintained by State banks and trust companies are what you might call "foam"—checks in process of collection.

Mr. GLASS. In other words, your friend wanted to know why you can not count as reserve a certain portion of reserve kept on hand in his bank instead of requiring all the reserve to be kept with the Federal reserve local bank?

Mr. STRONG. Yes. He wants to know why it would not be proper to count the reserves he is required to keep in bank as part of the requirement of the Federal reserve system, and instead of putting in the $72,000 they require to keep $40,000 in his bank and only keep $32,000 with the Federal reserve system. I would like to know what objection there would be to that.

Mr. DAWES. It would simply reduce the resources of the Federal reserve bank by that much.

Mr. STRONG. But if the State banks all came in, would it not make up the deficiency?

Mr. DAWES. I do not think it would.

The CHAIRMAN. There would be this danger: If you should permit the reserve vault cash to be considered as legal reserve some banks might keep all of the reserves in cash in their vaults and would not have any reserves on deposit with the Federal reserve system.

Mr. WINGO. The result would be to demobilize this mobilization of our reserves to the extent you cut it down.

Mr. STRONG. Yes; it would reduce the amount of reserve held in the reserve bank centers and increase the amounts held in the country banks.

Mr. WINGO. And decrease the capacity of the Federal reserve system to render the services for which it is established.

Mr. STRONG. Would it embarrass the system?

Mr. WINGO. If this is a country bank——

Mr. STRONG (interposing). This is not a country bank I speak of.

Mr. WINGO. I am glad to see that you are interested in that sized bank.

Mr. STRONG. It is not my bank I am talking about or any that I have an interest in. Would it encourage State banks to come into the Federal reserve system if this modification, as suggested, were brought about?

Governor CRISSINGER. That was up before the board.

Mr. WINGO. Yes; that is the old question and I think the net answer was based on the things involved, namely the proposition that if you keep a certain percentage of the reserve in the till of the bank you demobolize your reserve to that extent and decrease the capacity of the reserve reservoir to perform the prime function for which it was created, namely, to safely keep the reserves and have them ready to go to the rescue of those and other banks.

Mr. STEAGALL. What is contemplated is that this reserve would——

Mr. WINGO (interposing). I think if you would call the attention of the bankers to the fact that if we had not reduced the reserve requirement a considerably larger sum would be demanded of them for reserve and, ultimately, if you are going to have a reservoir for the reserve and have it mobolized, then, in theory, you ought to have all of it.

Governor CRISSINGER. The banks hold all the reserve.

Mr. STRONG. The State banks feel they are paying too large a premium to get into the Federal reserve system. Can the amount be reduced in this way I have suggested or in any other way, without endangering the system?

The CHAIRMAN. It would reduce their ability to serve the public in times of crises if the reserves are reduced, for the reserves, primarily, are for emergency purposes.

Mr. STRONG. Do they now equal the proper amount of reserves required for handling the business of the country, or are the amount of reserves too great?

Mr. WINGO. There are two schools of thought on that subject. Some think that Congress acted unwisely in cutting too closely when they reduced the amount of required reserve; there are others who favor the cutting of the reserve requirement materially, but the system we are setting up, and the reserves, is measured and fixed under the law and the reserves become real reserves whereas before there were a great many fictitious reserves and there was the pyramiding of reserves and the burden was no greater; the reserves were no less in fact and the burden was apparently a great deal less on the banks. Of course the whole proposition of——

Mr. STRONG (interposing). But the reason it was cut down was to make it a workable institution?

Mr. WINGO. If you reduce the amount of reserve held by the reserve bank 50 per cent you reduce the capacity of that bank to grant relief to the extent of 50 per cent.

Mr. STRONG. Will the reserves held by the Federal reserve bank stand that or any reduction at the present time?

Mr. WINGO. In the last analyses, reserve requirements were made for two purposes: One reason why they were made was to take care of the imprudent banker and the other was to guard against the banker that is lacking in integrity. The wise banker will keep the reserve he thinks his business, as a banker, requires, and I think you will find a great many bankers actually carry a great deal more reserve than the law requires because, in their judgment, their business requires that.

The CHAIRMAN. It has been stated that the Federal reserve system is serving, indirectly, all banks in the country in times of emergency. If the Federal reserve system now has sufficient resources to take care of the demands of all the banks, and if more State banks and trust companies would join and increase the reserves, it might be possible to reduce the reserve requirements. That is something that has to be worked out very carefully, but I think here is an opportunity to get consideration of the possible lowering of reserve requirements to all banks if all banks come in.

Mr. STRONG. That is my friend's proposition. He thinks the bankers in the Federal reserve system are required to maintain too large a reserve, so that small banks can not afford to join the system. If we could get the State banks in by lowering the requirements, he thinks they would join.

Mr. WINGO. I am not opposed to the proposition. I just am stating to you the elements going into it and I state them in the hope that the committee will consider the elements I suggested.

The CHAIRMAN. Did you say the board had that up recently, Mr. Dawes?

Mr. DAWES. The governor said that.

Governor CRISSINGER. On application, which was duly made, an application of some kind—I do not know what it was—the matter came before the board and the board declined to do this on the ground that these reserves were fixed liens and the law would not permit them to do it.

Mr. WINGO. I understand, then, that the matter was considered by the board?

Governor CRISSINGER. Yes.

Mr. WINGO. I would like to have the viewpoint of Senator Glass on that question. He, I understand, studied it closely.

Mr. STRONG. This committee is formed for the purpose of trying to devise ways for the State banks to come into the Federal reserve system. They say first that we require them to put too much in reserves. Is there any way in which we can overcome that objection?

Mr. WINGO. The actual fact is that they want to be permitted to carry the reserve in their own vaults. The argument is: "What's the difference?" The reserve is to be held, and what is the difference whether it is all held by the regional bank or part held by the

regional bank and part in the local vault? I just can not understand the difference.

Mr. STRONG. The only difference is, if we compel this gentleman—take his case for an illustration: His is a western bank and he said, "If we join the Federal reserve system we would have to put up $72,000 with the Kansas City Bank. We have to keep $40,000 in gold, currency, and silver at home with which to do business." It feels that requires him to keep too large a reserve in Kansas City. Why can not the law be changed so that he would put up the $72,000 less the amount he is required to keep at home?

Mr. GLASS. The law was that and he did not join.

Mr. STRONG. This man was not a banker at that time; he was a Member of Congress and, of course, did not have any money.

Mr. GLASS. Perhaps he overlooked another thing: If it is a real reserve, what difference does it make where it is locked up?

Mr. STRONG. He thinks the reserve required is too large.

Mr. GLASS. He can not use his reserve as till money. He can not use his reserve except at the penalty of being called to toe the line about it. The comptroller would immediately direct him to replace the reserve money that he was using for till money.

Mr. WINGO. The net result is that he wants the reserve requirement reduced?

Mr. STRONG. Yes.

Mr. GLASS. It does not make any difference where it is kept. If he wants the reserve requirements changed, that is different.

Mr. STRONG. They do not come in because they are required to put up too much in reserve funds.

Mr. GLASS. I would ask Mr. Strong to call attention of his banker friend to the fact that we have already reduced the reserve requirement; call attention to that, and ask him how much he was required to keep in reserve under the old system. If Mr. Strong called attention to that and to the fact that his banker friend would get off lighter now, I think his problem would be in part solved. Under the present system he is required to carry one-half of 1 per cent less than before.

Mr. STRONG. One-half of 1 per cent does not represent much to our banks.

The CHAIRMAN. What is troubling your friend is that he would have that much tied up without drawing interest while he has it now at the reserve center and at no loss of interest.

Mr. STEAGALL. The average country banker can take the difference in the amount of reserve required and instead of getting 2 per cent he will loan it at home at from 6 to 8 per cent.

Mr. WINGO. I thought the discussion would get around on that. What they want is interest on their balances.

Mr. STRONG. He feels the amount required in the Federal reserve system is too great a tax on his business and he wants it reduced or he does not feel he can come in.

Mr. GLASS. At bottom it means that he follows the practice of most interior country bankers. In the lax period he takes all his surplus and shoves it off to New York at 2 per cent to be used in stock speculation.

Mr. STRONG. The whole thing revolves about the question whether or not the amount the reserve bank takes from the banks of the country can be reduced. I do not know if it can or not.

Mr. GLASS. I would ask this gentleman if he had not overlooked the fact that he can not treat his reserve really as till money. Maybe he thinks "reserve" means nothing as a statutory word, and he does not keep a reserve as a matter of fact, but uses his reserves all the time.

Mr. STRONG. I do not think so.

The CHAIRMAN. If you have no further questions for the comptroller, we will excuse him.

Mr. STRONG. No; I have nothing further, except I want to thank him for his splendid argument against branch banks. The bankers of my district and State will be interested in it.

The CHAIRMAN. Have you any further statement to make, Mr. Dawes?

Mr. DAWES. No.

The CHAIRMAN. Have any of the members of the committee anything further to ask? If not, we will excuse you, Mr. Dawes, with the thanks of the committee.

The committee will now hear from Mr. C. S. Hamlin, of the Federal Reserve Board.

STATEMENT BY HON. C. S. HAMLIN, MEMBER OF THE FEDERAL RESERVE BOARD

Mr. HAMLIN. Mr. Chairman, gentlemen, first a word as to one of the problems before this committee:

There are in the United States 23,773 eligible banks with resources of $41,000,000,000. Of these, 8,244 are national banks and 15,529 are State banks. There are 9,892 member banks in the United States, of which 8,244 are national banks with resources of $20,000,000,000; 1,648 are State banks with resources of $11,000,000. The 9,892 member banks, State and National, comprise in number 41 per cent of all the eligible banks of the United States, but they hold in resources over 75 per cent of the total resources of all eligible banks in the United States.

Of the 15,529 eligible State banks, 1,648 are member banks and 13,881 are nonmember banks. The 1,648 member State banks are only about 12 per cent in number of all the eligible State banks, but they hold about 52 per cent of the resources of all the eligible State banks. The 13,881 nonmember banks constitute 58 per cent in number of all the eligible banks, but hold only about 25 per cent of the resources of all the eligible banks.

Now, we have this condition: Although the 13,881 nonmember banks comprise about 58 per cent in number of all the eligible banks of the country, their resources are only 24 per cent or 25 per cent. In this case, however, it seems to me that numbers are of great importance because each individual bank is a tap line leading directly to the Federal reserve bank, if it is a member.

It seems to me, at the outset, a strange condition that 58 per cent in number of all the eligible member banks are not member banks of the system. All of these banks, however, with a very few exceptions (a couple of thousand) are on the par list to-day.

It is another significant fact that the percentage of banks in number that are member banks is very much smaller in the agricultural districts than in the industrial districts. For example: In North Dakota only 23 per cent of the banks are member banks, while in New Hampshire 81 per cent are member banks. In South Dakota only 22 per cent are members, as contrasted with Massachusetts, 72 per cent of which are members. In Kansas only 21 per cent are members, contrasted with 71 per cent in New York. In Tennessee 20 per cent are members, contrasted with 69 per cent in New Jersey, In Wisconsin there are 19 per cent, contrasted with 67 per cent in Rhode Island. In Louisiana and North Carolina there are 18 per cent, contrasted with 59 per cent in Pennsylvania; in Nebraska there are 17 per cent, contrasted with 58 per cent in Vermont. In Minnesota there are 12 per cent, contrasted with 57 per cent in Maine. While in Missouri there are 11 per cent contrasted with 41 per cent in Ohio. These are only a few examples I take at random to bring out the percentage.

Mr. STRONG. What reasons have you as to whether these facts are due to——

Mr. HAMLIN. I am going to try to state these reasons in a minute.

It is my personal opinion that all eligible banks in the United States that are fit to join ought to join the Federal reserve system not so much for any good it might do the Federal reserve system, because that system is amply able to take care of all its member banks—it is further able, as experience has shown, to take care practically of all the banks in the United States, directly or indirectly—but I think that they ought to join, those of them that can satisfy the Federal reserve banks that they are in proper condition, I think they ought to join for their own sake to relieve them of the necessity of dependence on their correspondent banks.

Now, as to the reasons some give for not joining the Federal reserve system:

They believe, many of them (many of them have told me), and they state it very frankly, that their correspondent banks can and do take care of them. There is much truth in that belief, of course, in normal times, but the correspondent banks had some difficulty in taking care of them in 1893, very much more difficulty in taking care of them in 1907, and, of course, they had some difficulty in caring for them in 1920–21. In fact, you might say that the test of any banking system is not made during quiet, normal times, but when the stress comes, and it was the stress and the absolute inability of correspondent banks to care for their correspondents in crises that started the agitation which led to the passage of the act establishing the Federal reserve system. I believe that the stress will be very much less in any future abnormal times if, at least, the best of these eligible banks are brought into direct relationship with the Federal reserve bank rather than depending upon assistance through their correspondent banks, which latter can only give them the assistance they demand by means of rediscounting with the Federal reserve banks.

Many other bank officials have told me very frankly that they would like to join, but have various objections. One reason is this: They believe that in any future crisis the Federal reserve system

can not afford to have them suffer, and that it must come forward, directly or indirectly, and give them the assistance they need.

Now, undoubtedly, there is truth in that belief, and that truth is based on past experience. We have given very great assistance to eligible nonmember banks in the past. During the war the Federal Reserve Board permitted member banks to act as the agent or medium of nonmember banks for discounting paper secured by Liberty bonds, but that was done rather to help the purchase and sale of Liberty bonds than to help the banks. Later, on July 27, 1921, the board made a general regulation permitting members banks to act as a medium or agent for discounting practically all the paper offered by State banks. That was done because we felt it was absolutely necessary for the country that these banks be helped in every way possible at that time. Very recently, in 1923, early this year, the board revoked that general permission to member banks; but that does not mean that an eligible State bank can not make application in exceptional circumstances, and we have in fact granted our permission in cases where we think that such permission ought to be given. We have taken away merely the general permission to member banks to act as medium or agent of nonmember banks.

As you know, section 19 of the Federal reserve act provides that no member bank shall act as medium or agent of a nonmember bank in securing discounts without the permission of the Federal Reserve Board.

It is true that in the past we have helped these nonmembers materially. What, however, is going to happen if we should ever have another period of troublesome times? Of course, as the joint agricultural committee of inquiry pointed out, every time we discount paper for nonmember banks we are encroaching on reserves contributed by member banks for their own benefit. The committee very emphatically referred to that, although they expressed no opinion as to what should be the future policy of the Federal Reserve Board.

There is one significant fact, however, that in the agricultural credits act Congress provided that although Federal reserve banks can discount paper offered by Federal intermediate credit banks, yet they are forbidden to discount for such banks any paper which bears the indorsement of an eligible nonmember bank. It thus is evident that there was a feeling on the part of Congress that eligible nonmember banks should contribute their share toward the resources of a great system when they expect to come to it, and do come to it, to ask for its assistance. It seems to me that these eligible banks, or those that can satisfy the Federal reserve banks that they are fit to join, ought to be made to see that it is to their best interest and is right and just that they should be part of the system when at any time they can come to it and be saved from disaster. The attitude of some of these banks is like that of a man who owned a house in the middle of a block, but had not taken any insurance to cover his house on the belief that the fire insurance company, having insured all the surrounding property, would have to see that any fire in his house was put out in order to protect the other property. That is just the situation. These eligible banks, at least those of large capitalization, ought to come in, and I believe it is possible to induce many more of them to come in than are now in.

A great many banks bring up the fact—and I think it is perhaps a fundamental objection—that they will lose interest on their reserve balances. Undoubtedly this committee will hear that objection placed before them a great many times. I earnestly hope that if any bank presents figures to show that loss you will ask that bank to make proper allowances for the lowered reserve requirements brought about by the Federal reserve act. The lowered reserve requirements under the act amounted, I believe, to at least six or seven hundred millions of dollars. If you compare the reserve requirements of the present day with those that obtained before the passage of the Federal reserve act it would be considerably over a billion of dollars. I am, however, taking the time when the act went into effect. If you compute that and take the vault cash the bank carries and compute the released reserve, you will see that, except in a few exceptional cases, they have not lost a dollar. Our board has made a computation as to that, and if you would like it we would be pleased to place it in the record.

The CHAIRMAN. We would like that in the record, if you please.

Mr. STRONG. Yes; whether these reserves can be reduced; what have you to say to that? Could the reserves be safely reduced?

Mr. HAMLIN. I will say, very slightly, if the committee will adopt the amendment that I will speak of in just a moment, permitting the banks to deduct from gross deposits their checks in process of collection. The large city banks have large amounts owed to banks that constitute a definite liability. The Federal reserve act permits them to deduct from these amounts due to banks the outstanding checks in process of collection before they determine their reserve requirements. That is all right for the city banks, but very few country banks have large amounts due to banks and therefore they have little or nothing from which to deduct their checks in process of collection. A committee of the Federal reserve agents has strongly recommended that you change the law so as to permit this deduction from gross deposits. That would reduce the reserve requirements only infinitesimally. The city banks enjoy this now because they have large amounts due to banks; but the country banks, speaking generally, have few amounts due to other banks, so there is practically nothing from which to deduct checks in process of collection.

Mr. STRONG. Then it would offer no inducement to the country banks?

Mr. HAMLIN. It would be a very strong inducement, because they would need to carry a slightly lower reserve, if they could deduct the checks in process of collection from their gross deposits; that is the only thing they have to deduct from. The city banks have this privilege, practically, now. It is legitimate and fair that the country banks should be given that permission, but we would be glad to submit a memorandum to your committee on that question.

Mr. STRONG. I wish you would.

Mr. HAMLIN. I shall be glad to. Of course, it is not logical to pay interest on reserve balances. No bank gets interest on the reserve it carries in vault and it seems to me the banks are not entitled to interest on the reserves they carry in the vaults of the Federal reserve bank. I think there is not a single central bank in Europe that allows interest on these balances. To-day there are deposited with the Federal reserve banks $1,800,000,000 of reserve balances,

and to earn 2 per cent on that would take $38,000,000 or $39,000,000 a year, which would mean that the Federal reserve banks would have to invest over $800,000,000 as earning assets to earn that amount, and that would tend to bring Federal reserve banks into sharp competition with their member banks.

Mr. GLASS. Would not the net result be that each bank would suffer?

Mr. HAMLIN. That might well be.

Mr. STRONG. It would be a good thing to put into the record the amount of deposits now in the Federal reserve system and, too, the amount of earnings.

Mr. HAMLIN. We will. We will be very glad indeed to do that.

Mr. STRONG. In order that we may explain to the banks asking a return on their reserves that the earnings are insufficient to warrant the same.

Mr. HAMLIN. We have a table which we will send to the committee showing these things.

Mr. GLASS. Does your statement which you propose to put into the record point out that if the earnings of the Federal reserve banks should be calculated by the same process that applies to the earnings of an individual bank there has been a great misconception as to what the earnings of the Federal reserve banks have been?

Mr. HAMLIN. We have already made that public, but we will be glad to include that in this memorandum.

The CHAIRMAN. You would also take into consideration the franchise tax?

Mr. HAMLIN. That, in another moment, I was coming to.

Now, the loss of interest on reserve balances and the loss of this so-called "exchange," certainly if it were a grievous loss, would have shown itself in the earnings of the small banks and we have a chart showing earnings of national banks of $25,000 capitalization, from the date of the Federal reserve act, revealing a normal, healthy increase and if these two items were as serious as banks think, it certainly would appear in the earnings. That is also tabled, and we will gladly send the table to this committee.

Among other reasons very often advanced by nonmember banks is the fact that they are afraid that if they join the Federal reserve system their right to establish new branches may be interfered with. That, of course, is an acute fear in California. Certain recent rulings of the board have made some State member banks feel that they must consider seriously whether or not it would be better to withdraw from the system. I want to say in fairness that, to me, at least, no bank has advanced that as a threat. It has been a fairly thought out, heart to heart statement made to the members of the board. Some of the leading State banks—I speak now of California—before they entered the system were very much afraid of what the board might do by regulations and were seriously pondering what would happen if our board were to pass a set of regulations and later the membership change and other radically different regulations were to be passed, and they were very apprehensive, especially as to their right of entering the system with branches. In the early days of the system, one of the members wrote a note, by authority of the board, to the State banks, in response to their

fear, saying, as well as I can remember, that the board would not oppose the entrance of State banks with their branches, nor would it oppose the admission of branch banks after entrance; that the prime consideration the board would give would be an examination of the condition of the parent bank and the branches and an ascertainment as to whether or not that branch could healthfully be carried by the parent bank and whether the financial condition of the whole outfit was proper and safe, and my recollection is that on that assurance these banks entered the system.

The Federal Reserve Board early established as a condition of these banks' entrance that they could establish no new branches without securing the assent of the Federal Reserve Board, and I heard some discussion in the committee yesterday as to the validity of that condition. The general counsel of our board has rendered an opinion, a very able opinion, in which he takes the position that that condition is valid, and I agree with that, speaking personally, absolutely.

Congress gave in the act express power to the board to establish conditions on the admission of State banks, and if the board had no power to establish such a condition, you could easily see that while the branches in existence when the parent bank entered might be all right, we soon might be loaded up with many branches and we could not tell until the next examination, after they were in the system, whether they were fit to be there. It seems to me that that condition is perfectly sound and legal. The only question that arises is how is the board to determine whether or not it shall give or refuse its assent to the establshment of a new branch. That is a question on which some of the board differ from others, and I can hardly say that that question, even now, can be finally said to be settled.

The CHAIRMAN. You speak of an opinion of counsel. Can that be put in the record?

Mr. HAMLIN. Yes; certainly. A copy of the opinion will be provided.

Within a year the policy of the board, as reflected in a few decisions, has radically changed, and I think that a majority of the board feel that they can do something more than merely ascertain the financial condition of the parent bank and proposed branch. In speaking about differences in the board it seems to me a source of great gratification that there have been differences of opinion on almost every question that has come before this board since I have been a member of it, and out of that discussion and interplay of opinions the board usually has reached some very satisfactory result, so when I allude to differences of opinion I welcome any such differences, to the end that in the long run we can work out what we believe to be for the best interest of the system. I am free to say that conditions have materially changed since the board laid down its original policy. At that time there were very few branches of these large State banks and now the branches have so multiplied that I think one bank has about 75 branches, among which, however, are quite a number of receiving stations, so called. Undoubtedly conditions have changed. The branch banking proposition is a much more serious proposition than it was when the board first fixed its policy.

The CHAIRMAN. You speak of local receiving stations. What do you mean?

Mr. HAMLIN. The stations spread over the city where they merely receive deposits, collect for the parent bank, etc. There are a good many of those in Los Angeles. They pay checks and have a loan limit of, I think, $500 usually. I count these all in the aggregate number of branches without distinguishing the two, although I think there is a fair distinction.

The CHAIRMAN. Are there many of these already established?

Mr. HAMLIN. Yes. I should say in Los Angeles the Pacific Southwestern, a member bank, for instance, has 25, and the California Bank, a nonmember bank, has 28.

The CHAIRMAN. The reason I ask is that there is quite a similarity in that situation to the recommendation of the comptroller, or an opinion from the Attorney General, in what to class the establishment of tellers' windows.

Mr. HAMLIN. We used to call them tellers' windows, too. I think it is the same thing.

Governor CRISSINGER. It is controlled by the home office.

Mr. GLASS. Before you get away from that point, if you are getting away from it, did I understand you to say that you thought the board has a legal right to adopt a regulation for the admission of State branches involving the vitiation of the permission granted by the statute itself?

Mr. HAMLIN. Oh, no. I had not finished with that, sir. I simply said that I thought a condition imposed by the Federal Reserve Board that a bank must secure the assent of the Federal Reserve Board before establishing a new branch, is valid. I said I thought that condition was legal. The important question is, however, on what considerations shall the board give or withhold its assent?

Mr. GLASS. Right on that point of the legality of the proposition that the board by regulation may control the number of branches that a State bank which has become a member of the system may have. Do you say that it has the legal right to exercise such control?

Mr. HAMLIN. Oh, I do not think it has any such right. I simply say the board has a right to impose the condition that it must give its assent before a new branch is taken into the system, but in giving or withholding that assent it can not withhold its consent for any reason not absolutely found in the Federal reserve act or absolutely by implication, derivable from that act. Under the law to-day, differing as I do, with all respect, from counsel, I believe that the board can only refuse its assent if it finds that, from the examination of the condition of the parent bank or branch bank, its condition is such as not to warrant its being taken into the Federal reserve system.

Mr. GLASS. Exactly.

Mr. HAMLIN. That is the limit. What did Congress mean when it gave to the board powers to impose conditions? I claim it did not give our board the dispensing power. We can not say, for example, that only a man of a certain age can come in with his bank, or only a man with certain colored hair. I think it is also perfectly clear we are not vested with authority to decline to admit a branch bank because we simply do not like the system of branch banking on theory.

The CHAIRMAN. Do I understand that once a State bank has been admitted into the Federal reserve system, if that main bank is in a fit condition, they should be granted the right to have an additional branch whenever they wanted it?

Mr. HAMLIN. Speaking of California, whenever the people of California have given their banks the right to establish branches. If the bank or proposed branch is in bad condition, then and then only we have the right to say "No." That is the argument I make.

Mr. GLASS. You have that right by reason of the fact that the law gives you that right?

Mr. HAMLIN. Because it gives us the right, naturally, by giving us the right to impose these conditions. We admit the original bank under conditions and we likewise decline or admit the branch bank under similar conditions.

Governor CRISSINGER. What right will the Federal reserve bank have to determine whether or not the bank shall take on more branches, in view of the fact that the Federal reserve bank is not equipped to supervise or examine such a system?

Mr. HAMLIN. I should say that if the board is not equipped, it has power to and should equip itself.

Governor CRISSINGER. If it does equip itself, as you say, at whose expense will it do so? Who will pay it? The banks will refuse to pay. They have already refused.

Mr. HAMLIN. The statute says that wherever we examine a State bank, the bank will pay for it.

Governor CRISSINGER. Yes; but only one bank has paid in two years.

Mr. HAMLIN. There are other lawful conditions, clearly; for example; we say that a bank shall not change the character of its assets or business. It seems to me that is a clear case of a valid condition. Often State banks are chartered with very extensive corporate powers. One of the leading banks of New York was chartered as a water company originally, and its banking functions were a small part of its powers. We frequently have banks apply for admission with powers, for example, to give bonds, fidelity bonds, for employees of corporations and we have imposed condtions limiting the exercise of these powers which we believe are not consistent with the purposes of the Federal reserve act. But the only power we have, I believe, to say to a bank or a branch that it shall not come in must be based on some definite condition of the bank or branch itself or upon some expressed or necessarily implied provision of the act. The people of the State of California have given a charter to every bank and branch that exists in the State. We have nothing to do with that. They have to go before their bank superintendent and obtain a certificate of public necessity showing that the community needs other branches. This certificate is laid before us, and I simply say that while Congress, of course, could change the law, but as I read the law, our power is limited as I have stated.

The CHAIRMAN. Do you think it desirable that Congress should change the law forbidding banks with branches?

Mr. HAMLIN. No. In discussing the scope of the power of the board, counsel has rendered a very able opinion and I think it is a very carefully thought out opinion and for a long part of the way, personally, I am very glad to follow him, but toward the

end—I have known of cases of lawyers disagreeing or differing from one another—I have to differ with him. Counsel, for example, in one part of his opinion has advised the board that the board "may base its judgment on the ground that an unlimited number of branches is inconsistent with the independent system of banking which was the basis on which the Federal reserve system was founded." I feel strongly that the Federal reserve system was not founded on any basis of independent unit national banks. There was a suggestion at the outset that it should be confined to national banks, but the Federal reserve system is now based on the dual system of unit national banks and State banks, many of whom have large and powerful branches. I do not see, furthermore, how you can say that any State has given an unlimited right to create branches. Every State has to act through its superintendent of banks and he is the one to decide whether public necessity or convenience demands a new branch, and all the cases coming to us come to us with a certificate from the superintendent of banks showing a public necessity for the establishment of such branches. It seems to me clear, furthermore, that a State bank with branches is certainly not inconsistent with any part of the Federal reserve act. When the Federal reserve act was passed the State banks had large numbers of branches—I think one had 10 or 12 branches Section 8 of the Fedral reserve act gives the State banks the right to convert into a national bank, presumably with their branches; they could not convert otherwise. But what is more to the point is section 5155 of the United States Revised Statutes, which reads as follows:

It shall be lawful—

This was passed in 1865—

It shall be lawful for any bank or banking association organized under State laws and having branches, the capital being joint, and assigned to and used by the mother bank and branches in definite proportions, to become a national banking association in conformity with existing laws, and to retain and keep in operation its branches or such one or more of them as it may elect to retain.

I do not think anyone can say, reading that statute, that a member State bank with branches is inconsistent either with the Federal reserve act or the national banking system. There are national banks now in existence with branches; there is the bank of California, which has three branches in different States.

The CHAIRMAN. The Chatham & Phoenix Bank has six branches.

Mr. HAMLIN. That is a State bank converted into a national bank. The Comptroller of Currency has frequently given charters to such banks, so I do not think that you could say that the existence of branches in the Federal reserve system is inconsistent with either the Federal reserve act or the National banking act.

As I have said, the whole question of branches depends on the law of the State, and where the State has given the right to a bank to establish branches section 9 of the Federal reserve act says that that bank may come into the Federal reserve system and retain its full charter and statutory rights as a State bank or trust company and may continue to exercise all corporate powers granted it by the

State in which it was created and shall be entitled to all privileges of member banks.

Now just a word as to the merits of branch banking—it is, as you know, a complicated question. I think I have read every article I could beg, borrow, or steal on the subject. I can not resist the feeling that the system of branch banking is a good system, at least for the people of California, although it may be that there may be a difference in policy demanded in other States. California, as you know, is a State of enormous area, and it has a wonderful diversity of peaks of credit. These State banks and their branches collect deposits, all they can get, and have created a revolving fund to meet the conditions as they appear in different parts of the State at different periods of credit demand, and I wish this committee would ask the board to furnish it with the testimony of Mr. Stern, of the Pacific Southwest Trust & Savings Bank, and Mr. Bacigalupi, the vice president of the Bank of Italy, on this subject as well as that of other bankers opposed to branch banking. It is most interesting and will afford the committee much valuable data and information.

The CHAIRMAN. Is that available?

Mr. HAMLIN. We are having it printed. I think it may now be available; but if not, it will be in a very short while.

The CHAIRMAN. If it is available I will ask that it be placed in the record. We would like to have it for the use of the committee.

Mr. STRONG. Do you mean that the Federal Reserve Board will circulate it?

Mr. HAMLIN. Yes. It was a hearing held by the board.

Mr. STRONG. I wish they would also circulate the comptroller's letter against branch banking.

Mr. HAMLIN. This was a hearing we had two months ago. There are, in California, unit banks and branch banks side by side and we tried to ask all the various witnesses who appeared before the board, some in favor of them and others opposed to the system, what the effect of the branch banking system was as to discount rates, and the universal testimony was that, except at the outset in pioneer districts, rates are probably not reduced.

Mr. STRONG. Is that because of the large deposits of money of wealthy people going to California?

Mr. HAMLIN. Yes; and these bankers all say that the fact that they had this system of branch banking by which they could collect all these deposits and send them in a revolving fund of credits, that that fact kept money in California that otherwise would have gone to Wall Street.

Mr. STRONG. Then they have a reserve system all their own?

Mr. HAMLIN. You might call it so.

Mr. STRONG. They have these banks in the different producing centers and they pass their reserves around as each crop is marketed?

Mr. HAMLIN. They can make large loans to the agriculturalist. He might have need for a large loan and often could not get it, if he was doing business with a national bank. But he can get it under the branch banking system. That is a great advantage. I know of no testimony that was given to us of absolute injury to a member bank. There was fear expressed that ultimately the branch banks might injure the national banks, and I think there may be some

ground ultimately for that fear, but the testimony given before us did not show that there was keen competition which resulted in lowering discount rates except in the pioneer banking districts at the outset. I believe, personally, that we ought to give more power to the national banks. I believe they ought to be given the right to establish branches. If you can not give it in the county, give it in the town or city, and that privilege will help them very much in the competition which must go on with the branch banks in the same town or city.

Mr. STRONG. Have you any suggestion as to how to stop branch banking by State banks?

Mr. HAMLIN. That is a question of State legislation. I simply want to state that, as Mr. Platt said yesterday, this is a controversy between the national banks on the one side and State banks with their branches on the other side. I feel our board should go deeper than that: They should go to the borrower and see what is for his best benefit. It should be determined whether or not it is to the best interests of the borrowers to have this State system of branch banks side by side with national banks in California and other States.

The CHAIRMAN. You believe that the real question is, "What is to the best interest of the borrowers, those who need credit in the State?"

Mr. STRONG. Have you found any great demand from the borrowers for branch banking?

Mr. HAMLIN. I remember two applications, one in Porterville, and the other in Yuba City, Calif., in which it was said that the public favored our granting the application.

Mr. STRONG. Said by who? The banker?

Mr. HAMLIN. By the banker. There was a national bank also there. There was no opposition.

Mr. STRONG. It was the banker that wanted the branch bank?

Mr. HAMLIN. Side by side. The national bank officers said they would be willing to have the branch bank applications granted.

Mr. GLASS. May I ask you if you had protests against the establishment of branch banks from borowers?

Mr. HAMLIN. I have yet to hear of one.

Mr. STRONG. Of course the borrower does not dare protest.

Mr. HAMLIN. That is all I have to say on that question.

The CHAIRMAN. I rather gained from your discussion of this Californian situation, and you point out the interesting fact that the money follows the trade channels. Does your observations show that these banks loan all the money locally or a greater portion of it?

Mr. HAMLIN. I should say they did.

The CHAIRMAN. And they are serving that community to the full extent of deposits?

Mr. HAMLIN. Yes, whereas the national bank during these various peaks of credit demand might have to loan at a long distance from its home office, where the loans might not be safe to make, the national banker not knowing the local conditions. The branch banks, on the other hand, tell us that they take residents of the locality and make them officers and directors of the branches because of their knowledge of local conditions.

The CHAIRMAN. Then these retired wheat farmers are really helping to finance California through this branch system of banks?

Mr. HAMLIN. Yes.

Mr. STRONG. We do not send profits from our wheat out there because wheat is too low?

Mr. HAMLIN. Yes; now, I have nothing specially to say on the par collection system except that the Board has in its possession a memorandum prepared by various officers of the Federal reserve banks, which, however, the board has not yet considered.

The CHAIRMAN. Will you supply that for the record?

Mr. HAMLIN. I shall be pleased to do so.

Mr. STRONG. I would like to ask if these bankers are members of the Federal reserve system?

Mr. HAMLIN. Yes.

Mr. STRONG. They contemplated getting out?

Mr. HAMLIN. I would not say, precisely, that they contemplated getting out. I would not say that. They discussed the whole question fairly and frankly.

Mr. STRONG. I was told two months ago that there was some question about their staying in. One of these bankers said he was in favor of staying but that the Bank of Italy contemplated going out.

Mr. HAMLIN. I will say this: these large State banks almost never discount with us. Consequently their large contributions in the shape of capital and reserve deposits, are at the beck and call of the other member banks, National and State, in crises. They stay in, I think, because they believe on general principles that it is better to be affiliated with the Federal reserve system. They have practically never discounted with us except perhaps during the War a little on Government paper. I think three or four of these State banks in California contribute 25 per cent of the capital and reserve deposits of the Federal reserve bank of San Francisco and that if they should withdraw it would be injurious to the system.

Mr. STRONG. I think they dare not get out. The bigger they are the more they need the insurance of the Federal reserve system.

Mr. HAMLIN. They contribute large sums all the same, and almost never rediscount. The committee has asked as to new administrative measures with a view to having eligible banks come into the system. During the war we appealed through the President of the United States to the patriotism of the member banks. A large number, probably a majority, of the banks came in originally through patriotism. We also publish a Federal reserve bulletin, which has a large circulation, the Federal Reserve Board publishes a monthly survey of business conditions, and each Federal reserve agent once a month publishes a survey of business conditions in his district.

The CHAIRMAN. Are they sent out generally to the public?

Mr. HAMLIN. Only to member banks.

The CHAIRMAN. Do the nonmember banks get this publication or do they get either of them?

Mr. HAMLIN. Only if they subscribe. Then we have member bank relations departments in the various banks. That has cost very little money, because they have utilized men with other work to do. They have done a good deal of successful work. That is one point, I believe, where the board can bring in a good many eligible banks

that we ought to have in the Federal reserve system. I think we should develop the member bank relations work much further than in the past and bring the system not only to the banks but to the people behind the banks and let them see the benefit that will accrue to them if their banks join the Federal reserve system.

Personally I believe we ought to have some one appointed to take immediate and direct charge of this work. There are many of these banks, technically eligible, which probably can not show they are in condition to come in, and there are a large number of nonmember banks which have not the capital essential to establish a national bank and therefore can not come in, at least without ultimately increasing their capital. I believe it would be most advisable if we could make some change in the law to make——

Mr. GLASS (interposing). You have reduced the requirement to fifteen thousand. What is a bank?

Mr. HAMLIN. I refer to banks of larger capital.

Mr. STRONG. Why can not they come in?

Mr. HAMLIN. Because of the proportion of capital to population. There are many banks of large capital, but not large enough to make a national bank of them. I favor a change in the law.

[Mr. Wyatt pointed out that the agricultural credits act amended section 9 of the Federal reserve act so as to provide for this class of State banks, but Mr. Hamlin stated that ultimately these banks would have to increase their capital and that it gave no relief to those who might wish to charter new national banks of the same capital.]

Governor CRISSINGER. Would not that be a handicap to the national banks?

Mr. HAMLIN. No; I would give them the same privilege.

Mr. GLASS. Would you modify the law so as to reduce the minimum requirement in certain places?

Mr. HAMLIN. Yes; both as to State and national banks.

Governor CRISSINGER. I do not understand you to be in favor of capitalizing at $25,000 either a State or a national bank in a city of four or five thousand?

Mr. HAMLIN. No. The country is full of that kind of nonmember banks.

Mr. STRONG. Why would you not be in favor of it?

Mr. HAMLIN. I think that that capitalization is too small.

Mr. STRONG. Why?

Mr. HAMLIN. I think the overhead expenses are too large for a bank with such a small capital. I think Governor Crissinger can answer that better than I can.

Mr. STRONG. You think that where an expensive home is required and salaries are high the overhead also is high, and that amuont of capital is too small?

Mr. HAMLIN. I do, speaking generally; yes.

Governor CRISSINGER. I had a man in my office this morning from a city of three or four hundred thousand where the State permits State banks to open with $25,000 capital. He told me that there were 38 of this kind of banks in that city, of which, he was very well satisfied, there were 14 in a very precarious if not insolvent condition right now. The trouble with that situation is that your bank has such great

overhead, high salaries, and so forth, that by the time it gets its furniture and fixtures with which to do a banking business, it has expended its capital largely in the process of opening and accumulating enough deposits to make it self-sustaining, and really does absorb most of its capital, so that the bank has not enough capital with which to do business. If it had, say $200,000 capital, it would have something with which to pay its expenses until it got into operation and could afford some protection to the depositor. I think we ought to look after the depositor some.

Mr. STRONG. That certainly is a good thought in banking.

Mr. HAMLIN. Now, as to the question of proposed amendments: I merely suggest certain amendments that have been before the board. I do not understand that the board has reached any definite conclusion on them. One is to give member banks a larger share in the profits of the Federal reserve banks, over the the 6 per cent cumulative dividend. There was one bill introduced by Mr. Lenroot which contained that suggestion. That bill did not pass, I believe. Another suggestion has been made to you, that the Government impose a tax of 2 per cent on Federal reserve notes uncovered by gold, just as it taxes a national bank note, and make that a prior lien before dividends could be declared, and after that give the banks participation in the extra dividends or earnings over the 6 per cent dividends. These are now before you and are being considered by the committees of the board, and possibly the board will communicate with the committee on these at a little later date. I have already spoken of the desirability of deducting checks in process of collection from the gross deposits. The governor also spoke of the desirability of establishing savings departments of national banks.

Then there is the question of liberalizing the Clayton Act. Mr. Platt spoke to the committee about this. Originally Congress thought it desirable when banks were in competition to stop interlocking directorates. They decided, however, that where there was no substantial competition they could have interlocking directorates. In many of these banks the interlocking directors have not restricted competition. On the contrary, many banks originally not competing have gone ahead and competed vigorously, one with the other, and it seems rather hard to have to say to these directors, " Now, you have permitted your banks to compete and you have to go off the board." I question whether the board has not some power without any change in the law, but we prepared a draft of law which Mr. McFadden introduced in Congress. I leave that in your hands, Mr. Chairman.

I think there is nothing else except the matter of the abolition of the office of comptroller. I think that was one of the questions that was directed to our board or to the comptroller; I am not sure. In any event, I would like to be excused on that question, until, at least, I have read the testimony of the comptroller.

The CHAIRMAN. The comptroller entered an able defense this morning.

If there is nothing further to come before the committee at this time, the committee will stand adjourned until 10 o'clock to-morrow morning.

(Thereupon, at 4 o'clock p. m., the committee adjourned until 10 o'clock a. m., Thursday, October 4, 1923.)

INQUIRY ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM

THURSDAY, OCTOBER 4, 1923

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON INQUIRY ON MEMBERSHIP
IN THE FEDERAL RESERVE SYSTEM,
Washington, D. C.

The joint committee met at 10.30 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. Mr. Meyer, this is the joint committee appointed by the last Congress to inquire into the question of nonmembership of State banks and trust companies in the Federal reserve system. The joint committee is authorized to inquire into the effect of the present limited membership of State banks and trust companies in the Federal reserve system upon financial conditions in the agricultural sections of the United States; the reasons which actuate eligible State banks and trust companies in failing to become members of the Federal reserve system; what administrative measures have been taken and are being taken to increase such membership; and whether or not any change should be made in existing law, or in rules and regulations of the Federal Reserve Board, or in methods of administration, to bring about in the agricultural districts a larger membership of such banks and trust companies in the Federal reserve system.

The chairman is not unmindful of the fact that about a year ago you presented some facts before this committee based on the operations of the War Finance Corporation; and probably as a result of that presentation this act followed and the committee would like to hear what you now have to say on this subject. You can proceed in your own manner.

STATEMENT OF HON. EUGENE MEYER, JR., MANAGING DIRECTOR WAR FINANCE CORPORATION, WASHINGTON, D. C.

Mr. MEYER. The work of the War Finance Corporation during the past two years naturally brought us into close contact with the banking situation throughout the country, particularly in the agricultural sections of the West and South, and gave us an opportunity to study, not only individual banks on a very large scale, having made loans to more than 4,200 banks, but also the situation from the general point of view.

When I had the pleasure of appearing before the Banking and Currency Committee last January, in connection with the legislation then under consideration, I presented, as the chairman has stated, certain facts which I think are pertinent to the investigation you are

making. I called your attention then to the fact that 83 per cent of our bank loans represented advances to State institutions, while 17 per cent represented advances to national banks; and that, in dollars, $135,400,000, or 80 per cent of the total amount, was advanced to State banks, and only $32,800,000, or 20 per cent, to national banks. The amounts advanced to State and National banks since I made that statement naturally has increased, but the percentages remain approximately the same.

I think these figures show conclusively that, in times of stress the nonmember banks in the country districts are in great need of access to a central reservoir of credit; and I felt then, and feel now, that the failure of the Federal reserve system to recruit to its membership a larger number of the well-managed country banks which were eligible to join the system was a fundamental factor in the difficulties of 1920–21.

Senator GLASS. Mr. Meyer, do you know what the total of loans of all the banks in the United States is?

Mr. MEYER. I do not have the figure in mind.

Mr. STRONG. Mr. Meyer, could you tell us what per cent?

Mr. MEYER. You mean the loans of the War Finance Corporation?

Senator GLASS. No; I mean the loans of all the banking institutions in the United States, loans of the State banks and trust companies and the loans of the national banks.

Mr. MEYER. The tables which I incorporated in my testimony before the Banking and Currency Committee show separately the total resources, which would, of course, include the loans of national banks, State member banks, eligible nonmember banks, and ineligible banks.

Senator GLASS. What I had in mind was the total loans of all State banks and all national banks for the period that the War Finance Corporation made the $135,000,000 of loans to State banks and $32,000,000 to national banks.

Mr. WINGO. Did your investigation at that time disclose the extent of agricultural loans?

Mr. MEYER. No; but perhaps some information along that line may be available in the report or hearings of the Joint Commission on Agricultural Inquiry.

Mr. WINGO. No; they counted everything, including packing-house paper and country merchants loans for overhead, where there were no sales, and they had not carried in their organization overhead, and also cotton-factor paper, for the purpose of carrying cotton for the distressed farmers.

Mr. MEYER. I have had no occasion to make a survey of that kind.

Mr. STRONG. You have just given us the percentages and number of loans made to the State banks and to the national banks?

Mr. MEYER. Yes.

Mr. STRONG. And you told us about what proportion of those loans were made in Western agricultural States?

Mr. MEYER. All the loans were made in the agricultural and livestock States, because they were made only for agricultural and livestock purposes.

Mr. STRONG. Then, is it not true that the reason there is such a large percentage of State banks borrowing was because in the agricultural States State banks very greatly outnumber the national

banks; for instance, in my own district I will presume to say there are from six to eight State banks to every national bank.

Mr. MEYER. Let me give you the figures, then, from this point of view: Our loans to national banks, all of which are, of course, members of the Federal reserve system, and to State member banks aggregated only 22½ per cent of the total, while the loans to eligible nonmember banks and ineligible banks aggregated 77½ per cent of the total. I place, as you will note, the member banks in one group and the nonmember banks in another.

Mr. STRONG. Your conclusion was that the remedy might be for the banks to join the Federal reserve system, and they would not need so much money?

Mr. MEYER. I believe a good deal of the trouble would have been avoided if a larger number of the eligible nonmember banks, whose condition was satisfactory and whose management was sound, had been members of the Federal reserve system.

Mr. STRONG. Of course, a great number of the State banks are outside of the Federal reserve system.

Mr. MEYER. That is true, but the resources of the eligible nonmember banks constitute the greater part of the banking resources outside of the system.

Mr. STRONG. But the point I was making was that in the percentage—the greater number of the State banks being outside—if they had all borrowed equally, of course, a greater amount of money would be borrowed by the nonmember banks.

Mr. MEYER. The situation we came across when we began making loans for agricultural purposes on a large scale was that the eligible nonmember banks were borrowing heavily from their correspondent member banks, thus having contact only indirectly with the Federal reserve system. I believed then, and I believe now, that direct contact with the system would have been more advantageous to them and to the agricultural interests they serve, and that such contact would have resulted in a much better situation so far as the permanent banking structure of the country is concerned.

Mr. STRONG. That is what we are here for, to bring about some means to encourage the entry of those banks into the system.

Mr. MEYER. Exactly.

Mr. STEAGALL. Mr. Meyer, while you are on that, what percentage of the national banks refused or failed to avail themselves of the use of the Federal reserve system during this time?

Mr. MEYER. I do not have those figures.

Mr. STEAGALL. It would be very desirable to have all the national banks make use of the Federal reserve system?

Mr. MEYER. They are all members of the Federal reserve system by law.

Mr. STEAGALL. I say, make use of it.

Mr. MEYER. I do not think there is any obligation on a member bank to borrow money from the system unless the needs of the community warrant it. That is the only basis for borrowing from the system. If a bank has ample funds and is serving its community fully, I would say it is unnecessary and inadvisable for it to borrow from anybody.

Mr. STEAGALL. What I am talking about is this, Mr. Meyer: That is all indisputably true. But is it not true that until now, and during

the period of depression, about which we have all been so much concerned, large numbers of national banks declined and failed to do business with the Federal reserve system?

Mr. MEYER. I think most of the national banks were borrowing from the Federal reserve system at that time.

Mr. STEAGALL. But, it is true——

Mr. MEYER (interposing). As a matter of fact, during the war practically all the national banks became borrowers from the Federal reserve system, and, generally speaking, they did not cease borrowing from the system until well along in 1921. I think that, on the whole, they borrowed enough.

Mr. STEAGALL. Is not this true, that a great many borrowed too much and some did not borrow at all; is not that the way it was? Is it not a fact that a large number of national banks did not participate in the effort to relieve the struggle by utilizing the Federal reserve resources?

Mr. MEYER. I do not believe I would be justified in saying that a large number did not. Some of them probably did not borrow, but I think the number was relatively small. In fact, I doubt if there were many banks of importance in the agricultural sections of the country that did not, at one time or another, borrow from the Federal reserve system.

Mr. WINGO. The cold statistics show that one-third of the member banks during the time of greatest stress did not have a single piece of paper rediscounted at the Federal reserve bank. I have never been able to get an explanation of that.

Mr. STEAGALL. Mr. Wingo is making the statement I hesitated to make, because I did not know whether it was accurate.

Senator GLASS. You need not hesitate on that account, because it has been testified to here.

Mr. STEAGALL. I was not absolutely sure, and that is why I wanted to elicit that statement from Mr. Meyer.

Senator GLASS. And I might add that to the extent of $8,000,000 it was true in the State of Alabama. There were national banks in the State of Alabama which had a basic line of credit with the Federal reserve bank of their district aggregating $8,000,000 that did not borrow a dollar.

Mr. MEYER. I had this matter in mind about a year ago, when I addressed a communication to the president of the American Bankers' Association, calling attention to the fact that a number of member banks were advertising that they were not borrowing from the Federal reserve system, as though that were proof of their soundness. I do not think the absence of borrowings is proof of either soundness or of service. And I do not think we are in a position to form any judgment as to what the failure to borrow means unless we analyze the condition of the bank concerned as well as the conditions prevailing in the community served by it.

Mr. STEAGALL. Was not this true, that you find varying conditions even in the same community; that is, you would find one bank trying to take care of the needs of the community badly overextended and perhaps another member bank not availing itself of the resources of that system.

Mr. MEYER. There are public-spirited people in every community, but in some places the number may be greater than in others.

Senator GLASS. But you know perfectly well that Congress can not pass any law compelling a bank to either borrow or loan money.

Mr. MEYER. I do not know how it could be done, Senator.

Mr. STEAGALL. I do not think that there would be any law compelling a change of those conditions, but I do think this, that if there is anything in the law that may be corrected, that will tend to prevent a recurrence of a situation like that, where only a portion of the member banks carry the burdens of the stress and storm while others stay out—if it is due to any objections to the system, I think we ought to try to remove them if we can.

Senator GLASS. You are a lawyer, and you know Congress can not pass any law to make the banks borrow money or loan money.

Mr. MEYER. I think that for the most part the bankers of the country endeavored to stand by the situation to the best of their ability. I am not criticizing bankers as a whole, because I think the larger number of them acted in a very public-spirited way. There may have been exceptions; naturally there are exceptions in the banking profession, just as there are in other professions.

Mr. WINGO. Mr. Meyer, that being true and the fact that under a system that whatever may be its defects or whatever mistakes may have been made in the administration during abnormal times, it is confessed to be a great system and a liberal system, the fact that one-third of the member banks in that time failed to take advantage of their rediscount privileges indicates that those bankers, responsible to their stockholders and their depositors, presumably men of business intelligence and yet responsive to the needs of their community, that there must be something that would cause them to not avail themselves of these privileges. That is one of the things we want to get at. Is it a misapprehension upon their part? Are they led to believe that there are things in the regulations or in the law that makes it unwise for them to avail of the privileges? Is there any ground for their misapprehension; is there any change that ought to be made either in regulations or in law, or is there any change that can be made that is sound and consistent and sensible that can be made? Those basic facts challenge the attention of thoughtful men. What is the situation? The presumption, as you said, is that there are no more bad bankers than there are bad lawyers, bad merchants, or anything else, and it is unreasonable to think that a banker would not naturally want to aid his own community; he would be shortsighted if he did not do it and did not take care and increase the business and increase the profits by aiding his own community. Now, if there is something, either misrepresentation of a fact or if there is a fact existing that caused one-third of them to hesitate to take advantage of the benefits of the system that has been created for their benefit and for the benefit of the public through them, what is the trouble? Can you throw any light on it? What is your opinion about it?

Mr. MEYER. It seems to me that, in the first place, you should investigate your premise before you reach a conclusion. Do you think, for instance, that in 1921—are you speaking of 1921?

Mr. WINGO. Well, 1920 or 1921; that was the storm time.

Mr. MEYER. Let us say 1921, because the operations of the War Finance Corporation with respect to advances for agricultural and livestock purposes began in August, 1921. I can not imagine any reason why a member bank in Massachusetts—and the membership is strong in that State—should have borrowed from the Federal reserve system at all.

Mr. WINGO. I think you will find——

Mr. MEYER (interposing). Therefore, when you say a third of the member banks did not borrow, I think you should, first of all, locate the third—find out where they are.

Mr. STEAGALL. I think we can locate them now, because you have mentioned the fact that in the very same communities there were banks borrowing and overextended while there would be others doing business in the same community that did not avail themselves of the privilege.

Mr. MEYER. But I did not understand you to say that those banks comprise one-third of all the member banks of the country.

Mr. STEAGALL. I do not say that the total of the third is made up of that kind.

The CAIRMAN. Allow me, in that connection, to suggest that you may find in some communities an old-established bank, which has on its directorate and associated with it men who represent the borrowings of that community. You may take a new bank that is located there that has none of those connections, and it has few if any borrowers in the local community and it is loaning money outside. It has not the demand the old bank has. The old bank may be rediscounting, yet there may be money from that community going outside.

Mr. WINGO. Here is what I want to get at: I am not thinking about these prosperous centers like that which Mr. Meyer suggested. Your activities have been confined largely to agricultural States, where are located the wheat, cotton, rice, and the cattle business, Out in that territory I do not know what part of it constitutes this one-third we were talking about. The statement has been made here repeatedly since 1921 that there were numerous banks—it was not just an isolated instance—member banks, who did not avail themselves at all of the rediscount privileges. Now, in your operations—in your taking care of this class of business out there, have you run across any fact or any viewpoint of those bankers that you can give to this committee to explain why it was in that time of stress and storm they did not come to this city of refuge for one single dollar?

Mr. MEYER. While I have not had occasion to study the situation from that point of view, personally I should doubt whether one-third of the member banks in the agricultural and livestock sections in which we operated, failed to borrow from the Federal reserve system at one time or another during the period of stress.

Mr. WINGO. I did not say one-third. I said there were numerous, not isolated, cases; and I think if you will look into the statistics you will find that is true.

Mr. MEYER. I have not investigated the facts to which you refer.

Mr. STEAGALL. Senator Glass has called attention to the fact that in Alabama were communities where it is well known those conditions existed.

Senator GLASS. Might not this well have been the case, that those banks felt that they had sufficient resources of their own to make all desirable loans, whereas other banks had not? That would explain the difference right away. Here is one bank in a given community and its resources are ample to take care of all loans which in the judgment of its board of directors should be made. A bank right across the street might be a weak bank with limited resources, and it would have to resort to the Federal reserve bank to enable it to make loans.

Mr. MEYER. Mr. Chairman, may I, in a general answer to Mr. Wingo's question, say this? In our work through 33 agencies, which are in charge of committees composed of representative local bankers in the different agricultural and livestock territories, I never discovered any failure on the part of the bankers to respond to a request from the War Finance Corporation. In fact, their cooperation with the corporation has been a very agreeable and remarkable demonstration of the willingness and readiness of bankers generally to cooperate in the public interest, whenever that public interest is presented to them fairly and squarely.

The CHAIRMAN. Are your committees made up of bankers?

Mr. MEYER. Yes; to a large extent. Let me illustrate: Before the corporation was authorized to make advances for agricultural purposes, and while I was not connected with the Government in any way, I came to Washington to attend the meeting of the American Bankers Association. That was in the fall of 1920, when cotton was in great distress, distress which perhaps was greater than that which affected any of our other important commodities. I suggested to the bankers from the South, who held a meeting to discuss the matter with me, that they should organize a bank under the Edge law to aid in relieving the cotton situation. And it is a very significant fact that, at a time when the cotton situation was at its worst, 1,400 banks in the South subscribed $7,000,000 to the capital of an Edge law bank. That institution has been extremely helpful and is now functioning with marked success, selling its acceptances without difficulty all over the United States and Canada.

Let me go further: About two weeks after the passage of the agricultural credits act of August 24, 1921, I made a trip through the West to confer with our local committees and to get an accurate picture of agricultural and livestock conditions. I pointed out to the bankers and business men in Utah, in Wyoming, in Montana, in Colorado, in Nebraska, and later in Texas, New Mexico, and Nevada, that some new livestock loan companies, with fresh capital, through which we could aid the livestock industry on a sound, safe, and business-like basis, were urgently needed; and in those territories where the distress was very great, where money was unbelievably scarce, and where confidence was exceedingly low, they subscribed to the capital of these companies an amount which, in the aggregate, exceeded the capital of all the loan companies in existence prior to October 1, 1921. In Fort Worth, for example, they provided $1,000,000, in Cheyenne, $1,000,000; in Denver, $500,000; in Oregon, $400,000; in Montana, $250,000; in Nebraska, $250,000; and in Salt Lake City, which at that time was as hard hit as any community in the whole country, because all the important industries upon which it depended—livestock, sugar beets, and mining—were, so to speak, down and out, they were the

first to organize a new company, with a capital of $250,000. The bankers did that, and I think they are entitled to fair recognition for their public-spirited attitude.

Mr. WINGO. Mr. Meyer, you seem to miss my point altogether. I was not criticizing bankers. I said I was assuming that all of them, with no larger percentage among them than any other profession or business, were responsive to every need.

Mr. MEYER. That is right.

Mr. WINGO. Yet, based upon that assumption, why was it that such a large number of them were willing to do what you said in the territory—and I suspect you will find every territory, and I should not be surprised if you will find some of the bankers you referred to who took part in these extraordinary organizations—their bank systems would show, and at least one of them in the very territory you referred to has boasted to one of the members of the board that his reserve was 40 per cent above that required, and he did not have a single cent of rediscount.

The point I am trying to get at is, why is it? Why did these men, anxious and willing to do everything that is proper to meet the situation in their community, so many of them would not avail themselves of the privilege? Did they think that the loans that were offered were not sound? Did they think the conditions of banks around them established by the Federal reserve banks were not fair or right or sound? Just what reason do they give for it? There ought to be a reason for it. It is either that they thought the loans offered to them were bad, and they did not need the rediscount or anything else. There was something in the rediscounting process they did not like, or something in the law or regulations. Just what was it. That is what I want to get at. I have heard a hundred and one different reasons given. I have heard so many people say everybody was passing the buck. I want to know what is the basis for it. Is there any remedy that Congress can give that will be consistent with the philosophy of the Federal reserve act and consistent with sound banking that we can do; or is the situation helpless and hopeless? In your investigation and your experience I thought you might be able to throw some light upon what is the reason for this failure.

Mr. MEYER. All I can say is that we have always succeeded in getting the cooperation of the bankers when we have asked for it. I do not know that we could have expected them, operating as they do in a limited territory, to conceive of the larger problems over the whole country. Of course, local jealousies here and there might prevent concerted action in some cases, whereas a request coming from the United States Government, with no local interests, would bring about united, harmonious, and public-spirited effort.

Senator GLASS. Mr. Meyer, do you not know perfectly well that there is a very large number of bankers, and always has been, which regard rediscounting as a weakness rather than an indication of strength?

Mr. MEYER. Under normal conditions I imagine that is so. But certainly, Senator, you know that, when you were Secretary of the Treasury and when the financial strain in 1919 was considerable, there was no general complaint on your part, as head of the coun-

try's finances, that the bankers would not cooperate when called upon to do so in the public interest. On the contrary, I think you found just what I found—that they were ready and willing to cooperate.

Senator GLASS. As a matter of fact, the available statistics show beyond any dispute that the bankers in most of the agricultural districts—I have in mind South Carolina—and I would like anybody to produce a single bank in South Carolina, member of the Federal reserve system, that did exceed its basic line all the way from 100 to 1,700 per cent with the Federal reserve system; and in your State of Alabama, with the exception of the strong, big banks in Birmingham and other populated centers, there was scarcely a bank in the State of Alabama that did not borrow away beyond this basic line from the Federal reserve bank. That was also the situation in North Carolina.

The CHAIRMAN. Mr. Meyer, just a moment, if you please. I have been very much interested in your statement regarding the relief furnished to banks in these distressed agricultural sections, and I know that the operations of the War Finance Corporation bear you out fully in that respect. It is indicated by your statement that banks in those sections did get relief indirectly through the Federal reserve system. Have you any information which indicates that the members of the Federal reserve banks, to whom those banks applied for loans, refused to grant rediscounts to them?

Mr. MEYER. There was at the time a certain pressure by the correspondent banks in the big cities for liquidation from the country banks that were borrowing from them, and I claim that if the nonmember banks, eligible for membership in the Federal reserve system, had had direct, rather than indirect, contact with the system, the pressure would have been lessened to a considerable extent.

The CHAIRMAN. That probably was evidenced through a higher rate of interest exacted from them, which made a correspondingly higher rate of interest to the borrowers. But has that experience convinced nonmember banks in those districts of the advisability of joining the Federal reserve system, or has it been through their indirect connections with the Federal reserve system that they can take care of the interests of their customers under stress conditions?

Mr. MEYER. Let us analyze the facts that controlled the situation two and a half years ago. I will use the State of South Dakota as an example. At that time the deposits in the State totaled $300,000,000, but within a year they had been drawn down to about $200,000,000. A certain seasonal liquidation of loans was going on through the shipment of grain and livestock to market in the normal course. But the decline in deposits was so rapid that a very large part of the withdrawals had to be borrowed, and, as a matter of fact, the War Finance Corporation made loans in South Dakota totaling nearly $15,000,000. Since then there has been further liquidation of commodities resulting from the natural processes of production and marketing, and operation of these processes, as you know, ordinarily brings about an increase in deposits in most of the agricultural States.

The CHAIRMAN. Does a careful analyses of the use to which loans made by you were put indicate that a large portion of that money was to liquidate loans through other banks?

Mr. MEYER. Some of it was so used: some of it was used to make new loans; some of it was even used to liquidate borrowings from the

Federal reserve banks; and the effect, of course, was to ease conditions generally. Senator Glass referred to the aggregate of our loans, and inquired about the total bank loans in the United States. Of course, our total loans seem very small in comparison with all the loans made by all the banks of the country. But when there is pressure, a very small percentage of the whole may, and ordinarily does, determine the entire situation with respect to prices and credit conditions. It is the empty house in the row that determines the rental level.

Mr. STRONG. That is certainly not true in Washington. [Laughter.]

Mr. MEYER. I was not referring to local conditions; I was talking about conditions in the agricultural territory.

Mr. STRONG. All right.

Mr. MEYER. There was a confused situation. There is no use disguising the fact that different bankers operate differently. Some are courageous and some naturally become frightened, just as some people in other lines of activity become frightened in times of difficulty and stress. It may have been fear that governed the actions of some bankers, and not the lack of intelligence. The emotional factor in a panicky situation controls the actions of a great many people.

The CHAIRMAN. I have been very much interested in your apparent ability to secure the cooperation of the State banks and trust companies that were not members of the Federal reserve system, and I wonder whether you have any practical suggestions to make to this committee as to how to get those banks to join the system, inasmuch as they are not cooperating now by joining the Federal reserve system.

Mr. MEYER. A question like that reminds me of the man who said to another: "Tell me how to play the piano." "I may know how to play the piano," replied the man to whom the request was addressed, "but——"

The CHAIRMAN (interposing). In this case you know how to play the piano.

Mr. WINGO. We have given a piano, and they do not use it. What is the use of giving out any more pianos?

Senator GLASS. In plain language you think it is largely a matter of administration rather than law?

Mr. MEYER. I do. I stated in my testimony before the Committee on Banking and Currency last January that it is primarily a matter of administration rather than of law.

Senator GLASS. Exactly.

Mr. STEAGALL. If you can point out anything that will help cure the difficulty we have in mind it will be appreciated. This committee first wants, according to the letter of our authority, increased membership in the Federal reserve system. That embraces the fundamental idea of an increasing use of the Federal reserve system. So we want any suggestions that will tend to induce the banks to join that are eligible, and likewise we would like to induce those who are members to use the system.

Mr. MEYER. If it were my job to increase the membership of the Federal reserve system, I would certainly meet the parties in interest and discuss it with them first.

Mr. STRONG. We have had a lot of propaganda against our meeting them.

Mr. MEYER. I would discuss the matter with the American Bankers' Association in the first place, and find out whether that association, as a national organization, is in favor of having the eligible nonmember banks which are well managed and in satisfactory condition become members of the system. I would get in touch with the State banking associations and the State banking departments of every State in which this situation is important, and I would canvass it thoroughly with them.

Mr. STRONG. That certainly would be a businesslike way to go at it; but we have had a lot of propaganda to prevent us from doing it.

Mr. MEYER. I say that those whose business it is to get the eligible nonmember banks into the system must come in direct contact with those who are able or unable, willing or unwilling, to bring it about.

Mr. STRONG. Amen!

Mr. MEYER. We have had very fine cooperation from the banking superintendents in most of the States. But we obtained that cooperation because we got in direct contact with them. With reference to getting the well-managed eligible nonmember banks into the Federal reserve system, I would ask for an expression of policy on the part of the American Bankers' Association, on the part of the State bankers' associations, on the part of the State banking superintendents, and I would also seek out and determine the attitude of large banks which are, to some extent at least, short circuiting the system and using its resources to establish a subsidiary and, I claim, inferior banking rediscount system for their country correspondents.

I have not considered it to be my duty to take that job upon myself, although I may do some things which are not strictly my business. But I have asked one or two of the large commercial banks, which rediscount on a large scale for eligible nonmember banks, where they stand on the proposition, and they have replied that, if the public interest demanded it, they would do all they could to induce their correspondents to become members of the Federal reserve system.

I sometimes think that we here in Washington make a mistake by failing to go out into the various sections and request that cooperation in the public interest which I claim the bankers and other large groups are ready to give when the matter is properly presented to them—properly explained and justified.

If you want an expression of opinion from me, that is all there is to it. When that is fully realized, we will not need to waste much time in discussing the matter.

I fell that, 9 times out of 10, the failure to obtain satisfactory cooperation is due to the failure to call upon, in the right way, the large number of patriotic and public-spirited people who are interested in the particular matter or situation involved. If the War Finance Corporation has succeeded, in reasonable measure, in its efforts to do what you gentlemen expect us to do, as some of you were good enough to suggest when I last appeared before you, it was because we went out and met the people interested and sought their cooperation. I am more than ever convinced that if the Government wants to accomplish something, it can best be accomplished

by seeking the cooperation of the people in interest, putting it right up to them, and discussing it to a finish.

Mr. STRONG. You are talking about the Federal Reserve Board or about Congress?

Mr. MEYER. Anybody whose responsibility it is. You have a committee here to find out how it can be done.

Mr. STRONG. Suppose we determined to start out, we would be immediately accused by the muckrakers of going off on a junket.

Mr. MEYER. If we had been influenced in our work by veiled innuendo, I do not think we would have accomplished very much.

Mr. STRONG. We are now sitting around here talking to men whose opinion we knew already.

Mr. MEYER. I have given my opinion, and I think you ought to know it by this time.

Mr. STRONG. Who do you mean ought to go out—this committee ought to go out or the Federal Reserve Board ought to go out?

Mr. MEYER. That is for you to decide. You are conducting an investigation.

Mr. STRONG. Do you really not mean the Federal Reserve Board?

Mr. MEYER. If you insist, I think it is the job of the Federal Reserve Board.

Mr. STRONG. You think it is the job of the Federal Reserve Board and of the officers of the Federal reserve banks in their respective districts?

Mr. MEYER. That is exactly what I mean.

Mr. WINGO. You think Congress having created these boards to represent the public in the only representation they legally have, we ought to sit around here and wait for them to do that?

Mr. MEYER. You can discuss that with them. You have the governor here. I suggest that, after you get through with me, you might ask him whose business it is.

Mr. WINGO. Who do you mean?

Mr. MEYER. The governor of the Federal Reserve Board.

Mr. WINGO. We had him here.

Mr. MEYER. He is here now. You can settle with him whose business it is. I claim that our experience justifies me in saying that the situation would be better now, as well as in the future, if the properly managed eligible banks were members of the Federal reserve system and were not compelled to rely upon indirect discounts through their correspondent member banks in the large cities.

Mr. WINGO. Will you please tell us what these member banks out yonder that this committee is not in touch with and have not got in here—what reasons they have given why they do not join the system?

Mr. MEYER. I shall have to ask you to excuse me on that question, as I do not consider that I am competent to give you a full analysis of the situation. I have been too busy with the work of the War Finance Corporation to conduct questionnaires on the subject.

Mr. WINGO. You are not competent to tell this committee? What reason have these country bankers given you?

Mr. MEYER. I have not conducted an inquiry on the matter.

Mr. WINGO. Do you mean to tell this committee no country banker has told you why he did not go into this in these agricultural States?

Mr. MEYER. I have not discussed it.

Mr. WINGO. I say, no country banker has ever volunteered to tell you in all your operations in the rice, cotton, and wheat belt why it is?

Mr. MEYER. I can not recall a single country banker with whom I have discussed the reason why he believed, or did not believe, that he should join the system.

Mr. WINGO. So there is absolutely nothing so far as the activities of this committee are concerned that you can throw some light on, is there?

Mr MEYER. I tried to throw a little light on the problem of how to bring about an increase in the membership of the Federal reserve system.

Mr. WINGO. About what?

Mr. MEYER. Additions to the membership by meeting the people directly concerned and interested.

Mr. WINGO. Who meeting?

Mr. MEYER. The Federal Reserve Board and the Federal reserve banks.

Mr. WINGO. But you know a majority of the Members of Congress feel that we have been created to investigate this, and the presumption is for such a committee to undertake to inquire into why things do not happen.

Mr. MEYER. That question verges on the functions of this committee, and I do not think it is within my province to determine what they should be. I think the matter is one for the committee to settle.

The CHAIRMAN. I might say, in that connection, that we have coming before the committee to-morrow the chairman of the advisory council of the Federal Reserve Board; and Tuesday next we have a committee representing the American Bankers' Association. We also have a committee representing the Reserve City Bankers' Association, which is an adjunct to the American Bankers' Association.

Mr. MEYER. They are, of course, representative organizations and should be able to give the committee some helpful information.

The CHAIRMAN. They are speaking for the banks on the different subjects embodied in this inquiry. A committee from the New England Federal reserve banks will be here; also the United States Chamber of Commerce, the Country Bankers' Association, and the National Credit Men's Association are each to be represented.

Mr. MEYER. You are getting in contact with very representative organizations.

The CHAIRMAN. And some of the farmers' organizations will present their views.

In addition to that, I assume there will be expressions—it has been indicated to me there will be—from some of the State bank associations, who will present their views on these different subjects.

So far as the committee on inquiry is concerned, it is a rather delicate task to extend invitations. This committee is ready to hear any person or group of bankers who will present information to them that will be helpful. It may be necessary before we are through, if we do not receive the information we desire and it is available, to go into some of the districts and get the information first hand.

Mr. MEYER. I have some statistics here which I think will be interesting to the committee: The average capital and surplus of the national banks, all of which are members of the Federal reserve system, is $285,000, while the average capital and surplus of the member State banks is $692,700. Now, it has frequently been made to appear that the eligible nonmember banks are a lot of small institutions of no great importance. But the figures for the average capital and surplus of the eligible nonmember banks—9,678 in all—indicate clearly that there is a large number of very substantial banks which could, with great advantage to the general strength of the system as well as to themselves and the communities they serve, be added to the membership. The average capital and surplus of the whole 9,678 is $125,000. I do not have the exact figures; but I imagine there are at least three or four thousand banks with an average capital and surplus equal to the average capital and surplus of the national banks—that is, $285,000—which would add to the strength of the system if they were members of it.

In the States where we have loaned large sums during the past two years there are unquestionably many banks which are well managed and in good condition and which are eligible for membership. In my statement before the House Committee on Banking and Currency last January I presented a series of tables regarding the national banks, the member State banks, the eligible nonmember banks, and the noneligible banks, and called attention particularly to the fact that in the six great Corn Belt States—Iowa, Illinois, Indiana, Missouri, Nebraska, and Ohio—there were 3,621 banks having a total capital and surplus of $315,000,000 and aggregate resources of $2,554,000,000 which were eligible for membership in the system but which had failed to join.

The tables to which I refer analyze the whole banking structure of the country from the point of view of membership or nonmembership in the Federal reserve system. So far as I was able to discover when the tables were prepared, some of the figures included in them had never been compiled or presented in the way in which they are set forth here. If you like, I would be glad to have the tables incorporated in the record of this hearing, because it does not seem to me that the question can be properly understood unless the facts regarding membership and nonmembership in the system are thoroughly considered.

Senator GLASS. Are they in that public document?

Mr. MEYER. They are available in the record of the hearings last January before the House Committee on Banking and Currency on agricultural credits; but they are buried away there, and a good many people who have never seen that document and who will never see it are going to read the report of your committee. I have no desire, however, to load down the record with unessential material; but I do want to say that the tables contain information about the banking structure of the country which, so far as I know, had not been published anywhere prior to last January. We spent six weeks in compiling and analyzing the figures, and I think they are very interesting.

(The tables referred to and submitted by Mr. Meyer are here printed in full, as follows:)

TABLE I.—*Consolidated statement showing, by States, number, capital and surplus, average capital, and resources of national banks, as of September 15, 1922; of State banks and trust companies, members of the Federal reserve system, as of June 30, 1922; and of State banks and trust companies eligible for membership in the Federal reserve system but which had not joined on June 30, 1922*

	Total member and eligible banks				National banks				Member State banks				Eligible nonmember State banks			
	Number	Capital and surplus (000 omitted)	Average capital	Resources (000 omitted)	Number	Capital and surplus (000 omitted)	Average capital	Resources (000 omitted)	Number	Capital and surplus (000 omitted)	Average capital	Resources (000 omitted)	Number	Capital and surplus (000 omitted)	Average capital	Resources (000 omitted)
Alabama	257	$35,026	$136,290	$232,883	107	$20,823	$194,610	$140,243	25	$5,582	$223,280	$49,959	125	$8,621	$68,970	$42,681
Arizona	64	9,012	140,810	79,911	22	2,884	131,090	29,165	4	1,145	286,250	10,695	38	4,983	131,130	40,051
Arkansas	280	29,311	104,680	199,301	85	10,916	128,420	77,516	37	7,152	193,300	55,060	158	11,243	71,160	66,725
California	651	229,668	352,790	2,507,484	281	99,475	354,000	985,809	48	64,785	1,349,690	857,441	322	65,408	203,130	664,234
Colorado	231	31,651	137,020	321,425	144	21,903	152,100	245,765	3	1,790	596,670	24,586	84	7,958	94,740	51,074
Connecticut	113	55,885	494,560	396,328	64	36,606	571,970	235,150	5	4,600	920,000	33,225	44	14,679	333,610	127,953
Delaware	37	11,751	317,590	79,599	18	3,102	172,330	20,111	4	3,955	988,750	27,905	15	4,694	312,930	31,583
District of Columbia	24	31,072	1,294,670	210,909	15	13,575	905,000	121,593	1	1,100	1,100,060	5,041	8	16,397	2,049,630	84,275
Florida	169	22,284	131,860	203,768	61	12,228	200,460	126,076	14	2,930	209,290	19,383	94	7,126	75,810	58,309
Georgia	451	69,423	153,930	394,035	99	27,236	275,110	173,381	82	20,269	247,180	108,223	270	21,918	81,180	112,431
Idaho	152	12,024	79,110	97,247	79	7,525	95,250	64,874	41	2,835	69,150	17,588	32	1,664	52,000	14,785
Illinois	1,627	369,674	227,210	3,465,310	501	159,390	318,140	1,505,871	89	101,190	1,136,970	1,050,412	1,037	109,094	105,200	909,027
Indiana	804	95,440	118,710	793,154	251	46,316	184,530	384,596	23	6,665	289,780	56,506	530	42,459	80,110	352,052
Iowa	1,199	107,213	89,420	918,197	351	41,365	117,850	362,747	108	13,675	126,620	118,609	740	52,173	70,500	436,841
Kansas	580	48,148	83,010	364,826	267	27,675	103,650	228,633	7	873	124,710	6,301	306	19,600	64,050	129,892
Kentucky	340	54,553	160,450	387,642	136	29,470	216,690	232,676	11	5,263	478,450	48,310	193	19,820	1026,90	106,656
Louisiana	183	46,653	254,930	414,914	34	13,948	410,240	116,403	16	18,338	1,146,130	170,914	133	14,367	108,020	137,597
Maine	105	19,609	186,750	225,105	60	11,931	198,850	117,488	3	1,825	608,330	26,705	42	5,853	139,360	80,912
Maryland	173	72,650	419,940	535,751	86	33,999	395,340	261,256	8	5,290	661,250	45,859	79	33,361	422,290	228,636
Massachusetts	248	199,832	805,770	1,796,108	158	121,891	771,460	1,035,307	30	55,590	1,853,000	563,819	60	22,351	372,520	196,982
Michigan	501	139,568	278,580	1,352,492	119	38,536	323,830	430,516	165	70,318	426,170	687,221	217	30,714	141,540	234,755
Minnesota	709	90,165	127,170	845,199	342	60,484	176,850	583,921	34	5,187	152,560	51,974	333	24,494	73,560	209,304
Mississippi	192	21,084	109,810	160,065	32	7,234	226,060	56,635	7	1,269	181,290	9,852	153	12,581	82,230	93,578
Missouri	631	145,686	230,880	1,210,535	134	61,393	458,160	562,469	43	42,741	993,980	373,378	454	41,552	91,520	274,688
Montana	293	24,092	82,230	184,121	131	11,889	90,760	95,094	58	5,826	100,450	44,190	104	6,377	61,320	44,337
Nebraska	627	49,214	78,490	424,722	182	27,293	149,960	247,331	15	830	55,330	7,017	430	21,091	49,050	170,374
Nevada	33	4,309	130,580	36,947	11	2,058	187,090	15,927					22	2,251	102,320	21,020
New Hampshire	65	10,787	165,950	80,900	56	9,656	172,430	65,740					9	1,131	125,670	15,160
New Jersey	363	118,316	325,940	1,303,667	228	57,825	253,620	622,922	45	30,066	668,130	331,631	90	30,425	338,060	349,114
New Mexico	100	8,216	82,160	61,905	45	4,967	110,380	41,536	6	411	68,500	3,333	49	2,838	57,920	17,036
New York	810	937,216	1,157,060	9,743,566	504	483,581	959,490	4,946,492	94	340,299	3,620,200	3,937,083	212	[1] 113,336	534,600	859,991
North Carolina	302	48,657	161,120	358,638	87	21,754	250,050	170,685	16	7,240	452,500	55,584	199	19,663	98,810	132,366

[1] Includes undivided profits.

TABLE I.—*Consolidated statement showing, by States, number, capital and surplus, average capital, and resources of national banks, as of September 15, 1922; of State banks and trust companies, members of the Federal reserve system, as of June 30, 1922; and of State banks and trust companies eligible for membership in the Federal reserve system but which had not joined on June 30, 1922*—Continued

	Total member and eligible banks				National banks				Member State banks				Eligible nonmember State banks			
	Number	Capital and surplus (000 omitted)	Average capital	Resources (000 omitted)	Number	Capital and surplus (000 omitted)	Average capital	Resources (000 omitted)	Number	Capital and surplus (000 omitted)	Average capital	Resources (000 omitted)	Number	Capital and surplus (000 omitted)	Average capital	Resources (000 omitted)
North Dakota	308	$16,021	$52,020	$138,793	183	$10,744	$58,710	$97,877	5	$203	$40,600	$1,456	120	$5,074	$42,280	$39,460
Ohio	889	253,110	284,710	2,159,016	372	111,479	299,670	884,322	87	92,454	1,062,690	863,625	430	49,177	114,370	411,069
Oklahoma	581	44,313	76,270	423,113	449	38,389	85,500	377,105	11	550	50,000	5,352	121	5,374	44,410	40,656
Oregon	197	28,640	145,380	265,464	97	18,178	187,400	173,855	36	5,079	141,080	53,909	64	5,383	84,110	37,700
Pennsylvania	1,357	635,726	468,480	4,132,724	867	316,523	365,080	2,466,734	65	130,488	2,007,510	625,094	425	188,715	444,040	1,040,896
Rhode Island	26	31,368	1,206,460	280,256	17	10,365	609,710	68,807	3	19,000	6,333,330	194,739	6	2,003	333,830	16,710
South Carolina	312	39,810	127,600	237,332	83	18,646	224,650	120,696	18	3,120	173,330	17,175	211	18,044	85,520	99,461
South Dakota	350	19,436	55,530	208,750	133	9,243	69,500	95,272	20	1,631	81,550	20,638	197	8,562	43,460	92,840
Tennessee	301	48,840	162,260	367,983	101	24,675	244,310	195,218	16	8,550	534,380	73,060	184	15,615	84,860	99,705
Texas	1,168	156,764	134,220	1,071,918	559	107,486	192,280	808,547	187	18,069	96,630	100,332	422	31,209	73,950	163,039
Utah	104	16,967	163,140	130,950	24	6,314	263,080	49,699	34	5,652	166,240	45,512	46	5,001	108,720	35,739
Vermont	77	11,707	152,040	106,159	49	7,872	160,650	56,079					28	3,835	136,960	50,080
Virginia	334	80,114	239,860	501,983	177	50,360	284,520	360,105	15	7,767	517,800	35,755	142	21,987	154,840	106,123
Washington	258	35,881	139,070	359,270	111	23,457	211,320	266,588	54	5,789	107,200	49,156	93	6,635	71,340	43,526
West Virginia	320	48,764	152,390	372,345	121	21,745	179,710	183,039	15	4,575	305,000	32,460	184	22,444	121,980	156,846
Wisconsin	574	74,290	129,430	710,305	155	37,736	243,460	352,295	36	9,320	258,890	108,537	383	27,234	71,110	249,473
Wyoming	91	8,780	96,480	73,506	47	5,898	125,490	56,693	4	281	70,250	1,478	40	2,601	65,030	15,335
Total, United States	19,561	4,698,720	240,210	40,926,521	8,235	2,348,088	285,130	20,916,859	1,648	1,141,567	692,700	11,026,082	9,678	1,209,115	124,930	8,983,580

TABLE II.—*National banks showing capital, surplus, and resources on September 15, 1922, classified by States*

	Number	Capital (000 omitted)	Surplus (000 omitted)	Resources (000 omitted)
Alabama	107	$12,890	$7,933	$140,243
Arizona	22	1,900	984	29,165
Arkansas	85	7,573	3,343	77,516
California	281	63,455	36,020	985,809
Colorado	144	12,375	9,528	245,765
Connecticut	64	21,607	14,999	235,150
Delaware	18	1,160	1,942	20,111
District of Columbia	15	7,677	5,898	121,593
Florida	61	7,695	4,533	126,076
Georgia	99	15,230	12,006	173,381
Idaho	79	5,340	2,185	64,874
Illinois	501	90,680	68,710	1,505,871
Indiana	251	30,712	15,604	384,596
Iowa	351	26,100	15,265	362,747
Kansas	267	17,923	9,752	228,633
Kentucky	136	16,691	12,779	232,676
Louisiana	34	8,700	5,248	116,403
Maine	60	7,245	4,686	117,488
Maryland	86	17,929	16,070	261,256
Massachusetts	158	63,693	58,198	1,035,307
Michigan	119	23,625	14,911	430,516
Minnesota	342	37,436	23,048	583,921
Mississippi	32	4,535	2,699	56,635
Missouri	134	42,775	18,618	562,469
Montana	131	7,990	3,899	95,094
Nebraska	182	17,245	10,048	247,331
Nevada	11	1,460	598	15,927
New Hampshire	56	5,365	4,291	65,740
New Jersey	228	29,762	28,063	622,922
New Mexico	45	3,210	1,757	41,536
New York	504	228,474	255,107	4,946,492
North Carolina	87	13,340	8,414	170,685
North Dakota	183	7,245	3,499	97,877
Ohio	372	65,425	46,054	884,322
Oklahoma	449	29,010	9,379	377,105
Oregon	97	12,364	5,814	173,855
Pennsylvania	867	136,988	179,535	2,466,734
Rhode Island	17	5,570	4,795	68,807
South Carolina	83	12,305	6,341	120,696
South Dakota	133	6,215	3,028	95,272
Tennessee	101	15,659	9,016	195,218
Texas	559	69,300	38,186	808,547
Utah	24	4,200	2,114	49,699
Vermont	49	5,410	2,462	56,079
Virginia	177	28,168	22,192	360,105
Washington	111	16,380	7,077	266,588
West Virginia	121	12,261	9,484	183,039
Wisconsin	155	24,885	12,851	352,295
Wyoming	47	3,195	2,703	56,693
Total, United States	8,235	1,306,372	1,041,666	20,916,859

TABLE III.—*State banks and trust companies members of the Federal reserve system on June 30, 1922, classified by States*

	Number	Capital (000 omitted)	Surplus (000 omitted)	Resource (000 omitted)
Alabama	25	$3,108	$2,474	$49,959
Arizona	4	838	307	10,695
Arkansas	37	5,334	1,818	55,060
California	48	46,972	17,813	857,441
Colorado	3	1,025	765	24,586
Connecticut	5	2,750	1,850	33,225
Delaware	4	2,150	1,805	27,905
District of Columbia	1	1,000	100	5,041
Florida	14	2,320	610	19,383
Georgia	82	12,036	8,233	108,223
Idaho	41	2,095	740	17,588
Illinois	89	53,075	48,115	1,050,412
Indiana	23	4,793	1,872	56,506
Iowa	108	9,171	4,504	118,609
Kansas	7	600	273	6,301
Kentucky	11	3,646	1,617	48,310
Louisiana	16	11,500	6,838	170,914
Maine	3	1,000	825	26,705
Maryland	8	2,980	2,310	45,859
Massachusetts	30	27,306	28,284	563,819
Michigan	165	37,658	32,660	687,221
Minnesota	34	3,550	1,637	51,974
Mississippi	7	800	469	9,852
Missouri	43	24,823	17,918	373,378
Montana	58	4,105	1,721	44,190
Nebraska	15	640	190	7,017
New Jersey	45	17,675	12,391	331,631
New Mexico	6	295	116	3,333
New York	94	168,630	171,669	3,937,083
North Carolina	16	5,050	2,190	55,584
North Dakota	5	175	28	1,456
Ohio	87	57,580	34,874	863,625
Oklahoma	11	465	85	5,352
Oregon	36	3,410	1,669	53,909
Pennsylvania	65	36,273	94,215	625,094
Rhode Island	3	8,000	11,000	194,739
South Carolina	18	1,988	1,132	17,175
South Dakota	20	1,355	276	20,638
Tennessee	16	5,850	2,700	73,060
Texas	187	12,732	5,337	100,332
Utah	34	3,855	1,797	45,512
Virginia	15	4,800	2,967	35,755
Washington	54	4,378	1,411	49,156
West Virginia	15	2,103	2,472	32,460
Wisconsin	36	5,657	3,663	108,537
Wyoming	4	215	66	1,478
Total, United States	1,648	605,761	535,806	11,026,082

TABLE IV.—*State banks and trust companies eligible for membership in the Federal reserve system, but which had not joined on June 30, 1922, classified by States*[1]

	Number	Capital (000 omitted)	Surplus (000 omitted)	Resources (000 omitted)
Alabama	125	$6,262	$2,359	$42,681
Arizona	38	3,296	1,687	40,051
Arkansas	158	7,918	3,325	66,725
California	322	45,661	19,747	664,234
Colorado	84	5,510	2,448	51,074
Connecticut	44	8,580	6,099	127,953
Delaware	15	3,297	1,397	31,583
District of Columbia	8	10,734	5,663	84,275
Florida	94	5,295	1,831	58,309
Georgia	270	15,346	6,572	112,431
Idaho	32	1,298	366	14,785
Illinois	1,037	77,204	31,890	909,027
Indiana	530	30,928	11,531	352,052
Iowa	740	36,375	15,798	436,841
Kansas	306	13,796	5,804	129,892
Kentucky	193	12,381	7,439	106,656
Louisiana	133	10,009	4,358	127,597
Maine	42	3,405	2,448	80,912
Maryland	79	17,172	16,189	228,636
Massachusetts	60	12,688	9,663	196,982
Michigan	217	20,503	10,211	234,755
Minnesota	333	17,937	6,557	209,304
Mississippi	153	8,721	3,860	93,578
Missouri	454	28,815	12,737	274,688
Montana	104	5,145	1,232	44,837
Nebraska	430	16,537	4,554	170,374
Nevada	22	1,716	535	21,020
New Hampshire	9	630	501	15,160
New Jersey	90	16,475	13,950	349,114
New Mexico	49	2,265	573	17,036
New York	212	46,908	[2] 66,428	859,991
North Carolina	199	14,096	5,567	132,369
North Dakota	120	3,945	1,129	39,460
Ohio	430	29,567	19,610	411,069
Oklahoma	121	4,532	842	40,656
Oregon	64	4,060	1,323	37,700
Pennsylvania	425	92,842	95,873	1,040,896
Rhode Island	6	1,175	828	16,710
South Carolina	211	12,598	5,446	99,461
South Dakota	197	6,710	1,852	92,840
Tennessee	184	11,507	4,108	99,705
Texas	422	24,656	6,553	163,039
Utah	46	3,396	1,605	35,739
Vermont	28	2,051	1,784	50,080
Virginia	142	14,663	7,324	106,123
Washington	93	5,444	1,191	43,526
West Virginia	184	14,137	8,307	156,846
Wisconsin	383	20,594	6,640	249,473
Wyoming	40	1,915	686	15,335
Total, United States	9,678	760,695	448,420	8,983,580

[1] Eligibility is based on capital stock requirements. List does not include mutual savings banks without capital stock and private banks which are not eligible for membership in Federal reserve system.
[2] Includes undivided profits.

TABLE V.—*Consolidated statement showing State banks and trust companies not eligible for admission to the Federal reserve system under existing law* [1]

[Compiled from July, 1922, Rand-McNally Bank Directory]

	Number	Paid-up capital	Surplus and profits	Deposits	Resources
Alabama	85	$1,440,300	$852,110	$9,405,640	$11,744,410
Arizona	14	355,370	171,920	2,615,450	3,356,890
Arkansas	205	3,156,825	1,457,780	20,546,760	26,026,710
California	39	3,070,000	2,387,260	32,755,130	37,069,080
Colorado	146	3,911,500	2,191,100	37,022,810	42,598,180
Connecticut	34	3,088,700	3,214,330	38,962,670	45,906,110
Delaware	2	36,000	23,300	264,650	318,880
District of Columbia	28	2,683,156	1,546,160	27,042,340	31,068,890
Florida	104	2,575,000	1,114,890	29,919,275	32,749,860
Georgia	221	5,164,666	3,233,550	26,892,520	37,872,855
Idaho	48	874,500	441,560	7,222,330	8,690,810
Illinois	305	20,160,550	8,383,740	167,654,670	195,327,530
Indiana	258	9,479,037	5,138,010	101,150,960	118,651,750
Iowa	571	11,952,000	8,260,500	149,844,610	174,721,500
Kansas	762	12,421,000	10,730,730	132,832,432	153,015,730
Kentucky	257	5,489,200	4,924,650	59,002,330	68,791,570
Louisiana	81	1,529,800	1,294,600	14,917,260	18,088,280
Maine	10	720,400	1,088,000	17,138,240	19,707,060
Maryland	60	1,988,725	2,561,910	39,093,020	43,785,860
Massachusetts	27	3,490,000	3,241,930	67,166,850	72,906,620
Michigan	266	5,232,475	3,204,480	62,123,850	70,934,420
Minnesota	787	14,137,000	7,587,110	172,896,020	193,584,410
Mississippi	135	2,560,600	2,198,540	34,024,000	38,732,460
Missouri	1,016	20,365,400	15,487,990	196,700,380	238,469,170
Montana	101	2,075,000	715,380	10,077,960	13,982,370
Nebraska	542	10,478,100	4,856,250	100,435,540	114,773,150
Nevada	1	20,000	7,200	68,070	97,950
New Hampshire	6	350,000	347,900	2,002,480	2,775,620
New Jersey	44	5,614,000	7,457,910	109,285,480	122,894,290
New Mexico	9	315,000	143,740	1,889,260	2,333,540
New York	66	5,484,250	5,389,390	75,914,820	87,560,280
North Carolina	277	4,165,326	3,450,550	49,201,070	58,455,215
North Dakota	542	7,114,500	3,645,700	67,608,810	84,931,880
Ohio	204	9,999,320	8,603,353	139,971,140	157,122,750
Oklahoma	347	5,086,650	1,735,860	51,128,690	57,163,840
Oregon	79	1,794,500	644,510	17,361,160	19,498,870
Pennsylvania	186	18,718,257	25,081,920	255,891,870	301,617,610
Rhode Island	4	405,200	362,070	5,945,420	6,736,430
South Carolina	135	2,998,838	2,122,830	32,797,220	39,528,650
South Dakota	344	4,925,200	3,254,030	61,201,105	71,295,470
Tennessee	271	5,493,690	3,373,660	56,227,120	65,935,930
Texas	420	9,559,148	4,292,190	55,665,000	68,749,560
Utah	18	606,930	228,180	3,821,210	5,413,170
Vermont	10	440,000	901,920	14,677,100	16,257,330
Virginia	171	4,555,629	3,584,610	38,422,480	48,213,040
Washington	133	2,891,000	1,585,050	35,042,010	38,998,800
West Virginia	29	2,308,460	1,771,590	24,594,070	28,683,780
Wisconsin	422	9,022,550	4,725,760	112,964,420	128,688,325
Wyoming	57	905,000	648,000	9,132,030	10,583,340
Total, United States	9,879	251,128,752	179,665,703	2,778,519,732	3,236,410,225

[1] This statement does not include 167 banks, having an aggregate capital of $6,430,360, for which information regarding surplus and profits, deposits, and resources is not given in the Rand-McNally Bank Directory; nor does it include 623 banks, mostly mutual savings banks, having surplus and profits aggregating $554,910,458, deposits aggregating $5,588,071,855, and resources aggregating $6,072,648,160, for which no capital is shown in the directory.

TABLE VI.—*State banks and trust companies located in places the population of which exceeds 50,000 inhabitants and which do not possess a capital of at least $250,000* [1]

[Compiled from July, 1922, Rand-McNally Bank Directory]

	Number	Paid-up capital	Surplus and profits	Deposits	Resources
Alabama	2	$150,000	$14,050	$493,440	$697,160
Arkansas	2	300,000	65,050	1,475,930	1,849,010
California	16	2,007,000	1,563,180	20,880,970	23,642,130
Colorado	11	1,900,000	742,070	18,490,920	21,113,360
Connecticut	17	2,229,000	2,610,200	29,458,220	34,543,860
District of Columbia	28	2,683,156	1,546,160	27,042,340	31,068,890
Florida	6	700,000	225,430	6,046,840	6,899,990
Georgia	20	1,388,350	656,540	5,441,880	8,454,040
Illinois	103	15,323,550	6,123,120	123,324,070	144,660,870
Indiana	51	4,582,267	2,524,530	50,384,870	58,796,970
Iowa	36	2,523,000	1,747,300	34,807,200	41,560,260
Kansas	26	1,035,000	790,510	16,457,010	18,440,580
Kentucky	9	920,000	720,010	11,450,180	13,161,530
Maine	2	300,000	260,570	3,176,390	3,910,260
Maryland	11	1,130,225	1,135,690	21,588,620	23,750,970
Massachusetts	19	3,115,000	2,901,970	61,349,430	66,379,150
Michigan	5	300,000	249,280	5,115,830	5,663,250
Minnesota	65	3,430,000	1,854,600	45,120,550	49,489,990
Missouri	63	6,235,000	3,550,810	66,856,230	77,747,860
Nebraska	18	1,785,300	694,620	17,082,440	19,507,570
New Hampshire	3	225,000	269,580	330,970	927,550
New Jersey	38	5,350,000	7,132,000	105,366,010	118,359,030
New York	48	5,136,500	4,755,630	68,029,170	78,975,120
Ohio	55	6,202,700	5,215,750	85,315,660	97,934,810
Oklahoma	2	45,000	13,960	622,300	686,880
Oregon	10	715,000	146,930	6,591,700	7,451,210
Pennsylvania	138	16,609,137	21,780,350	220,121,390	260,585,630
Rhode Island	3	355,200	263,810	4,031,880	4,724,630
South Carolina	11	972,318	896,440	15,745,200	18,147,140
Tennessee	23	1,944,432	1,336,740	30,801,500	35,040,930
Texas	25	2,790,430	1,087,610	19,658,560	24,307,350
Utah	2	227,000	29,730	319,050	1,382,690
Virginia	20	2,149,069	1,762,440	17,032,870	22,165,680
Washington	16	972,000	679,130	12,668,060	14,340,760
West Virginia	12	1,625,000	1,011,340	14,747,620	17,435,640
Wisconsin	23	2,190,000	1,068,930	26,363,790	29,476,510
Total, United States	939	99,545,634	77,426,060	1,193,789,090	1,383,279,260

[1] This statement does not include 39 banks having an aggregate capital of $4,010,120 for which information regarding surplus and profits, deposits, and resources is not given in the Rand-McNally Directory, nor does it include 235 banks, mostly mutual savings banks, having surplus and profits aggregating $443,019,278, deposits aggregating $4,406,944,420, and resources aggregating $4,769,635,860, for which no capital is shown in the directory.

TABLE VII.—*State banks and trust companies located in places having a population of from 6,000 to 50,000 inhabitants and which do not possess a capital of at least $100,000* [1]

[Compiled from July, 1922, Rand-McNally Bank Directory]

	Number	Paid-up capital	Surplus and profits	Deposits	Resources
Alabama	3	$135,000	$87,620	$1,332,160	$1,537,130
Arizona	2	120,000	10,660	646,570	854,310
Arkansas	8	385,000	158,480	3,008,820	3,465,090
California	13	790,000	486,390	8,747,900	9,859,440
Colorado	8	370,000	486,240	5,654,020	6,446,770
Connecticut	14	704,700	474,130	8,416,710	10,686,940
Florida	9	440,000	263,000	9,089,210	9,742,140
Georgia	20	898,246	927,060	6,759,060	9,058,570
Idaho	4	197,000	124,420	1,233,420	1,575,820
Illinois	51	2,545,000	1,652,310	29,563,920	33,477,700
Indiana	55	2,725,920	1,449,330	27,432,290	33,215,520
Iowa	45	2,135,000	1,536,240	29,452,840	33,796,160
Kansas	50	2,185,000	1,730,160	24,887,180	27,818,850
Kentucky	19	811,000	879,790	10,949,730	12,578,970
Louisiana	7	370,000	385,440	5,168,280	5,935,250
Maine	7	395,400	771,280	13,541,560	15,294,840
Maryland	5	200,000	208,940	3,233,030	3,594,650
Massachusetts	8	375,000	339,960	5,817,420	6,527,470
Michigan	12	550,000	459,760	8,105,510	9,362,420
Minnesota	43	1,885,000	990,620	20,634,400	23,198,450
Mississippi	17	805,000	805,190	12,969,410	14,743,490
Missouri	49	2,070,000	1,360,070	21,248,570	25,340,630
Montana	4	125,000	18,930	599,670	755,340
Nebraska	26	1,148,000	313,280	10,416,350	11,496,120
New Hampshire	3	125,000	78,320	1,671,510	1,848,070
New Jersey	4	200,000	255,910	2,867,730	3,456,400
New Mexico	3	150,000	43,850	995,630	1,192,560
New York	8	175,950	349,410	3,320,690	3,675,790
North Carolina	30	960,729	1,050,540	12,517,610	14,392,075
North Dakota	6	260,000	38,540	1,871,500	2,224,170
Ohio	43	2,143,100	1,892,873	29,965,220	31,956,820
Oklahoma	19	765,000	199,160	9,592,700	10,328,650
Oregon	2	100,000	50,180	1,670,040	1,792,390
Pennsylvania	40	1,932,800	3,111,800	33,404,980	38,279,100
Rhode Island	1	50,000	98,260	1,913,540	2,011,800
South Carolina	11	342,525	178,500	3,717,650	4,293,490
South Dakota	9	410,000	193,710	5,193,960	6,128,000
Tennessee	8	279,200	260,000	2,262,980	2,913,920
Texas	22	1,204,220	315,240	7,531,760	9,136,020
Utah	2	51,600	25,720	394,150	467,890
Vermont	7	350,000	747,550	12,431,550	13,741,380
Virginia	8	314,960	110,900	1,742,460	2,119,500
Washington	10	425,000	275,920	6,676,530	7,088,310
West Virginia	11	531,460	612,080	7,075,490	8,264,190
Wisconsin	37	1,707,500	1,028,820	21,858,250	25,212,555
Wyoming	5	260,000	245,690	3,573,640	4,059,940
Total, United States	768	35,204,310	27,082,273	441,157,600	504,345,090

[1] This statement does not include 21 banks, having an aggregate capital of $971,040, for which information regarding surplus and profits, deposits and resources is not given in the Rand-McNally Bank Directory; nor does it include 218 banks, mostly mutual savings banks, having surplus and profits aggregating $86,044,610, deposits aggregating $929,223,470, and resources aggregating $1,025,539,860, for which no capital is shown in the directory.

TABLE VIII.—*State banks and trust companies located in places having a population of from 3,000 to 6,000 inhabitants and which do not possess a capital of at least $50,000* [1]

[Compiled from July, 1922, Rand-McNally Bank Directory]

	Number	Paid-up capital	Surplus and profits	Deposits	Resources
Alabama	3	$80,000	$56,540	$716,940	$764,270
Arizona	5	135,000	128,700	1,479,780	1,725,740
Arkansas	6	150,000	47,830	1,179,540	1,277,730
California	10	273,000	337,690	3,126,260	3,567,510
Colorado	4	105,000	39,780	935,500	1,063,730
Connecticut	3	75,000	130,000	1,087,740	1,275,210
Florida	4	110,000	38,700	1,887,615	2,038,050
Georgia	6	178,000	116,350	986,830	1,380,890
Idaho	4	130,000	79,910	1,041,780	1,453,590
Illinois	8	235,000	151,700	3,293,420	3,638,950
Indiana	22	616,500	335,340	7,034,410	8,034,130
Iowa	35	906,000	658,530	13,578,200	14,837,160
Kansas	25	730,000	668,860	8,664,830	10,002,120
Kentucky	6	152,500	149,850	1,241,800	1,689,950
Louisiana	4	125,000	214,150	1,901,520	2,226,290
Maine	1	25,000	56,150	420,290	501,960
Maryland	7	160,000	223,340	3,051,440	3,325,530
Michigan	10	320,000	241,340	4,566,850	5,135,770
Minnesota	10	250,000	121,470	3,284,560	3,710,920
Mississippi	8	230,000	226,690	3,840,250	4,210,310
Missouri	29	730,000	650,110	8,603,720	10,099,600
Montana	1	30,000	27,000	200,000	251,890
Nebraska	10	272,000	96,970	2,188,670	2,516,200
New Jersey	2	64,000	70,000	1,051,740	1,078,860
New Mexico	6	165,000	99,890	893,630	1,140,980
New York	4	105,000	220,310	3,561,720	3,764,990
North Carolina	11	291,300	120,370	3,057,590	3,439,310
North Dakota	4	115,000	48,410	493,630	699,910
Ohio	17	947,500	443,080	8,498,960	9,209,680
Oklahoma	15	380,000	140,470	5,494,000	5,817,960
Oregon	2	70,000	58,960	172,150	227,980
Pennsylvania	4	122,500	77,200	1,339,000	1,557,450
South Carolina	10	229,200	114,560	2,461,630	3,029,420
South Dakota	3	80,000	50,580	1,316,870	1,370,700
Tennessee	11	312,500	119,890	2,094,410	2,583,150
Texas	10	280,000	202,300	3,411,290	3,899,700
Utah	7	185,000	104,350	2,027,840	2,239,320
Vermont	3	90,000	154,370	2,245,550	2,515,950
Virginia	2	80,000	81,760	1,267,510	1,440,330
Washington	7	175,000	124,630	2,991,030	3,316,320
West Virginia	6	152,000	148,170	2,770,960	2,983,950
Wisconsin	18	508,000	321,860	7,681,080	8,830,780
Total United States	363	9,920,000	7,498,160	127,142,535	143,874,340

[1] This statement does not include 9 banks, having an aggregate capital of $171,000, for which information regarding surplus and profits, deposits and resources is not given in the Rand-McNally Bank Directory; nor does it include 70 banks, mostly mutual savings banks, having surplus and profit aggregating $14,338,480, deposits aggregating $142,875,120, and resources aggregating $156,995,980, for which no capital is shown in the directory.

TABLE IX.—*State banks and trust companies located in places the population of which does not exceed 3,000 inhabitants and which do not possess a capital of at least $25,000*[1]

[Compiled from July, 1922, Rand-McNally Bank Directory]

	Number	Paid-up capital	Surplus and profits	Deposits	Resources
Alabama	77	$1,075,300	$693,900	$6,863,100	$8,745,850
Arizona	7	100,370	32,560	489,100	776,840
Arkansas	189	2,321,825	1,186,420	14,882,470	19,434,880
Colorado	123	1,536,500	923,010	11,942,370	13,974,320
Delaware	2	36,000	23,300	264,650	318,880
Florida	85	1,325,000	587,760	12,895,610	14,069,680
Georgia	175	2,700,070	1,533,600	13,704,750	18,979,355
Idaho	40	547,500	237,230	4,947,130	5,661,400
Illinois	143	2,057,000	456,610	11,473,260	13,550,010
Indiana	130	1,554,350	828,810	16,299,390	18,605,130
Iowa	455	6,388,000	4,318,430	72,006,370	84,527,920
Kansas	661	8,471,000	7,541,200	82,823,412	96,754,180
Kentucky	223	3,605,700	3,175,000	35,360,620	41,361,120
Louisiana	70	1,034,800	695,010	7,847,460	9,926,740
Maryland	37	498,500	993,940	11,219,930	13,114,710
Michigan	239	4,062,475	2,254,100	44,335,660	50,772,980
Minnesota	669	8,572,000	4,620,420	103,856,510	117,185,050
Mississippi	110	1,525,600	1,166,660	17,214,340	19,778,660
Missouri	875	11,330,400	9,927,000	99,991,860	125,281,080
Montana	96	1,920,000	669,450	9,278,290	12,975,140
Nebraska	488	7,272,800	3,751,380	70,748,080	81,253,260
Nevada	1	20,000	7,200	68,070	97,950
New York	6	66,800	64,040	1,003,240	1,144,380
North Carolina	236	2,913,297	2,279,640	33,625,870	40,623,830
North Dakota	532	6,739,500	3,558,750	65,243,680	82,007,800
Ohio	89	1,156,020	1,051,650	16,191,300	18,021,440
Oklahoma	311	3,896,650	1,382,270	35,419,690	40,330,350
Oregon	65	909,500	388,440	8,927,270	10,027,290
Pennsylvania	4	53,820	112,570	1,026,500	1,195,430
South Carolina	103	1,454,795	933,330	10,872,740	14,058,600
South Dakota	332	4,435,200	3,009,740	54,690,275	63,796,770
Tennessee	229	2,857,558	1,657,030	21,068,230	25,397,930
Texas	363	5,284,498	2,687,040	25,063,390	31,406,490
Utah	7	143,330	68,380	1,080,170	1,323,270
Virginia	141	2,011,600	1,629,510	18,379,640	22,487,530
Washington	100	1,319,000	505,370	12,706,390	14,253,410
Wisconsin	344	4,617,050	2,306,150	57,061,300	65,168,480
Wyoming	52	645,000	402,310	5,558,390	6,523,400
Total, United States	7,809	106,458,808	67,659,210	1,016,430,507	1,204,911,535

[1] This statement does not include 98 banks, having an aggregate capital of $1,278,200, for which information regarding surplus and profits, deposits and resources is not given in the Rand-McNally Bank Directory, nor does it include 100 banks, mostly mutual savings banks, having surplus and profits aggregating $11,508,090, deposits aggregating $109,028,845, and resources aggregating $120,476,460, for which no capital is shown in the directory.

TABLE X.—*State banks and trust companies located in places having a population of from 3,000 to 6,900 inhabitants and which do not possess a capital of at least $30,000* [1]

[Compiled from July, 1922, Rand-McNally Bank Directory]

	Number	Paid-up capital	Surplus and profits	Deposits	Resources
Alabama	2	$50,000	$33,590	$534,660	$564,550
Arizona	3	65,000	53,260	1,019,780	1,160,240
Arkansas	2	30,000	13,660	301,290	329,950
California	8	200,000	282,930	2,086,880	2,482,630
Colorado	2	45,000	7,500	235,000	293,460
Connecticut	3	75,000	130,000	1,087,740	1,275,310
Florida	2	50,000	15,100	672,615	751,700
Georgia	3	65,000	82,000	400,500	736,780
Idaho	2	50,000	30,550	432,280	509,660
Illinois	5	125,000	72,190	1,720,540	1,869,280
Indiana	13	296,500	224,450	4,407,900	4,962,800
Iowa	24	545,000	408,060	8,264,250	9,119,580
Kansas	13	320,000	344,530	4,851,220	5,468,320
Kentucky	5	115,000	71,460	881,800	1,189,950
Louisiana	1	25,000	71,040	459,460	556,500
Maine	1	25,000	56,150	420,290	501,960
Maryland	7	160,000	223,340	3,051,440	3,325,530
Michigan	5	125,000	103,240	1,662,160	1,884,170
Minnesota	10	250,000	121,470	3,284,560	3,710,920
Mississippi	5	115,000	91,530	1,596,090	1,868,940
Missouri	19	365,000	391,950	5,662,210	6,448,140
Nebraska	6	127,000	28,170	683,140	841,720
New Jersey	2	64,000	70,000	1,051,740	1,078,860
New Mexico	4	100,000	87,270	574,040	756,780
New York	3	75,000	146,060	2,843,320	2,925,100
North Carolina	8	186,300	83,460	1,984,300	2,138,940
North Dakota	2	40,000	29,320	175,150	284,470
Ohio	12	300,000	283,710	4,950,000	5,374,340
Oklahoma	12	275,000	119,820	4,259,750	4,509,180
Oregon	1	25,000	6,960	172,150	194,980
Pennsylvania	2	50,000	63,050	1,075,220	1,195,280
South Carolina	8	159,200	70,400	1,246,760	1,617,130
South Dakota	2	50,000	45,000	1,102,000	1,104,000
Tennessee	7	162,500	83,550	1,263,990	1,529,650
Texas	6	150,000	87,170	1,531,790	1,836,570
Utah	4	90,000	38,290	950,140	1,089,210
Vermont	2	50,000	129,370	1,595,550	1,865,950
Washington	6	140,000	114,630	2,741,030	2,991,320
West Virginia	6	152,000	148,170	2,770,960	2,983,950
Wisconsin	10	220,500	182,720	3,453,830	3,897,000
Total, United States	238	5,513,000	4,645,120	77,457,525	87,224,800

[1] This statement does not include 9 banks, having an aggregate capital of $171,000, for which no information regarding surplus and profits, deposits, and resources is given in the Rand-McNally Bank Directory; nor does it include any of the banks, referred to in the note under Tables V and VIII, for which no capital is shown in the directory.

TABLE XI.—*State banks and trust companies located in places the population of which does not exceed 3,000 inhabitants and which do not possess a capital of at least $15,000*[1]

[Compiled from July, 1922, Rand-McNally Bank Directory]

	Number	Paid-up capital	Surplus and profits	Deposits	Resources
Alabama	30	$309,700	$231,040	$2,367,340	$2,946,790
Arizona	1	10,000	2,780	13,790	26,570
Arkansas	125	1,209,675	620,390	7,841,570	10,116,020
Colorado	75	760,500	531,850	6,317,570	7,428,700
Georgia	6	48,750	18,850	128,020	188,520
Idaho	19	192,500	96,410	1,935,650	2,227,960
Illinois	42	413,000	101,990	2,513,360	3,032,750
Indiana	98	1,015,500	578,690	11,502,460	13,087,940
Iowa	211	2,138,000	1,592,280	26,520,580	30,204,500
Kansas	407	4,145,500	4,382,750	44,215,010	51,486,190
Kentucky	2	20,500	21,290	91,330	129,300
Louisiana	21	219,440	206,060	2,303,960	2,796,540
Maryland	21	212,500	531,360	5,117,000	6,199,840
Michigan	55	434,695	283,170	6,471,220	6,506,510
Minnesota	416	4,251,000	2,479,690	51,834,470	58,253,480
Mississippi	53	558,700	327,400	6,031,960	7,072,870
Missouri	565	5,737,000	5,696,920	52,750,000	66,396,660
Nebraska	173	1,728,300	1,352,570	19,687,850	22,466,850
New York	4	31,800	39,140	685,240	861,480
North Carolina	156	1,461,900	1,311,000	18,156,240	21,792,560
North Dakota	317	3,186,500	2,335,160	36,922,520	45,834,620
Ohio	62	669,850	608,450	10,815,420	12,082,420
Oklahoma	190	1,885,650	778,400	17,303,020	19,735,940
Oregon	20	203,500	140,500	3,360,290	3,508,880
Pennsylvania	1	1,000	11,900	207,370	220,270
South Carolina	47	444,560	311,700	4,028,400	5,186,460
South Dakota	140	1,282,200	1,686,820	21,490,805	24,944,770
Tennessee	147	1,452,238	936,810	12,033,750	14,293,680
Texas	154	1,585,298	943,920	7,421,280	9,755,570
Virginia	67	701,950	643,540	7,320,770	8,993,530
Washington	47	479,000	206,630	5,523,470	6,214,510
Wisconsin	186	1,895,500	1,023,360	23,210,000	26,935,560
Wyoming	37	370,000	300,340	3,618,160	4,264,020
Total, United States	3,895	39,087,206	30,333,160	419,739,875	495,191,360

[1] This statement does not include 50 banks having an aggregate capital of $485,500, for which no information regarding surplus and profits, deposits and resources is given in the Rand-McNally Bank Directory; nor does it include any of the banks referred to in the note under Tables V and IX, for which no capital is shown in the directory.

TABLE XII.—*State banks and trust companies which are not eligible for admission to the Federal reserve system under existing law but which would be eligible under the Capper-McFadden agricultural credits bill (S. 4280)*[1]

[Compiled from July, 1922, Rand-McNally Bank Directory]

	Number	Paid-up capital	Surplus and profits	Deposits	Resources
Alabama	48	$795,600	$485,810	$4,678,040	$5,998,780
Arizona	8	160,370	105,220	935,310	1,315,770
Arkansas	68	1,232,150	600,200	7,919,150	10,266,640
California	2	73,000	54,760	1,039,380	1,084,880
Colorado	50	836,000	423,440	6,325,300	7,315,890
Delaware	2	36,000	23,300	264,650	318,880
Florida	87	1,385,000	611,360	14,110,610	15,356,030
Georgia	172	2,764,320	1,549,100	14,163,060	19,434,945
Idaho	23	435,000	190,180	3,620,980	4,377,370
Illinois	104	1,724,000	434,130	10 532,780	12,286,930
Indiana	41	858,850	361,010	7.423,440	8,588,520
Iowa	255	4,611,000	2,976,620	50,799,740	60,041,000
Kansas	266	4,735,500	3,482,780	42,422,012	49,801,790
Kentucky	222	3,622,700	3,232,100	35,629.290	41,731,820
Louisiana	52	915,360	632,060	6,985,560	8,799,990
Maryland	16	286,000	462,580	6,102,930	6,914,870
Michigan	189	3,822,780	2,109,030	40,769,130	47,518,070
Minnesota	253	4,321,000	2,140,730	52,022,040	58,931,570
Mississippi	60	1,081,900	974,420	13,426,540	15,047,160
Missouri	320	5,958,400	4,488,240	50,183,370	62,535,880
Montana	97	1,950,000	696,450	9,478,290	13,227,030
Nebraska	319	5,689,500	2,467,610	52,565,760	60,460,890
Nevada	1	20,000	7,200	68,070	97,950
New Mexico	2	65,000	12,620	319,590	384,200
New York	3	65,000	99,150	1,036,400	1,122,790
North Carolina	83	1,556,397	1,005,550	16,542,920	20,131,640
North Dakota	217	3,628,000	1,242,680	28,639,640	36,588,620
Ohio	32	683,670	602,570	8,924,840	9,774,360
Oklahoma	124	2,116,000	624,520	19,350,920	21,904,090
Oregon	46	751,000	299,940	5,566,980	6,551,410
Pennsylvania	5	125,320	114,820	1,082,910	1,337,330
South Carolina	58	1,080,235	665,790	8,059,210	10,284,430
South Dakota	193	3,183,000	1,328,500	33,414,340	39,118,700
Tennessee	86	1,554,320	756,560	9,864,900	12,157,750
Texas	213	3,829,200	1,858,250	19,521,610	23,714,050
Utah	10	238,330	134,440	2,157,870	2,473,380
Vermont	1	40,000	25,000	650,000	650,000
Virginia	76	1,389,650	1,067,750	12,326,380	14,934,330
Washington	54	875,000	308,740	7,432,920	8,363,900
Wisconsin	166	3,009,050	1,421,930	38,078,550	43,166,700
Wyoming	15	275,000	101,970	1,940,230	2,259,380
Total	4,039	71,778,602	40,179,090	646,375,642	766,369,715

[1] This statement does not include any of the banks referred to in the note under Table V.

TABLE XIII.—*State banks and trust companies which are not eligible for admission to the Federal reserve system under existing law and which would not be eligible under the terms of the Capper-McFadden agricutural credits bill (S. 4280)*[1]

[Compiled from July, 1922, Rand-McNally Bank Directory]

	Number	Paid-up capital	Surplus and profits	Deposits	Resources
Alabama	57	$644,700	$366,300	$4,727,600	$5,745,630
Arizona	6	195,000	66,700	1,680,140	2,041,120
Arkansas	137	1,924,675	857,580	12,627,610	15,760,070
California	37	2,997,000	2,332,500	31,715,750	35,984,200
Colorado	96	3,075,500	1,767,660	30,697,510	35,282,290
Connecticut	34	3,008,700	3,214,330	38,962,670	45,906,110
District of Columbia	28	2,683,156	1,546,160	27,042,340	31,068,890
Florida	17	1,190,000	503,530	15,808,665	17,393,830
Georgia	49	2,400,346	1,684,450	12,729,460	18,437,910
Idaho	25	439,500	251,380	3,601,350	4,313,400
Illinois	201	18,436,550	7,949,610	157,121,890	183,040,600
Indiana	217	8,620,187	4,777,000	93,727,520	110,063,230
Iowa	316	7,341,000	5,283,880	99,044,870	114,680,500
Kansas	496	7,685,500	7,247,950	90,410,420	103,213,940
Kentucky	35	1,886,500	1,692,550	23,373,040	27,059,750
Louisiana	29	614,440	662,540	7,931,700	9,288,290
Maine	10	720,400	1,088,000	17,138,240	19,707,060
Maryland	44	1,702,725	2,099,330	32,990,090	36,870,990
Massachusetts	27	3,490,000	3,241,930	67,166,850	72,906,620
Michigan	77	1,409,695	1,095,450	21,354,720	23,416,350
Minnesota	534	9,816,000	5,446,380	120,873,980	134,652,840
Mississippi	75	1,478,700	1,224,120	20,597,460	23,685,300
Missouri	696	14,407,000	10,999,750	146,517,010	175,933,290
Montana	4	125,000	18,930	599,670	755,340
Nebraska	223	4,788,600	2,388,640	47,869,780	54,312,260
New Hampshire	6	350,000	347,900	2,002,480	2,775,620
New Jersey	44	5,614,000	7,457,910	109,285,480	122,894,290
New Mexico	7	250,000	131,120	1,569,670	1,949,340
New York	63	5,419,250	5,290,240	74,878,420	86,437,490
North Carolina	194	2,608,929	2,445,000	32,658,150	38,323,575
North Dakota	325	3,486,500	2,403,020	38,969,170	48,343,260
Ohio	172	9,315,650	8,000,783	131,046,300	147,348,390
Oklahoma	223	2,970,650	1,111,340	31,777,770	35,259,750
Oregon	33	1,043,500	344,570	11,794,180	12,947,460
Pennsylvania	181	18,592,937	24,967,100	254,808,960	300,280,280
Rhode Island	4	405,200	362,070	5,945,420	6,736,430
South Carolina	77	1,918,603	1,457,040	24,738,010	29,244,220
South Dakota	151	1,742,200	1,925,530	27,786,765	32,176,770
Tennessee	185	3,939,370	2,617,100	46,362,220	53,778,180
Texas	207	5,729,948	2,433,940	36,143,390	45,035,510
Utah	8	368,600	93,740	1,663,340	2,939,790
Vermont	9	400,000	876,920	14,027,100	15,607,330
Virginia	95	3,165,979	2,516,880	26,096,100	33,278,710
Washington	79	2,016,000	1,276,310	27,609,090	30,634,900
West Virginia	29	2,308,460	1,771,590	24,594,070	28,683,780
Wisconsin	256	6,013,500	3,303,830	74,885,870	85,521,625
Wyoming	42	630,000	546,030	7,191,800	8,323,960
Total	5,840	179,350,150	139,486,613	2,132,144,090	2,470,040,510

[1] This statement does not include any of the banks referred to in the note under Table V.

NOTE REGARDING TABLES XII AND XIII.—When these tables were prepared, the provision in the Capper-McFadden bill regarding eligibility for membership in the Federal reserve system read as follows:

"No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the national bank act: *Provided, however*, That an applying bank organized in a place the population of which does not exceed six thousand inhabitants may, in the discretion of the Federal Reserve Board, be admitted to membership if it possesses a paid-up, unimpaired capital of at least $30,000; and if the application is accompanied by adequate undertakings of such bank and of its principal stockholders, that the capital of such bank will within three years be increased to $50,000: *And provided further*, That an applying bank, organized in a place the population of which does not exceed three thousand inhabitants, may, in the discretion of the Federal Reserve Board, be admitted to membership if it possesses a paid-up, unimpaired capital of at least $15,000, and if it is accompanied by adequate

undertakings of such bank and of its principal stockholders, that such capital will within three years be increased to $25,000. If any such undertakings have not been fulfilled within three years the Federal Reserve Board may forbid such bank to enjoy any of the privileges of this act and may require it to withdraw forthwith from membership in the Federal reserve system."

This provision was subsequently changed, and, as embodied in the agricultural credits act of 1923, is as follows:

"No applying bank shall be admitted to membership in a Federal reserve bank unless (a) it possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the national bank act, or (b) it possesses a paid-up, unimpaired capital of at least 60 per centum of the amount sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the national bank act and, under penalty of loss of membership, complies with rules and regulations which the Federal Reserve Board shall prescribe fixing the time within which and the method by which the unimpaired capital of such bank shall be increased out of net income to equal the capital which would have been required if such bank had been admitted to membership under the provisions of clause (a) of this paragraph: *Provided*, That every such rule or regulation shall require the applying bank to set aside annually not less than 20 per centum of its net income of the preceding year as a fund exclusively applicable to such capital increase."

Senator GLASS. How many of these nonmember banks do you think it is desirable to get in?

Mr. MEYER. All of them whose management and condition is satisfactory.

Senator GLASS. You were in favor of lowering the capital requirement. Will you tell us how many of them are taking advantage of it?

Mr. MEYER. I do not know. In any event, I do not think that is important compared to getting into the system a substantial portion, at least of the 9,678 banks which could come in without any reduction in the capital requirement. The provision lowering the capital requirement, to which you refer, specifically requires an increase in the capital within a short period.

Senator GLASS. I thought you regarded it as important last winter, when we had our Banking and Currency Committee sitting around here. Everybody said it was very necessary.

Mr. MEYER. I stated frankly that I considered it a matter of minor importance in comparison with that of getting the 9,678 banks into the system, but, at the same time, as an expression of attitude on the part of the Congress, I thought it might be helpful and that it might encourage small banks to increase their capital.

Senator GLASS. Did you expect very many of them to come in?

Mr. MEYER. I did not have any expectations about something that I did not consider very important. When I discovered there were nearly 10,000 banks which were already eligible for membership and which had not joined the system, I knew there was something more important that the size of the capital that was keeping them out.

Mr. WINGO. That is a very wise discovery for you. But it is not original with you.

Mr. MEYER. We all learn. I say it is desirable to determine the attitude of the Federal reserve system—whether or not it wants to get these banks in.

Mr. WINGO. Do you know what their attitude is?

Mr. MEYER. I do not. I have heard that some of the officials of the Federal reserve banks do not feel that it is important. I think the Federal Reserve Board, judging from informal discussions I have had with individual members, believes it to be desirable to bring in a considerable number, at least, of the eligible non-member banks, but as they are all here in Washington, you can get their views directly from them. I think their attitude in the matter ought to be definitely determined.

Mr. WINGO. You have not been here during these examinations that have been held?

Mr. MEYER. No. If the member banks in the large cities do not want their country correspondents to join the Federal reserve system, their position ought to be defined and made clear. If they are willing to have them join, I think that likewise ought to be defined and made clear and their cooperation sought.

Mr. WINGO. What do you mean by "defined and made clear"? Defined by whom?

Mr. MEYER. By the Federal Reserve Board of by any one else whose responsibility it is.

The CHAIRMAN. Through the activities of these reserve city bankers who have accounts with country bankers, which are secondary reserves, they are defeating the real intent and purpose, to a certain extent, of the Federal reserve system?

Mr. MEYER. Some of them certainly are, in my opinion. I can not imagine, Mr. Chairman, that Congress would have made 9,678 banks eligible for membership if it did not feel that it was in the public interest for them to join. If it was in the public interest at the time the Federal reserve act was passed, I think it is even more so under present-day conditions.

The CHAIRMAN. There are many things that cause that situation. In the first place, the reserve city banks want the accounts and balances which the country bankers give them. They render them services and make much of the offering of those services, and the country banks are getting services which they believe—whether made to believe it or whether it is a fact—they could not get through the Federal reserve system. Whether or not it is their aim to get those favors—you may term them "favors"—from the correspondent banks, it has no bearing on the entry of the banks into the system. So long as the offer is made by the city correspondent banks to these country banks to take care of all their needs in a better manner than the Federal reserve system can, they apparently see no necessity of joining the Federal reserve system. It presents a rather difficult situation.

Mr. MEYER. It is not only a very difficult situation; it is a very big situation and a very important situation.

The CHAIRMAN. I have discussed this matter with some of these reserve city banks and have mentioned that the committee was going to hold hearings, but I find a reticence on the part of many of these bankers to have anything to do with it, and for that reason they are selfish, as any banker is, perhaps, of his own business, the volume of which he wants to maintain.

Mr. WINGO. I do not agree with you. I think these correspondent bankers have advised these country bankers. I think they were prompted by high motives for public good. [Laughter.]

The CHAIRMAN. That is putting it facetiously.

Senator GLASS. Your testimony is that it is the business of the Federal reserve banks and Federal Reserve Board to get into intimate contact with these country banks and to convince them that it is not to their advantage to deal with the correspondent banks, but is to their advantage to deal with the Federal reserve system.

Mr. MEYER. I think it is their business primarily. I think also that a good deal more might have been done in this matter during the past years. It involves, gentlemen, a very big question—the whole banking structure of this country. We are getting a more complicated, a more scattered and divided, system of financial institutions all the time. The Federal reserve system, among other things, was intended. as I understand it—correct me if I am wrong, Senator Glass, as you were closely in touch with all the steps leading up to its creation—the system was intended, as Chairman McFadden states, to mobilize the reserve banking resources of the Nation, so that they might be available to meet the needs in various parts of the country at changing periods and under changing conditions.

Senator GLASS. And to free the country banks from the tyranny and whims of the big correspondent banks?

Mr. MEYER. Yes; and it has succeeded in a great many respects. I feel, however, that the failure to add to the membership so large a number of banks that ought to be in the system, or at least that Congress contemplated would be in the system, is fundamental.

Mr. WINGO. Would you suggest any amendment of law that would correct the condition?

Mr. MEYER. I think it is largely a matter of administration.

Mr. WINGO. On that very point, what regulations, if any, of the Federal Reserve Board that operates to compel banks to come into the system, and what changes would you make?

Mr. MEYER. I am not prepared at this time to make specific recommendations regarding amendments in the law or regulations. I think that, after they have sifted that question, if they deem it desirable to add to the membership of the system a large number of the eligible nonmember banks, it is up to them to make appropriate recommendations to congressional committees, if congressional action is necessary.

Mr. WINGO. What I wanted was what suggestions, if any, would you make with reference to this administration policy. I think you are right about it. I agree with you and Senator Glass. I think it is more a matter of administration. What suggestion would you make with reference to the policy of the Federal reserve system?

Mr. MEYER. I would get in direct contact with individuals and large groups which represent the banking system of the country, such as the American Bankers' Association, the State Bankers' Association, the superintendents of banks in the various States, and others, with the view to finding out the very things you are asking me. As I have had no opportunity to do this, I am not in position to suggest concrete changes in the policy of the Federal Reserve Board.

The CHAIRMAN. Frequently bankers claim that in case their necessities required them to borrow from the Federal reserve system, they might not be able to borrow as much as they need and they can make use also of their correspondent city banks upon whom they look as additional safeguards.

Mr. MEYER. There is no reason why they should give up their accounts with the city banks.

The CHAIRMAN. One banker told me of a condition of stress in his locality, where he was borrowing from the Federal reserve system in excess of the amount he was entitled to, that when making application to the reserve city for additional funds he was told that the bank would be granted the loan, but in nowise was it to be used for the purpose of liquidating the loan at the Federal reserve bank.

Mr. MEYER. Yes.

The CHAIRMAN. That presents another situation.

Mr. MEYER. Yes. The banker wanted to see that the money was used only in connection with the regular business of the borrowing bank, and not for the business of the Federal reserve bank. Under present conditions, we might refuse to grant a loan through the War Finance Corporation to pay off a loan from the Federal reserve bank. The liquidation of a Federal reserve loan at this time would be of no advantage to the agricultural interests we are trying to serve. Helping agriculture and strengthening the whole banking structure of the country was one united problem two years ago; it is not now.

Mr. WINGO. Do you know how much of your funds were used for liquidation loans of the Federal reserve banks?

Mr. MEYER. No, but the loans we made to banks in the agricultural and livestock districts enabled them to give the farmers and stockmen longer time, relieving them of the feeling that they would have to liquidate in 90 days. That factor was of tremendous importance in giving confidence to bankers in making advances to farmers.

Mr. WINGO. I am somewhat surprised that you do not know what went with the proceeds of these loans.

Mr. MEYER. We could not trace them all the way down the line.

Mr. WINGO. Why could you not? A banker usually knows what is done with the proceeds of a loan.

Mr. MEYER. The funds we advanced were used, in numerous instances at least, to make new loans to farmers. On the other hand, some of them may have been used to take up paper at the Federal reserve banks or to pay off deposits.

Mr. WINGO. What do you mean by "pay off deposits"?

Mr. MEYER. It is generally known that when we began to make advances for agricultural purposes deposits were rapidly declining, and some banks may have borrowed from us to pay their deposits.

Mr. WINGO. You mean the banks borrowed from you to pay deposits?

Mr. MEYER. To pay deposits and to make new loans.

Mr. WINGO. You made no investigation to ascertain how much of those funds were used to pay off deposits and how much to pay off former loans?

Mr. MEYER. I do not see how you could accurately determine what became of the prceeds of a $50,000 loan to a bank which was doing

business every day. Some of it may have been used to increase reserves in order to comply with the law; some of it may have been used in connection with renewals and extensions of notes of farmers who could not pay them and whose products were liquidated later at better prices. The general effect was the important thing we were seeking to accomplish, and that was the stabilization of the whole banking and agricultural situation.

Senator GLASS. Banks, as well as farmers?

Mr. MEYER. We could not save farmers by allowing banks in the agricultural districts to go broke. It is a real misfortune for a bank in an agricultural community to go broke, and that is especially true when the bank is the only one in the community.

Mr. WINGO. Do not misunderstand me. I stated very frankly that I thought the greatest practical relief was going to come from the War Finance Corporation loans to the banks, which would kind of break the jam in those banks, and that that would be of service, because by breaking the jam and freeing some of their frozen assets that they then would be in position to extend further credits to the farmers, and that the farmers would get indirect benefit that way.

Mr. MEYER. That is true, and still I do not think that was the biggest end of it. The biggest end of it, in my opinion, was this: A very large number of banks throughout the country were in a precarious position, resulting not from unsound banking necessarily, although there was much of that, but more particularly from a rapid decline in deposits coupled with a sudden drop in the prices of the commodities upon which their loans were based—cotton, tobacco, corn, hogs, cattle, and, in fact, practically all agricultural products. In many communities there were strong banks as well as weak banks—I say "weak" without any reflection on the banking management in many cases—and when a strong bank saw that a neighbor across the street was in danger owing to the withdrawals of deposits and inability to liquidate its loans because prices and markets were so greatly demoralized the strong bank began to pull in its money, would not make any more loans, and sat still fearful of what was going to happen to its neighbor, which in turn might precipitate a run on it. We were able to strengthen hundreds of weak banks with ample funds and liberal terms as to time, and this gave the strong banks assurance to go ahead and function normally, with the feeling that there was no danger to the general situation, as the weak banks were being taken care of. In that way millions and hundreds of millions of dollars which otherwise were being hoarded in bank vaults were loosened and made available for useful purposes in the agricultural districts, and that, in my opinion, was the biggest thing we accomplished.

Mr. WINGO. You could have appreciation of the country bank who saw deposits dwindling and his securities shrinking and pressure being brought on him to liquidate.

Mr. MEYER. I think we appreciated the situation, Mr. Wingo, as that is what we have been working on for two years. If you find it strange that we did not analyze just what became of every dollar, all I can say is that the making of loans to an average of 80 to 100 banks a day through the 33 agencies all over the United States, with

an organization that had to be created almost overnight, was enough to occupy all our time and a little more besides.

The CHAIRMAN. As I recall the war finance act, the banks which obtained money from the War Finance Corporation were permitted to charge a slight advance in interest?

Mr. MEYER. Not more than 2 per cent above the rate at which we loaned.

The CHAIRMAN. Did you find any of the banks to whom you made loans taking advantage of the borrower in the way of excessive interest?

Mr. MEYER. Every application contains an agreement on the part of the bank that the money advanced by the corporation will not be reloaned at a rate greater than 2 per cent above our rate. Our rate is 5½ per cent.

The CHAIRMAN. Did you, on the other hand, find a marking up of interest rates on the part of these banks?

Mr. MEYER. No; but we found considerable marking down. In many States, as you know, the law restricts the banks to 6 per cent, as in North Carolina.

The CHAIRMAN. Then you did not find any exploitation on the part of these banks?

Mr. MEYER. No. We secure from each borrowing bank a written statement that they have complied with the law in that respect, and our agents in the various districts are instructed and, in fact, have been repeatedly reminded that they are to enforce strict compliance with the limitation. As a matter of fact, we stated that if there were any failure to comply we would place the matter before the authorities entrusted with the enforcement of the law.

The CHAIRMAN. The reason I mention that is due to the fact that the case was presented to me wherein a bank that had, I will say offhand, a $50,000 loan from the War Finance Corporation represented to the borrower that he was using War Finance money, and therefore must have a higher rate of interest on all loans.

Mr. MEYER. What was he charging on his other loans?

The CHAIRMAN. He was charging the normal rate of 6 per cent, but he took advantage of the fact that he was getting money from the War Finance Corporation and marked up the general rate of interest on all his loans.

Mr. MEYER. That is the first case of the kind I ever heard of. I do know that in a large number of cases we brought about a reduction in the rates of interest. Is there anything further?

The CHAIRMAN. Have you anything further you would like to present?

Mr. MEYER. No, Mr. Chairman; I think I have covered all that I desire to say at this time.

The CHAIRMAN. I might say here that the Secretary of Agriculture was invited to appear before the committee, but the chairman has received advice that he will not be able to appear nor will he send a representative to appear before the committee on this question.

Mr. STRONG. At no time, or only the present?

The CHAIRMAN. The message that came to me indicates that he does not feel that he would be able to offer anything that would be

of enlightenment; also that he does not contemplate sending anyone else.

Mr. WINGO. Do you know of anyone else who is willing to come to-day and give any information that he thinks we can appreciate and comprehend?

The CHAIRMAN. I do not happen to know of anyone.

Mr. WINGO. Or do you think all of them take the view that it is none of our business; that it ought to be left to the Federal Reserve Board to work out?

The CHAIRMAN. I would suggest that the committee now adjourn until 10.30 o'clock to-morrow morning, when the chairman of the advisory council of the Federal Reserve Board and other members of the board will be present.

(Thereupon, at 12.30 o'clock p. m., the joint committee adjourned to meet to-morrow, Friday, October 5, 1923, at 10.30 o'clock a. m.)

INQUIRY ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM

FRIDAY, OCTOBER 5, 1923

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE OF INQUIRY ON
MEMBERSHIP IN FEDERAL RESERVE SYSTEM,
Washington, D. C.

The joint committee met at 10.30 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. I will place in the record at this point the letter which the chairman wrote to Mr. Levi L. Rue, chairman Federal advisory council, Federal Reserve Board, Philadelphia National Bank, Philadelphia, Pa., advising that these hearings were taking place and that the committee would be very glad to hear from him and one or two other members of the council of the Federal Reserve Board if they cared to present something to the committee on the subject of the inquiry. Mr. Rue and other members of the board are here this morning; and I might say to you, Mr. Rue, that so far as the committee have gone we are trying to confine our hearings strictly to the law, with which you are familiar. While there has crept in at different times collateral issues, some of which might not have been exactly pertinent, the committee have been very generous in that respect, though we would like to confine ourselves, so far as possible, to the subject of the inquiry.

(The letter of September 7, 1923, to Mr. Levi L. Rue, submitted by the chairman, is as follows:)

SEPTEMBER 7, 1923.

Mr. LEVI L. RUE,
Chairman Advisory Council, Federal Reserve Board,
Philadelphia National Bank, Philadelphia, Pa.

MY DEAR MR. RUE: In pursuance of the provisions contained in the agricultural credits act of 1923, passed by the Sixty-seventh Congress, Public Law No. 503, a copy of which is inclosed, a joint committee, consisting of three members of the Banking and Currency Committee of the Senate and five members of the Banking and Currency Committee of the House of Representatives, has been appointed.

It is the purpose of the committee to start formal hearings along the lines of authority conferred upon them by the act, beginning on Tuesday, October 2, 1923, when the different Government departments will be heard.

The committee will be pleased to hear you and one or two other members of the council of the Federal Reserve Board who can speak with authority for the advisory council on the several subjects enumerated in the act creating this committee, on Friday, October 5, at 10.30 o'clock in the morning, in the House Banking and Currency Committee rooms in the Capitol Building.

Very truly yours,

L. T. MCFADDEN, *Chairman.*

Mr. WINGO. May I inquire at this particular place, Mr. Chairman, how many members of the council are here?

The CHAIRMAN. Mr. Rue, will you inform the committee who of your council are present?

STATEMENT OF MR. LEVI L. RUE, CHAIRMAN FEDERAL ADVISORY COUNCIL, FEDERAL RESERVE BOARD, PHILADELPHIA, PA.

Mr. RUE. Mr. Warburg, of New York, vice president of the council, and Mr. John Miller, of Richmond, Va., are here. We had expected that Mr. Mitchell, of Chicago, would also be present, but he was taken with a very severe cold, and his doctor would not permit him to come East. We also tried to get Mr. Wade, of St. Louis, so that we would have a representative of the West here, but the notice was too short for him to reach here. In addition to that, we tried to get Mr. Prince, of Minneapolis, but the president of his bank was absent and he could not leave.

The CHAIRMAN. Mr. Wade, of St. Louis, is another member of the council, is he not?

Mr. RUE. Yes, sir; he is a member of the council, but, as I say, notice was so short he could not possibly arrange it. Mr. Swinney, of Kansas City, has been ill with pneumonia, and he could not come. We tried to get Mr. Gobel, but again Mr. Gobel could not come here.

The CHAIRMAN. I presume, inasmuch as you have a prepared statement, you would probably want to proceed without interruption.

Mr. RUE. Yes; it will not take me very long to say what I have to say.

The CHAIRMAN. I would suggest to the committee, then, that you proceed, and when you have finished, any questions that the committee want to propound can be asked.

Mr. RUE. The act of Congress creating your committee authorizes it to inquire into the following:

First, the effect of the present limited membership of State banks and trust companies in the Federal reserve system upon financial conditions in the agricultural sections of the United States.

The failure of State banks and trust companies to join the Federal reserve system prevents the mobilization of their reserves in the Federal reserve banks, which mobilization would result in increased loaning power of the Federal reserve banks. It also prevents these nonmember banks and trust companies from having available the rediscount facilities of the Federal reserve system. Of course, it should be borne in mind in this connection that many State banks and trust companies possess little if any paper which is eligible for rediscount.

Second, the reasons which actuate eligible State banks and trust companies in failing to become members of the Federal reserve system, in my opinion, are as follows:

1. The most important reason is probably the loss of interest on the reserve balance which must be kept with the Federal reserve bank. Most State laws permit State banks and trust companies to keep the larger part of their reserve with other banks, chiefly city correspondents, on which balances interest is usually paid. State

banks further object to not being able to count cash in their vaults as part of their reserve, which is permitted under many State laws.

2. The absence of any particular advantage to be obtained through membership in the system. A large number of State banks find that all their normal needs can be taken care of by their correspondents. Furthermore, the assets of many of these State banks, because of the nature of their customers' business, consist of securities and receivables which are ineligible for rediscount with the Federal reserve bank.

3. Membership in the system on the part of State banks makes it necessary for them to render reports both to National and State authorities, which, particularly to the smaller banks, involves considerable trouble and labor. State banks now under the examination of State authorities object to the additional examination by the examiner of the Federal reserve system.

Third. What administrative measures have been taken and are being taken to increase such membership? It is my understanding that the Federal reserve banks employ representatives to solicit constantly the nonmember State banks, explaining the many advantages of membership and endeavoring to persuade them to join the system.

Fourth. Whether or not any changes should be made in existing law or in rules and regulations of the Federal Reserve Board or in methods of administration to bring about in the agricultural districts a larger membership of such banks and trust companies in the Federal reserve system:

With regard to the changes which should be made in the existing law or in the rules and regulations of the Federal Reserve Board or in the methods of administration to bring about in the agricultural districts a larger membership of State banks and trust companies in the Federal reserve system, it is doubtful whether any additional efforts should be made to persuade nonmembers to join. Certainly, no undue pressure should be brought to bear upon them to do so. Time will demonstrate to these nonmember banks the advantages of the system, if any, to them. Where the character of their business is such that the facilities of the Federal reserve system would prove of little benefit, largely because of the ineligibility of most of their assets, it can hardly be expected that these banks would join the system.

Then, Mr. Chairman, there is another reason which I have not written down, which I think is quite an important one in the minds of the management of many of these State banks. As you know, their relations with their correspondents have been of years standing, and the personal equation enters in very largely. The officers of these State banks and trust companies are personally acquainted with the management of these city banks; they come to them for advice on matters of business, and they ask them for all sorts of facilities, and they find a very sympathetic ear from managers of these city banks whom they know so well, know the caliber and character of the men and the nature of their business which they do in their communities, and they will loan them money and grant them facilities where the Federal reserve bank might not or could not do so.

The Federal reserve bank, in the nature of things, is a semi-Government institution, and the management of it can not know in the same

personal way as the management of a city correspondent can know these men, and I think that has a deterrent influence on a great many of these smaller State banks. They feel they can have a more sympathetic ear from the management of the city correspondents which, as I say, has known them for years, knows all about them, the make-up of their institution and character of business. I think that has considerable influence.

There is one other matter I would like to bring before you. It is simply my own idea, probably, not brought out by your questions, but I think it highly important: Unless something is done to equalize the privileges enjoyed by national banks with those of State banks and trust companies, the disintegration of the national bank system by the withdrawal of banks from the national system is likely to take place. There is little, if any, advantage now for a bank to operate under a national charter, and when subjected to competition from State banks and trust companies having greater privileges and located in the same community their position becomes more and more difficult, and only sentiment holds many of them to-day in the national system.

Mr. STRONG. You mean the privileges should be extended wherever the State banks have branches?

Mr. RUE. I do not say in the States, but my own judgment is that branches should not be state-wide. I think that should be confined to the community or city or town, but I would confine them to cities.

Mr. STRONG. That would not meet the situation in California where State banks have state-wide branch banking.

Mr. RUE. I know; the California situation is peculiar. Of course, that State is an empire in its vastness, and I know that the bank of Italy—I presume that is what you had in mind?

Mr. STRONG. That and the Southwest Trust Co.

Mr. RUE. Both have branches over the State, and it may be necessary in California; I do not know. But I think that is an exception.

The CHAIRMAN. Mr. Rue, forgetting for a moment that you are here representing the advisory council, suppose you resolve yourself into president of the Philadelphia National Bank?

Mr. RUE. Yes.

The CHAIRMAN. Your bank has a large number of country-banking accounts. The suggestion has been made here that the tendency on the part of reserve-city bankers is to foster or continue accounts with country banks, which is one of the great impediments of membership of the State banks and trust companies in the system. In other words, that practice is looked upon as a sort of secondary reserve, for as some have put it, it tends to defeat the original purpose of mobilization of reserves which is contemplated in the Federal reserve act. Would you care to enlighten the committee on that situation?

Mr. RUE. Do I understand from your question—I think I saw it stated in the paper; I do not know whether correctly stated or not—that some of the larger banks in the cities were persuading State banks to stay out from selfish motives?

The CHAIRMAN. Yes, and that has been suggested; and we would like to have you express your opinion about it.

Mr. RUE. I think that if that occurs—I know of no case, though there may be some isolated cases of that kind; but I can not imagine

the management of a big city bank being so narrow, so small as that. I think from our own experience, Mr. Chairman, we have a number of bank accounts from institutions that are members of the Federal reserve system, that keep, as you say, sort of secondary reserves with us, entirely a voluntary act. But there are things they want us to do that the Federal reserve bank can not do for them. For instance, some come and borrow from us on bonds. A great many of them keep their bonds on deposit with us, and they borrow on those bonds for a day or two; or they may telephone to us "I find I need maybe $50,000 or $100,000. May I draw on you for that?" And they may say, "Credit my account $50,000 or $100,000," whatever the amount may be—"I have securities on deposit with you." And they can get service of that kind, which does not compete with the Federal reserve system in any sense. They still keep reserve accounts in the Federal reserve bank, but a sort of secondary reserve, as you have just cited, with the city correspondent. But I do not consider that that would in any way keep these banks out.

The CHAIRMAN. I infer from your statement that the country banks feel they would rather have two strings to their bow than one; that is, while they could borrow on the eligible paper they might have, a great many of them have paper noneligible with the Federal reserve system, but on which the reserve city banks will make loans to them in cases of emergency.

Mr. RUE. I think that is undoubtedly so.

The CHAIRMAN. Of course, I think it is only fair to say of the reserve city banks, that they are anxious to get deposits and to keep all accounts they have that are worth while.

Mr. RUE. But, I do not think the reserve city banks are discouraging their correspondent banks from entering the system.

The CHAIRMAN. You do not think there is an organized effort by the city banks in that direction?

Mr. RUE. So far as I know, I do not think so, by no means. As I say, there may be a few isolated cases, but I do not think it is in any way general. I think the reserve city banks are in hearty accord with the Federal reserve system and strong advocates of it, believe in it, and want to see it strengthened in every way. I do not think for a moment they are trying to influence any banks to stay out.

The CHAIRMAN. What would be the effect on the Federal reserve system if the national banks should retire from the system?

Mr. RUE. I think the probabilities are that if the national banks should retire, most of them would probably remain in the system as State institutions, but they would enjoy broader facilities. You see we have now, the State banks and trust companies as a system—of course, it varies in the different States according to the laws of those States. Then we have the national banking system; we have also the Federal reserve system. Of course, the Federal reserve system is, as it states, a reserve system. You can not have the State banking system and the national banking system growing side by side and each retaining its position, with either one or the other systems having superadvantages over the other. One or the other will have to disappear. There is no doubt about that. That is true in States particularly where the State laws are almost equal to the national laws. Take my own State. There is no advantage there

at all in holding a national charter. There is no reason why my bank, the Philadelphia National Bank, should stay in the national system. We have no advantage over those which we would have if we had a State charter. In fact, we would have more advantages as a State bank. But it is sentiment that keeps us in. If competition becomes too strong from the State banks because of the privileges they have, I think sooner or later you will find, as I mentioned before, that many national banks will surrender their national charters.

Mr. WINGO. That being true, if Congress should try to retain the national bank system, it would then be the part of wisdom to consider laws that would give the national banks such preferences as would make it more profitable to have a national bank charter than State bank charter.

Mr. RUE. Either preferences or certainly equal privileges—not necessarily preference—so that they could meet on common plane of competition.

Mr. WINGO. Which do you think would be the wiser policy, to undertake to compete with the State legislatures in granting advantages, or undertake to shape the privileges of the Federal reserve system and of the national banking laws so as to make it more attractive for the State banks to come into the national system instead of making it more attractive for the national banks to go into the State system?

Mr. RUE. By all means; I am in favor of the national system, because that is a unified system. The State system varies in different States.

Mr. WINGO. What, in your judgment—I know you must have given a good deal of thought to it—could we do that would be sound and practicable with reference to privileges of the Federal reserve system that would have a tendency to make the national bank charter more attractive to the State banks? For illustration, but to use a crude example, without saying I would favor it, suppose we should undertake to say that the privileges of the Federal reserve system would be denied the State banks. That will illustrate the point I am driving at, though I am not advocating that.

Mr. RUE. I can not imagine for a moment that you would advocate it.

Mr. WINGO. Some laws that would be comparable, though not in the extreme effect of that.

Mr. RUE. I think Congress has already taken steps in that direction. You have granted the national banks the privilege of acting as trustees and executors, and so on.

Mr. WINGO. But that is now competing with the State. Is it not possible, for illustration, in the law as originally framed, when a State bank comes up and asks for membership in the Federal system, the board has to determine several things. First it determines whether or not the statutory requirements are met; that is, with reference to reserves and other things?

Mr. RUE. Yes.

Mr. WINGO. Next, they have got to determine the soundness of that particular institution. Then, next, under the law—although there is some dispute about that—whether or not they are willing to comply with certain conditions laid down. Then, there is another provision of the law that the board must determine whether or not

the exercise of certain corporate powers that a State bank has under the State law is contrary to the general purposes of the Federal reserve act.

Now, if the law was made more specific upon that particular point, and the law regarding the corporate powers that a State bank might exercise if it came into the Federal reserve system, would that not have a tendency to strengthen and standardize the member banks of the country? For illustration, we will say, "We will permit you"—of course, we can not control them. Suppose we should close the doors of the Federal reserve system, except to banks of that standard, and that standard should include doing a certain character of business in a certain way. Would not that have a tendency to build up the national banking system? That, of course, is based upon the theory that the Federal reserve system is attractive and its benefits make it attractive to banks to become members. Do you think it possible for us to frame some statute of that kind?

Mr. RUE. Mr. Wingo, the functions of these State banks which they are performing are very necessary to every community and to the business of the country, and if you make it impossible for them to continue to function that way in order to become members of the Federal reserve system, I am not sure it would be a good thing to do, because you would be taking away from the community facilities which these State banks are now performing.

Mr. WINGO. For instance, some States authorize State banks to do some things that really are foreign to banking. There is a dividing line—we might differ about it; and there would be a wide difference of opinion with reference to the granting of franchise rights under some of the States, but I think I can assume that you and I and possibly everybody else would agree, as every sane, sensible man would agree is no part of the banking function, and if the major part of the activities of such a bank were along that particular line it has got no business in banking of any kind; for instance, in some States a bank may engage in the mining business, operating a saw mill or general mercantile store, and I think you will find in one State they might be permitted to go into any kind of business they saw fit. They might undertake to manufacture fertilizer.

Mr. RUE. Certainly that would be unsound.

Mr. WINGO. If you sat down as a practical banker to frame such a law, one of the conditions you would put down would be that no State bank should be a member that was not willing to relinquish its franchise right to engage in a business other than the banking business; then you might take up the different branches of banking and determine whether or not the preponderance of that particular bank's business along a line that might be very necessary to its community, but which is not so intimately interwoven with the commercial fabric of the country as to really make it properly a part of this coordination of commercial banks of the country; and you would cut that off. Do you not think it is possible by a wise study of that to undertake to gradually narrow it so that we would have a tendency to standardize the banks of the country instead of making a crazy quilt out of them by entering into competition with every State legislature that saw fit, for reasons that you and I understand—we have both observed legislatures granting privileges.

Mr. RUE. I think probably that is possible, but I do think this; I think you have to guard against lowering the standard of the Federal reserve system.

Mr. WINGO. That is the point I am making.

Mr. RUE. To bring in all these outside banks.

Mr. WINGO. I say, instead of lowering the standard, would you not strengthen the national system. If we raise the standard of membership in the Federal reserve system that, of course, is all predicated upon the theory that the Federal reserve system is a wise thing and that it is of benefit to the bank to be a member of it.

Mr. RUE. In that system now the standard is high. It might be broadened in certain particulars so that some State banks could come in without any great disadvantage to themselves, but I do not think the standard of the system should be broadened or lowered so as to make it possible for almost all State banks to come in.

Mr. WINGO. You and I can readily understand that even now there are some banks that, especially under the last amendment we made, technically are eligible to come into the system; and that even from their own standpoint and from the standpoint of the system, too, it would be a negligible proposition, of no benefit to them, and they are much better off in pursuing the policy that you suggested awhile ago of being attached to a strong bank that knows the officers and knows their particular community business and the personal equation enters into that, where that particular correspondent bank with perfect safety, with its superior knowledge could grant accommodations upon paper that technically is not eligible with the Federal reserve bank, and even if the eligibility of the paper could be demonstrated, the necessary procedure might require such a length of time to execute as to fail utterly to meet the needs of the particular little bank. That is true, is it not?

Mr. RUE. Yes; it is possible.

The CHAIRMAN. I might inject this letter from a Philadelphia banker, which came to me this morning. It is quite pertinent here, and I just want to read it. After the introduction:

Mr. STRONG. He does not want to raise the salaries of the members of the Reserve Board?

The CHAIRMAN. He raised that question, and because it is a frequent expression I thought it well to get it in.

Mr. WINGO. For his information, I will state that the letter you just read and the one you are going to read now are not isolated instances. I am not undertaking to pass upon the merits of the proposition.

Mr. RUE. No; I understand.

Mr. WINGO. But what I want to impress upon you gentlemen is that whether it be right or wrong, there is an undercurrent of resentment that runs through that letter and runs through the letter the chairman is going to read that is prevalent in every State in which I have had opportunity to have confidential talks with the small bankers. They may be wrong. I am not talking about that.

Mr. RUE. Nonmember banks?

Mr. WINGO. Both. They are irascible and irritable. I do not want you to think this is some man who has got sore about something. If it was some particular soreness on some particular transaction

it would, perhaps, not be worthy of noticing, but the system has been unfortunate in a very wide territory.

The CHAIRMAN. The committee, as you are aware, sent out questionnaires last spring, and we have received a great many replies. I will put into the record, with the permission of the committee, a letter from practically each one of the States, setting forth the objection of the bankers as these replies have been received. They will be a matter of record, and I will not bother to read them all. But here is a typical letter that comes to me.

Senator GLASS. Before you read that, I understand that Philadelphia correspondent complains that the officials of the Federal reserve banks are not paid sufficient salaries. The impression is produced in the country that they are paid higher salaries than officials of member banks. But, as a matter of fact, that is not true. The officials of member banks in all important centers range from 10 to 100 per cent more than the officials of the Federal reserve banks in the centers. But this banker complained that the salaries of the Federal reserve bank officials are too low. Is not that unique in your experience and observation?

The CHAIRMAN. Yes; to get a criticism like that openly.

Mr. WINGO. I will state, Mr. Chairman, as possibly the Senator has not heard it, that one of the most conservative and wealthiest leaders of the House jumped on our committee over on the floor of the House because we had incurred this extravagance.

Senator GLASS. I venture that he did not spend five minutes to find out what was the relative salary of the Federal reserve bank officials as compared with the salaries of the member bank officials in the larger communities in the reserve centers. He could not with any degree of sanity or justice jump on anybody.

Mr. WINGO. The fact is he is worth a few million dollars that he has made in business, which indicates he is not a failure as a business man.

Mr. STEAGALL. You would not think it policy that the salaries paid officials of the Federal reserve system should necessarily be governed by salaries paid by other banks, would you, for the reason that in the other instances many times the men who receive these salaries own stock in the banks. It is their own business; they are paying themselves to a large extent, whereas the official of the Federal reserve system is in a different situation with reference to that.

Senator GLASS. For that reason they ought to receive more; they have not any private investments.

Mr. WINGO. That is really an argument in favor of paying higher salaries to the officials of the Federal reserve.

Mr. STEAGALL. Not unless deserved.

Senator GLASS. I say, as a matter of practical fact, from which there is no escape, in employing efficient men to conduct the business of the Federal reserve banks, the Federal reserve banks must compete with the great commercial banks in getting the right sort of talent. You can not take a blacksmith to run a bank or a wood sawyer; you have got to get a banker to run a bank, and when you go out in the open market to hire talent you have got to compete with commercial banks.

Mr. STEAGALL. That presupposes that talent is limited, whereas, as a matter of fact, they take up and train in the banking business such additional numbers of young men as the business requires.

Senator GLASS. No; as has already been testified here, they could not keep their help because it is employed by the commercial banks after they are trained, the salaries being more inviting.

The CHAIRMAN. I would just like to observe that this is directly about salaries paid officers of Federal reserve banks. I would like to contrast salaries that are paid to the officers of Federal reserve banks with the salaries paid to members of the Federal Reserve Board. They are not at all in keeping, and I am perfectly willing to go on record that I think the members of the Federal Reserve Board are underpaid. I think their salaries should be increased. The restrictions that surround membership on the Federal Reserve Board prohibit men who would otherwise be of advantage to the system going on the board.

I will read this other letter here, because it is pertinent to the subject which you members of the advisory council are going to discuss. It is a typical letter. It is dated October 2. [Reading:]

DEAR SIR: I received a letter from you some months ago, in which you asked me five questions.

It shows this banker has been deliberating on this proposition for some time.

In answer to the first, I wish to state that there are a good many reasons why we do not care to belong to the Federal reserve, but I would prefer to talk them, rather than put them on paper.

Senator GLASS. If he talks here they would go on paper and into print, too. [Laughter.]

The CHAIRMAN (reading):

One reason, however, is that we get interest on our deposits which are placed in New York, Philadelphia, or any other city bank. Then another reason is that in the beginning we were told that if we did not remit our checks at par they would be passed through the express company and a notary public would present them for payment, and if we did not pay cash they would be protested. By holding our checks for three or four days they might cause us a great deal of trouble. We were told that it did not make any difference about any injury we received from their actions, we would have to comply with their wishes. We have been complying with their wishes ever since, with a loss of between $4,000 and $5,000 a year.

If a man living at my city to-day should buy goods of any description in New York and send his check to the firm that he purchased them of, and they did not carry with their bank there a sufficient balance, he would be charged a collection fee. Then if they should put the check in the Federal reserve bank and send it to us our correspondence clerk would have to give his time, furnish a New York draft—which costs 4 or 5 cents—and our postage and stationery and remit it for nothing. So, you see, if the man in New York or Philadelphia carries a balance sufficient to have his check collected at par they do so, and if not they charge him.

Then, again, most State banks I have talked with about this subject feel that they are better off as they are. The system is not a friend to the State bank. The Government of the United States does not allow a postmaster to deposit funds in a State bank. At the same time, a national bank is not restricted from receiving funds of the State for deposit. Day after day we pay the Federal reserve bank at par, but if a draft is presented on an individual who might be a customer of ours, his draft will be sent to a member bank and collection charged.

A country bank such as ours needs this collection fee, as we have thousands of young people—boys and girls—to whom we are giving bank books and check

books and teaching them to become familiar with the banking business. The city bank does not take an account where the balance is less than $200. we understand, and if the balance is not kept at that amount there is a charge for taking care of it.

I would like to ask you a question. Is it not a notorious fact that the Federal reserve bank is drifting into politics the same as the old United States Bank? To increase the circulation of the country, based upon gold, is a fine proposition, but to control the banking business of the country and to stifle individual effort is not to be commended. Why would it not be well, if everything is so grand in reference to this system, to have the Government and States abolish the National and State systems and let the Federal reserve bank have branches and run the whole thing? Isn't it, in a measure, drifting that way? Fifty-three per cent of the people in this country live in the cities and suburbs. This system certainly favors the city banks, and some day the country bankers will be calling for help like the farmers are to-day.

This is from a central New York State bank.

Senator GLASS. I think that man ought to be made governor of the Federal Reserve Board and paid a high salary.

Mr. WINGO. I am glad, Mr. Chairman, that you called attention to the fact that that came from the great State of New York and not from the West and South.

Mr. RUE. That is but one case, however. I suppose you would get several hundred from New York State that would not condemn the system.

The CHAIRMAN. Yes, no doubt.

Senator GLASS. You will observe from this map that the board has sent out that New York State has 100 per cent membership in the par collection system.

Mr. WINGO. There has been a complaint prevalent among the farmers of the West that the farmers of New York have been given preference in the system.

Mr. STRONG. You called attention to what you said was a fact, that the State banks and trust companies have but little eligible paper.

Mr. RUE. Some of them, in the smaller communities.

Mr. STRONG. But is not that paper good enough so that the city bank accepts it and discounts it?

Mr. RUE. Yes.

Mr. STRONG. Then he city bank itself borrows from the Federal reserve system?

Mr. RUE. On eligible paper.

Mr. STRONG. Or what is termed eligible paper. Does the trouble come from the fact that the paper is not the best of paper or because the Federal reserve rules of discount are so strict that they debar a lot of eligible paper?

Mr. RUE. No; I think they are very proper regulations which the Federal Reserve Board and which the Federal reserve system have laid down for eligible paper for rediscount, because you must consider that currency is issued against that paper by the Federal reserve bank. It is supposed to be self-liquidating paper. That is the purpose and one of the fundamental principles of the system, the elasticity of the currency. Paper may be good in a country bank and is perfectly good, but it has to be carried at the convenience of the maker by that little country bank, and the country bank has discounted that kind of paper with its city correspondent and it can have the indulgence of the city correspondent to pay it as

convenient. But when you put it into the Federal reserve bank and have it rediscounted and have currency issued against it, it is a different proposition.

Mr. STRONG. One of the complaints out our way that regulations regarding what is eligible paper established by the Federal reserve bank is based upon city buiness and is not based upon the principal business of the West or the agricultural business of our country, which is the principal business in States like Kansas, Nebraska, and Missouri.

Mr. RUE. Has not the law been broadened in that respect? I understand it has been. But I do think there must be lots of paper not only in your country but in the State of Pennsylvania that is perfectly good paper, perfectly safe, that my bank, for instance, would be glad to rediscount for a country correspondent; but I do not think that that is the kind of paper, while it might be good in itself, that should be discounted by the Federal reserve bank, inasmuch as currency is issued against it, because it is not self-liquidating, as we term it, and the currency would not contract or expand as the country requires.

Mr. STRONG. You admit this paper is good?

Mr. RUE. Yes.

Mr. STRONG. But the regulation of the Federal Reserve Board bars it; yet it is good enough for your bank to lend money on?

Mr. RUE. Yes.

Mr. STRONG. How are you going to encourage these nonmember banks to come into the system if you make these regulations so strict that they can not do business in it?

Mr. RUE. I do not think it is too strict. I do not think that the Federal reserve regulations and the system should be lowered, because these banks that you have described can get all the accommodations they want from their city correspondents. You take the War Finance Corporation, which loaned these banks and communities a great deal of money. The character of the loans which the War Finance Corporation made was perfectly sound and good for the War Finance Corporation, but a great many have not been liquidated, and they would not have been proper loans for the Federal reserve bank to have taken and issued currency against them.

Mr. STRONG. But that is their argument. Is it not evidence why these banks do not come in?

Mr. RUE. No doubt.

Mr. STRONG. Because you want to maintain the kid-glove description of paper on which they borrow money.

Mr. RUE. I do not think the expression "kid glove" is correct.

Mr. STRONG. But the farmer of the West can not come to this source of supply of money, because you say his paper, though good, is not within your requirements, and he has got to go elsewhere, and you can not get them in.

Mr. RUE. That is quite possible.

Mr. STRONG. Then you do not want them in?

Mr. RUE. I did not say that.

Mr. WINGO. As a matter of fact, in your judgment the restrictions on the eligibility of paper in the Federal reserve bank——

Mr. RUE (interposing). Are sound?

Mr. WINGO. Are sound and should not be lowered?

Mr. RUE. Not very materially.

Senator GLASS. And the reason you give for that is that the currency of the country is based upon it.

Mr. RUE. That is just what I say.

Senator GLASS. The security and the liquidity of that paper.

Mr. RUE. The elasticity of the currency would be lost.

Senator GLASS. If I would bring my individual note to your bank, you may discount, because of your reliance on my integrity and, nevertheless, my note is not receivable across the counters of banks throughout the United States. But a Federal reserve note issued upon the basis of the eligible paper is receivable throughout the country.

Mr. RUE. A note which will liquidate itself under short term. That was the very purpose, Senator, as you know, of the Federal reserve system, that we should have an elastic currency. If you are going to have a currency issued against paper that runs one, two, and three years, you lose the elasticity of the currency.

The CHAIRMAN. Note the connection, Mr. Rue. Just one question. It may not be pertinent to this. There are still outstanding some two and a quarter billion Federal reserve notes. Money is apparently easy throughout the country. At the peak in 1920, I think, September 1st, there were approximately $3,485,000,000 of Federal reserve notes outstanding. Does the continuance of the outstanding amount of the Federal reserve notes tend to liquidity or just what is that situation?

Mr. RUE. I think that is governed entirely by the activity of business and high prices. The industrial pay rolls were never as large throughout the country as they are to-day. It requires a great deal of currency for the daily business of this country, and high prices and high values throughout the country——

The CHAIRMAN. The needs of the country require keeping out this two and a quarter billion?

Mr. RUE. I think it does. A large part of this currency is now out against Treasury obligations, but I think the majority of banks, for instance take those in our own State, are borrowing comparatively small sums of money. However, they can go to the Federal reserve bank any day, if the great mercantile or manufacturing interests require more currency than is available, and obtain currency.

The CHAIRMAN. Of course, there is a large amount of those notes outstanding, where the full amount of gold is back of them?

Mr. RUE. I understand, Mr. Chairman, too, there are a great many Federal reserve notes abroad which therefore do not come in for redemption.

The CHAIRMAN. I have been trying to get some information on that subject, and I understand the amount is something like $750,000,000.

Mr. RUE. I have no doubt of it.

The CHAIRMAN. Federal reserve notes abroad in other countries?

Mr. RUE. They would not come in for redemption; that are held there.

The CHAIRMAN. And I suppose also a large amount of those Federal reserve notes are held by State banks and trust companies as reserves?

Mr. RUE. That is, in their vaults.

The CHAIRMAN. So I would imagine there is a billion and a quarter or a billion and a half of those Federal reserve notes outside of the country and held by State banks and trust companies as legal reserves that are not in circulation?

Mr. RUE. That are not in actual circulation among the people.

The CHAIRMAN. Do you think we should continue to keep two and a quarter billion of Federal reserve notes in circulation?

Mr. RUE. I think that we should continue two and a quarter billion in circulation if the country needs it. Take some of the industrial concerns. Their pay rolls are almost double what they were in times of normal business, because of high wages and there is an immense amount of currency required for the daily business of the country.

Mr. WINGO. Is it not true that the test of inflation is not the volume outstanding, but what is back of it. If the bona fide legitimate transactions for which the currency is acting as a practical, sound exchange, instrument, then the large volume indicates a healthy business condition. A smaller volume under different conditions might have a greater amount of inflation than a larger amount?

Mr. RUE. That is possible.

Mr. WINGO. In other words, the test is not by the volume. There is a clear distinction between the legitimate, healthy and to-be-boasted of expansion of business, represented by a large volume, and that which is represented by purely speculative but nonliquid issues.

Mr. RUE. I think we must not lose sight of the factors which the chairman has brought out. There is a great deal of this Federal reserve money which has gone into the vaults of State institutions, who keep it there as part of their cash reserves; and then there is a large sum abroad. But the currency will retire very quickly. The actual currency may not come in, but the liquidation will go on by the banks paying off their loans with the Federal reserve bank, and as soon as that currency gets into a Federal reserve bank it can not be reissued.

The CHAIRMAN. Do you think the rediscount rate of the Federal reserve banks has an effect on this situation?

Mr. RUE. Which way. You mean the law or——

The CHAIRMAN (interposing). Yes.

Mr. RUE. I do not see any occasion to change the Federal reserve bank rate. While in the theory, it might be desirable and I believe it is desirable to have the Federal rediscount rate above the open market rate, I do not think it would be wise now, because it would not be understood.

Senator GLASS. It has never been the case in the Federal reserve system that the rate is above?

Mr. RUE. No; Senator, you know there were reasons why.

Senator GLASS. While it has always been the case with the Bank of England, the Bank of France and the Reichsbank?

Mr. RUE. Here we have Government financing.

Senator GLASS. I understand that, but I am talking about the theory of the thing. The scientific theory is that the central bank or

reserve bank rate should be a shade above the market rate, though as a matter of fact it has never been the case since the establishment of the Federal reserve system?

Mr. RUE. I do not recall an instance when it was so.

Mr. WARBURG. It was so in the beginning?

The CHAIRMAN. Is the Federal reserve rate affected now by the Government's requirements?

Mr. RUE. Not so much.

Mr. WINGO. As a matter of fact, there can not be any stabilization along that line until there is a practical, stable, fixed refunding entered into on a permanent basis of our public debt, can there?

Mr. RUE. I did not quite catch the first part of that question.

Mr. WINGO. There can not be any stable basis arrived at along that line, until there is a fixed, permanent, stable refunding of our public debt, can there?

Mr. RUE. I am not so sure we ought to have a stable, fixed rate.

Mr. WINGO. In other words, that the Government financing will affect this?

Mr. RUE. Certainly.

Mr. WINGO. Will affect the commercial rates of discount until the Government financing is put on a fixed, permanent, refunding basis? I am not saying that for the purpose of undertaking to approve or criticize the present operations, but I am talking about the effects.

Mr. RUE. We find there are a large number of corporations and individuals who buy these Treasury certificates for short-term investments. If those Treasury certificates were not offered in the market then money of the purchasers would probably remain in their banks as balances.

The CHAIRMAN. That does then affect the rates?

Mr. RUE. Oh, it does, but it is not as great as it used to be.

The CHAIRMAN. Does this fluctuation of the bank rediscount rate affect the issuance and retirement or increase the circulation of the Federal Reserve notes?

Mr. RUE. Just let me hear that again, please?

The CHAIRMAN. Does this fluctuation of the Federal reserve bank rediscount rate affect in any manner the amount of outstanding Federal reserve notes?

Mr. RUE. Probably it would. If the Federal reserve rate was raised the banks who are now borrowing would no doubt pay off their loans, which would have a tendency to retire Federal reserve notes.

Mr. WINGO. What effect would that have on the commodity price level?

Mr. RUE. I think we must not confuse commodity price level with interest rates. I do not understand or believe the Federal Reserve Board (I have been identified with it as a member of the Federal advisory council since the system was started) ever, to my knowledge, changed the discount rates with any idea of affecting commodity prices.

Mr. WINGO. I was not asking that in the spirit of controversy.

Mr. RUE. I understand.

Mr. WINGO. I was just asking for your judgment as an experienced man. What in your judgment would be the effect on the com-

modity prices if the thing was done that you have just suggested; that is, raising the discount rates, and the bank then automatically coming in and retiring its indebtedness and the volume of Federal reserve notes? In other words, what would be the effect on the commodity price level if there was a reduction of the volume of the Federal reserve notes outstanding in an appreciable amount?

Mr. RUE. It of course depends how marked the rate increase was. If it was increased to an abnormal rate, in the first place, I think it would frighten the people, and probably would have its effect in lowering commodity prices, at least temporarily, because people who were carrying merchandise would probably throw it over and realize on it.

Mr. WINGO. Suppose there was an orderly reduction in an orderly manner that would not arouse any public apprehension at all. The general public would not appreciate it at all and the public misapprehension or apprehension would not enter into the factor. Suppose there was a steady appreciable decline in the volume of the Federal reserve notes outstanding, say, to the extent of about 25 per cent in two months' time. What, in your judgment, based on your experience and observation, would be the effect on the commodity price level?

Mr. RUE. Well, there are too many other things that affect the commodity price level besides the volume of Federal reserve notes.

Mr. WINGO. Do you think these other things would all remain balanced as they are in the beginning?

Mr. RUE. I do not believe if there was a small increase, as you say, a very gradual increase, it would have any marked effect.

Mr. WINGO. I am talking about a decrease in the volume.

Mr. RUE. A decrease in the volume of Federal reserve notes while business is active, as at present, would only be brought about by an increase in the Federal discount rate.

The CHAIRMAN. Suppose there were $750,000,000 of the notes held abroad. Suppose they should be accumulated and presented here and gold demanded. What effect would that have on prices? Would it change our situation?

Mr. RUE. To the extent of $750,000,000. But the Federal reserve system is so strong that it could stand the withdrawal of $750,000,000. And, what will they do with the gold? Of course, they might need it over there. How can they withdraw it? They are not going to send the notes over for redemption and obtain the gold, except for a purpose.

Mr. WINGO. Mr. Chairman, if you will permit me on that. You may not have got what I was driving at. You never did answer the proposition. Supposing all other elements remain the same that affect price levels, and there should, during the period of the next 12 months, be a gradual reduction of the volume of the Federal reserve notes, say, to the extent of 25 per cent. What effect would that have on the commodity price level?

Mr. RUE. Mr. Wingo, I would like to ask you how you would bring about that reduction of 25 per cent—by increasing the discount rate or what process?

Mr. WINGO. Suppose first that we should increase the reserve discount rate.

Mr. RUE. Of course, I think the probabilities are it would have some effect, because, as I say, it would reduce the borrowings from the Federal reserve banks, and probably make the banks who have been borrowing from the Federal reserve banks call in some loans. They must liquidate somewhere and to that extent it might affect A, B, or C and cause him to realize on his merchandise to pay his debts to his bank.

Mr. WINGO. In theory, the volume of currency has something to do with commodity prices?

Mr. RUE. It has some effect.

Mr. WINGO. I know that is the theory.

Mr. RUE. I think it has some effect.

Mr. WINGO. If all other factors remain the same, and affect the price level, and you had a reduction in the volume of Federal reserve notes outstanding, then if the theory worked there would be a reduction in the commodity price level.

Mr. RUE. It might, if other factors were not operating in a different direction.

Mr. WINGO. But just assume that every other factor remained the same that affect commodity price levels, and you had a reduction of volume of currency. In theory that reduces the price level?

Mr. RUE. In so far as the reduction of the volume of currency produced liquidation; yes. But if it did not; no.

Mr. WINGO. That brings me to the next question I want to ask you: Then the effect of that would largely depend upon whether or not the volume of currency outstanding represents in its entirety a legitimate financing of self-liquidating business transactions, would it not?

Mr. RUE. Of course, you know and I know that a bank may borrow to-day from the Federal reserve bank, and the Federal reserve bank officers may go to the Federal reserve agent and obtain Federal reserve notes.

In a few days, the bank being able, will pay the loan. The bank has paid its indebtedness, but the notes are still outstanding. But the notes will not come in for redemption simultaneously with the liquidation of the loan. They will continue to stay out in circulation even though the bank's loan is paid to the Federal reserve bank. You can not tie the two transactions together. The paying off of the loan does not mean the immediate redemption of the notes.

Mr. WINGO. I want to get at the factors and the facts: If every dollar of Federal reserve notes outstanding is properly out, based upon a sound theory of the Federal reserve system—that is, now, the legitimate demands of the trade and commerce and the exchanges of the country, facilitating the transition from the raw state down to the final consumer. Assume that every dollar of the outstanding Federal reserve notes was a perfectly proper transaction. Then if you did curtail it, that would be a checking and choking down of legitimate business transactions, would it not?

Mr. RUE. But it would be a gradual and orderly process. As I say, you can not match up one against the other, because the currency goes out in the hands of the people.

Mr. WINGO. I am afraid you did not catch me.

Mr. RUE. Maybe I did not.

Mr. WINGO. If there is not any inflation, if it is a bona fide, legitimate expansion, based upon a to-be-boasted-of business activity. Then you undertook to take away from those exchanges, based upon bona fide trade in commerce, these United States exchange instruments, you would necessarily check up the machine of trade and commerce, would you not, to that extent?

Mr. RUE. Yes; but, as I say, the raising of a discount rate would not at once be effective in that direction, because the member banks might retire their loans without immediately curtailing the volume of currency. For instance, supposing my bank had $5,000,000 borrowed from the Federal reserve bank and the discount rate should be raised one-half of 1 per cent, or even 1 per cent, and we should conclude it was no longer profitable for us to keep $5,000,000.

Mr. WINGO. I am not talking about the method by which you do it. Whatever the operation was, it did actually reduce the volume.

Mr. RUE. I am leading up to that, sir. If for the reason that the discount rate was raised to the point it was unprofitable for the bank to keep out that loan, we would pay that discount off. The Federal reserve bank's loans, of course, would decrease proportionately, but the currency which might have been issued against that discount has gone out and still remains in the hands of the people. It will not come in for redemption until business generally reaches a point where there is an excess of currency for legitimate business needs.

Mr. WINGO. That is where you reduce your loan other than by sending in Federal reserve notes?

Mr. RUE. Certainly.

The CHAIRMAN. But, Mr. Rue, right there—is it the practice to renew the substitute collateral back of the loans that are used as the basis of issuance of Federal reserve notes?

Mr. RUE. I do not know. The Federal reserve banks handle that. I am not a member of the Federal Reserve Board; I do not know what their process is.

Mr. WINGO. There are two contentions. There is a contention among some gentlemen—I do not know whether they are right or wrong. One is that there is not a surplus of Federal reserve notes outstanding; that every bit of it is sound, and at the bottom there is a healthy business condition in the country, and that the needs of the business and the changing basis of trade and commerce require these notes outstanding. There is another school of thought that says that we have still got some so-called inflation and that that is bottomed upon this; that instead of these notes representing liquid loans that there is a very general question in respect to most of the Federal reserve notes to substitute collateral and make renewals of loans, and that there is a large volume of practically permanent loans choking down the Federal reserve system. Have you looked into that?

Mr. RUE. I have not. I have no knowledge of such a condition existing, and my own judgment is that there is not a superabundance of currency outstanding for the needs of the country.

Mr. WINGO. You believe sound business requires this volume?

Mr. RUE. I do. Our bank is going to the Federal reserve bank to get the currency continually.

The CHAIRMAN. Of course, there are people who contend, in line with what Mr. Wingo says, that the present outstanding Federal reserve notes are much in the same position as the outstanding national bank notes. In other words, it is a frozen issue. It is not elastic. The fact that it remains out and that renewals of notes are put in back of it make it almost as rigid as are the national bank notes secured by Government bonds?

Mr. RUE. I do not believe any such thing. There may be some isolated cases of the kind you describe.

Mr. WINGO. The fact that you paid off some of your loans would not necessarily mean the retirement of Federal reserve notes?

Mr. RUE. Yes; that is beyond our control.

Mr. WINGO. That is the contention of these gentlemen, that there is not the automatic reduction.

Mr. RUE. Mr. Wingo, you did not complete the sentence as I stated it.

Mr. WINGO. I beg your pardon.

Mr. RUE. I did say that we would do that, but that that currency had passed out into the circulation of the country, and it will only remain out as long as there is a legitimate need for it for business purposes, because as soon as it comes into a Federal reserve bank the notes can not be reissued. If a member bank has a superfluity of currency, the Federal reserve notes can not count as reserve. What are they going to do with them. They are going to put them into the Federal reserve bank. If to-day our bank should have $500,000 of surplus Federal reserve notes, we will turn it into the Federal reserve bank. Automatically that reduces circulation.

Mr. WINGO. That brings up one thing I want to get into the record. Then, according to your statement, the automatic reduction of the loans of the Federal reserve bank does not necessarily mean an immediate like reduction of the volume of Federal reserve notes, does it?

Mr. RUE. As I understand the process, that is so.

Senator GLASS. Mr. Rue, will you be good enough now to tell me how many State banks all this will bring into the system or how many it will repel?

Mr. RUE. What will? This hearing?

Senator GLASS. This process that you have just been going through.

Mr. RUE. How many State banks it will bring into the system?

Senator GLASS. Yes.

Mr. RUE. I would not hazard a guess. I do not believe it is going to change the situation, Senator, at all.

Mr. WINGO. You do not think that you can remove the misapprehension of nonmember banks as to the conditions that I have referred to with reference to the system that would bring any of them in?

Mr. RUE. Mr. Wingo, I do not think there are many State Banks that have very much misapprehension of the system.

Mr. WINGO. You just think they are misled?

Mr. RUE. I do not say that. Some may have misapprehension.

The CHAIRMAN. To get back to the question of reserves of State banks and trust companies, which seems to be one of the collateral issues here: Do you think the fact that State banks and trust com-

panies hold and are permitted to hold Federal reserve notes and national bank currency as legal reserves, tends to make a sound reserve?

Mr. RUE. I think it does. Why not? A Federal reserve note ought to be sound reserve for a State bank.

The CHAIRMAN. One of the other questions collateral to that is the fact that the reserves of State banks and trust companies are partly made up of checks in process of collection. In other words, State banks and trust companies get immediate credit, where the Federal reserve system does not permit it?

Mr. RUE. Yes.

The CHAIRMAN. That is certainly not a sound reserve, is it, to permit that float to be counted as reserve?

Mr. RUE. No. Of course, the argument on the other side, Mr. Chairman, of the State banker, is that he will be permitted by his city correspondent to draw immediately against that float, if you please, and therefore for him it is legitimate reserve, because it is immediately available to him.

The CHAIRMAN. Do you think it would be policy to so modify the reserves of the Federal reserve system as to meet that competition?

Mr. RUE. Do I understand by that question that you mean there should be made available to the member banks all the noncollectible items in the Federal reserve system?

The CHAIRMAN. Yes.

Mr. RUE. No; I do not think so. I think it would weaken the Federal reserve system.

The CHAIRMAN. Do you think the regulations of the Federal reserve system could be modified in any way to meet that competition?

Mr. RUE. May I ask Governor Platt as to the plan under which they work? Do you permit a member bank to-day to draw against uncollected items and charge them interest for that? Do you know?

Mr. PLATT. In the Federal reserve banks?

Mr. RUE. Yes; for instance, if my bank should have two and a half million dollars of uncollected items in process of collection, would the Federal reserve bank permit us to draw against that and charge us interest?

Mr. PLATT. No; it would not. The Federal reserve bank does not credit you until those items are collected. They credit you on the time schedule, of course.

Mr. WARBURG. It is deferred credit.

Senator GLASS. Mr. Rue, do you think that a promise to pay is a good primary reserve?

Mr. RUE. I do not recall ever having said that. It depends on who the promisor is. If the promisor is the Government; yes.

Senator GLASS. Are we on a gold basis in this country?

Mr. RUE. I should think so. You can get gold.

Senator GLASS. Is not gold the primary reserve and only gold?

Mr. RUE. I think the Federal reserve note is a good reserve.

Senator GLASS. It is a promise to pay, is it not?

Mr. RUE. One moment. Is my balance in the Federal reserve bank a promise to pay?

Senator GLASS. Yes.

Mr. RUE. Well, that is a promise to pay; that is good reserve. You count it so, do you not? Our bank to-day may have $6,000,000

or $7,000,000 in the Federal reserve bank at Philadelphia. That is a promise to pay by the Federal reserve bank in Philadelphia.

Senator GLASS. But every note issued upon that has a primary gold reserve of 40 per cent, has it not?

Mr. RUE. Against my deposit, there is a primary gold reserve of 35 per cent.

Senator GLASS. And against the note issue there is a 40 per cent reserve?

Mr. RUE. Yes; there is a 5 per cent difference in the promise to pay.

Mr. WINGO. In one instance there is a 60 per cent basic promise and in the other 65 per cent?

Mr. RUE. Well, of course, none of us questions the integrity of the Federal reserve system. I think a Federal reserve note is good reserve.

Mr. WINGO. I think a Federal reserve note is the best piece of paper money ever issued.

The CHAIRMAN. Do you think it is incumbent upon the Federal reserve system to furnish the money which the State banks and trust companies can carry as reserves in idle money?

Mr. RUE. It is not incumbent upon you, but you can not help it.

The CHAIRMAN. In other words, the only way they can control it is by interest rates and by the presentation of gold to pay them?

Mr. RUE. You can not dislodge those notes in the State bank except by State law making them ineligible for reserve.

The CHAIRMAN. What other method is there for the retirement of Federal reserve notes other than the one you have mentioned?

Mr. RUE. That is the only one I know of.

Senator GLASS. You could put a tax on them, could you not?

Mr. RUE. Yes.

Senator GLASS. The law expressly provides you may put a tax on them.

Mr. WINGO. He was talking about the present taxes.

Mr. RUE. I thought you meant the practice to-day.

The CHAIRMAN. That was the point.

Mr. WINGO. In practical working, how are the Federal reserve notes automatically retired? I mean according to present practice, not according to theory of law.

Mr. RUE. As I told you, I am not a director of a Federal reserve bank, and I am not even an officer of a Federal reserve bank.

Mr. WINGO. You are the head of the Sanhedrin?

Mr. RUE. No; I am looking at him now.

Mr. WINGO. You are looking at me and not the Senator from Virginia. [Laughter.]

Mr. RUE. No, sir. As I understand it, Federal reserve notes are retired from circulation when a bank pays off its notes which it has had under discount or pledged to the Federal reserve bank.

To put it somewhat differently, when the loan is paid off the Federal reserve agent releases the collateral to the governor of the Federal reserve bank or the deputy governor, and he in turn delivers it to the member bank retiring its loan. The money which has been paid releases the obligations, and the Federal reserve notes are then retired as fast as they come in; is that correct?

Mr. PLATT. Yes.

Mr. WINGO. Do you not have to send the notes in?

Mr. RUE. No. The loan can be charged against balances which may be the result of checks collected.

Mr. WINGO. Suppose you owed the Federal reserve bank $100,000, Federal reserve notes having been issued in the first instance, and you have a balance of $200,000 on hand.

Mr. RUE. With the Federal reserve bank?

Mr. WINGO. With the Federal reserve bank; and you tell them to charge off your loan and charge it against your balance. How would the $100,000 Federal reserve notes be retired in that case?

Mr. RUE. They will not come in, as I said in my previous statement. If they are out in circulation and those Federal reserve notes come into the hands of another Federal reserve bank, they are bound, as I understand the process, to send them into the Federal reserve bank of issue and they are retired automatically. I may pay off my loan to-day. The notes which were issued against that loan may stay out for a year if business requires. Otherwise, if the banks of the country should suddenly retire all their loans, you would have a violent contraction of currency.

Mr. WINGO. Suppose that all the Federal reserve notes outstanding were in the possession either of the vaults of State banks, located there as reserve, or they were in the vaults of some foreign institution holding them, and every loan of the Federal reserve system was paid off, you would not have any reduction?

Mr. RUE. No; you would not have any reduction theoretically.

Mr. WINGO. That is a violent assumtion?

Mr. RUE. Those notes themselves would not come in. You must remember, Mr. Wingo, that in this process of the reduction of the currency is continual; that is, going on continually.

Mr. WINGO. Yes.

Mr. RUE. Now, if the member banks of the country do not rediscount or make any loans, or call for any new currency, while there may be certain amount in State banking institutions' vaults, and a certain amount, as the chairman said, possibly $750,000,000—I do not know how many—abroad, that particular money will not come in. But other circulating notes that are continually coming into the hands of the Federal reserve banks will gradually and automatically be retired, and you will have a gradual reduction of the currency; while the specific notes I obtained against my discount would not come in, some other notes would.

Mr. WINGO. I find a good many country bankers, like a great many other people, understand that whenever you go down to the Federal reserve bank and get $100,000, that means $100,000 more Federal reserve notes put out; and that when you go down and pay off that loan automatically those Federal reserve notes are retired. When I tell them that is not true, I am no authority, but when a man like Mr. Crissinger, Mr. Warburg, or yourself says that is not true, that is authority.

Mr. RUE. It is an exception when our bank goes to a Federal reserve bank to borrow $1,000,000 or $2,000,000 that we obtain currency. What we want is a credit on the books of the Federal reserve bank for the amount. It is to make good our reserves. We simply get a credit.

Mr. WINGO. It does not mean that every time there is a loan increase, there is automatically an increase in Federal reserve notes?

Mr. RUE. It does not mean an increase in circulation.

Mr. STRONG. The thought I had in asking the question awhile ago was this: If your position is correct that the Federal Reserve Board or the Federal reserve system ought not to liberalize the rules under which the discount paper——

Mr. RUE (interposing). I do not think I stated that.

Mr. STRONG. Well, if they should keep them as they are now, in what you call paper that is self-liquidating, it would practically confine the notes that they rediscount to paper generally considered city paper?

Mr. RUE. No; I do not think so. I do not think the records prove that.

Mr. STRONG. Well, it would not permit the rediscounting of what we call farm credits.

Mr. RUE. I will not admit that.

Senator GLASS. As a matter of fact, the law actually gives advantage to the country paper. If I am a city merchant I can not get a credit longer than 90 days in the Federal reserve bank through my member bank. But if I am a farmer I can get it for nine months.

Mr. RUE. Yes.

Mr. STRONG. But the requirements of paper rediscounted in the Federal reserve system is such that very little comes in apparently from the country as compared with that which comes in from the towns. So that, as I understood you, awhile ago, but little of the State bank or trust company paper is eligible.

Mr. RUE. I did not say that.

Mr. STRONG. Did you not say that very little of the State bank or trust-company paper was eligible paper?

Mr. RUE. I said some of it; I did not say all of it.

Mr. STRONG. I do not mean all of it; I mean the majority of it.

Mr. RUE. There may be the majority in number, but I do not think as to the assets; no. I think a great many of the State banks and trust companies are doing a regular commercial business.

Senator GLASS. The amount differs in different States; it depends on the law of the States.

Mr. RUE. I say, I do not know what the law of your State is. Your banks probably do a commercial business. If they do, your State bankers certainly have eligible paper.

Mr. STRONG. A great deal of our paper is not eligible for rediscount in the Federal reserve banks?

Mr. RUE. Is it paper that would be liquidated or is it paper you have to renew continually?

Mr. STRONG. Lots of our paper liquidates itself and lots of it has to be renewed. One-third in all lines of business is what you call self-liquidating paper; and two-thirds of it, the loan itself, is renewed.

Mr. RUE. That may be, but you can take any other eligible piece of paper and substitute for it. Your bank could do that.

Mr. WINGO. In answer to our questionnaire there is the answer of a very capable country banker, calling attention to the fact that seven-eighths of the notes in his portfolio are small notes,

that are perfectly gilt-edge, but technically, for illustration, one-name paper. They are not eligible.

What I suppose Mr. Strong is driving at is that there are now a great many country bankers who rely upon the personal equation you have just talked about that exists between the State banks and trust companies and their correspondent city banks. That connection enters into the relations between the nonmember bank and his customer. Here will come in a man, and he will make a note that is perfectly sound and safe, and the experience of that nonmember bank shows that business is sound and safe, and yet technically that is not eligible?

Mr. RUE. Why not?

Mr. WINGO. One-name paper is not eligible.

Mr. RUE. Why not, if the man will make a statement?

Mr. WINGO. I provoked the answer I thought I would. In the next paragraph this man said in order to take that class of paper in we would have to go through so much red tape and expense we could not afford to do it.

Mr. RUE. That is another story. But the fact that it was single-named paper would not debar it, as I understand it. You take a little merchant in a country town who offers a note for $2,000, $3,000, or $5,000. That note is eligible, if it is not over 90 days. The Federal reserve bank may say, "We want a statement from that man." That man can make a statement, though he may not be able to make a statement as a certified accountant.

Mr. WINGO. There really is a misapprehension among the people as to the eligibility of paper?

Mr. RUE. I think so.

Mr. WINGO. There is the notion on their part that the bulk of their paper, seven-eighths of this being of that character that would require a very detailed statement. The transaction on its face would appear to be one that a Federal reserve bank official under regulations and what he thinks is proper would say is eligible. But they contend that the bulk of their paper being of that character, requiring voluminous statements and a lot of expense that for all practical purposes all the paper is ineligible. That is their contention.

Mr. RUE. I think what they do is this: It is human nature for a State banker to follow the line of least resistance. If he can, you say, without going through these requirements of filing statements of his customer, just call up his city correspondent over the telephone and say, "I find I want $35,000. I am sending you down a batch of paper. Can I get it?" They say, "Certainly."

Mr. WINGO. The Federal reserve bank is not, I say, a commercial bank?

Mr. RUE. No; it ought not to be.

Mr. WINGO. And the Federal reserve bankers, by the law itself, is required to do business upon a different basis to what you might do with your customers, whose daily life you are acquainted with. You, like every banker, place a higher value upon the character than collateral. But necessarily the Federal reserve bank looks upon the statement that comes in as of prime importance and upon character as one of the incidental elements that enter into it.

Mr. RUE. They can not be expected to know the individual to the same degree of intimacy that we would.

Senator GLASS. They do not deal with the individual; they deal with the bank.

Mr. RUE. They were not expected to deal with the individual.

Mr. WINGO. And yet you find a great number of these nonmember banks that are making this complaint. They are basing it upon the theory from their viewpoint that the Federal reserve system ought to be run on the same basis as the commercial bank.

Mr. RUE. I think a great many have that misapprehension.

Mr. STRONG. But if it is true that State banks and trust companies have little eligible paper, and it is not proper to change the rules so as to make much of that paper eligible though good, then those banks are not coming into the Federal reserve system, and we can not get them in because they have got to do business with the city bank that will accept their paper for rediscount. That is the point I am driving at.

Mr. RUE. I think that is quite likely so.

Mr. STRONG. Then, what is our hope of getting them in?

Mr. RUE. I think a great many of them never will come in.

Mr. STRONG. That is one of the things for which this committee was created, to find out why they do not come in.

Mr. WINGO. In your opinion is it advisable to get them in?

Mr. RUE. In my opinon it is not advisable to so lower the standards of the Federal reserve system that it will weaken it to get anybody in. They should come up to the standard and not the standard be lowered to them.

Senator GLASS. Do you think we raised the standard of the Federal reserve system when we reduced the minimum requirement to $15,000?

Mr. RUE. I do not think you did.

Senator GLASS. How many banks have we gotten in?

Mr. RUE. I do not know, but I think few.

Mr. WINGO. How many State bankers did you bring in then?

Senator GLASS. I did not bring in any.

Mr. WINGO. As a matter of fact, in your judgment, there are a great many nonmember State banks that there is no advantage either to them or to the system that come in; is not that your judgment?

Mr. RUE. That is my judgment.

Mr. WINGO. And your viewpoint?

Mr. RUE. And my viewpoint with quite a number of State banks.

Mr. STRONG. Then we ought not to criticize the city bank that is encouraging these banks to stay out of the system by sending them the accommodations they need.

Mr. RUE. I do not think a city banker should ever work against the Federal reserve system. I think every bank that is eligible should decide for itself, and it is up to the individual officers of the State bank and its board of directors to determine whether it is to the best interest of the bank and community to stay in or out.

Mr. WINGO. It is not the function of the Government to grasp anybody by the nape of the neck and chuck them in?

Mr. RUE. No. I do not think that is the province of the Federal reserve system or Government to try to force them. They know their own business.

Mr. STRONG. Then, there is no way of making the system available to the country banker?

Mr. RUE. It is extremely so now?

Mr. WINGO. Except by whipping the devil around the stump by permitting rediscounts with a city bank, and then taking other money to loan country banks.

Mr. RUE. That is not whipping the devil around the stump; that is a legitimate process.

Mr. STRONG. That is whipping something around the stump, whether it is the devil or not.

Mr. RUE. It depends upon whether you see the stump or not; I do not see the stump.

Mr. STRONG. The stump is the city banker.

Mr. WINGO. That brings me now to another question I wanted to ask: There are some members that are criticizing this procedure. They say that even under your present ruling that you will not accept from member banks paper from a member that is indorsed by a nonmember bank for rediscount.

Mr. RUE. That is the Federal Reserve Board; it is not our ruling.

Mr. WINGO. That is the present arrangement.

Mr. RUE. Yes; as I understand it.

Mr. WINGO. But, as a matter of fact, they are still aiding these nonmember banks indirectly by taking their paper up. The effect is really just the same as if they permitted the nonmember paper to come in. It is contended that by permitting that kind of an operation we are doing this: We are enabling that nonmember bank to get the benefits of the Federal reserve system without assuming any of its burdens, to wit, such as putting up reserves to the Federal reserve banks and subscribing to the capital stock, etc. Have you any suggestion as to what might possibly be done by regulation or law to check that, or is it wise to check it?

Mr. RUE. My own judgment is that it is unwise to check it. I do not see anything illegitimate or any impropriety in a member bank that has relations with a State bank, that has a deposit account from it discounting its paper, nor is it very greatly different from a mercantile firm that has a deposit. It is a depositor and as a depositor it is entitled to certain considerations from that member bank.

Mr. WINGO. I am talking about the wisdom of it.

Mr. RUE. I see nothing wrong whatever in that member bank granting accommodation to that State bank because of a deposit balance which it keeps with it, using its own resources or its own eligible paper and getting discounts. It may not loan that actual money, it probably does not, to that State bank; it loans its own reserves and rehabilitates its reserves through the rediscount.

Mr. WINGO. In your judgment it is perfectly wise and it is a proper accommodation to continue to have these larger correspondent banks that are correspondents with these smaller banks that are nonmember banks to continue to act as a kind of reserve agent for these banks and then have the Federal reserve system carry the loan through the member bank?

Mr. RUE. If the correspondent banker carries it, it is, yes; I think it is perfectly legitimate.

Mr. WINGO. I mean State banks?

Mr. RUE. Both proper and wise, because I do not think it would be wise to bring the Federal reserve system down to the level to reach in and help these banks, when they can not come up to the standard. They can receive the assistance which they need and the rediscount privileges which they need from their city correspondents.

Mr. WINGO. Is not that the main reason they do not come in?

Mr. RUE. I think it is.

Mr. WINGO. Because they have a system of their own, they can satisfy their requirements with?

Mr. RUE. Yes.

The CHAIRMAN. Then, as a matter of fact, the thing which many banks felt at the time of the organization of the Federal reserve system is not carried out in operations to-day; in other words, the banks who felt they had to go and get on their knees to a city correspondent bank to get money——

Senator GLASS (interposing). And could not get it by getting on their knees sometimes.

The CHAIRMAN (continuing). Now feel that is a proper connection, and that the voluntary system where they can walk up as a matter of right is not sufficient to offset that.

Mr. RUE. I think, Mr. Chairman, some of them are operating both ways.

The CHAIRMAN. Yes.

Mr. RUE. I know of a number of State banks and trust companies that are not members of the system and some that are members of the Federal reserve system. They keep accounts with their city correspondents, and borrow preferably from them, even if they have to pay a little more interest.

Senator GLASS. The paper is not eligible.

Mr. RUE. That is it, Senator; and then they leave with a city correspondent a lot of bonds and securities, and they get the city bank to buy commercial paper for them. We get every day requests from country correspondents, "Please buy $50,000 or $100,000 commercial paper, and enter collection for our account," the next week they find they have a little less money than they need, and they just tell us, "Make us a loan against that paper." In a day or two they pay it off by getting in deposits. That is a facility they do not want to lose, but at the same time they do not want to lose membership in the Federal reserve system, and they maintain them both.

Mr. STRONG. As I understand the proposition, it is perfectly safe for a city correspondent bank to buy this ineligible paper, but it would not be safe if they come into the Federal reserve system, which brings about a system by which a few banks can take their paper to the Federal reserve system and get currency, and that naturally forces the State bank or trust company to do business with the city bank.

Mr. RUE. You say, "A few." What do you call "a few?" As I understand it, there is 75 per cent of the assets of the country represented in the Federal reserve system. That statement, therefore, does not seem to be accurate.

Mr. STRONG. I said, "A few banks." I was not talking about the aggregate.

Mr. RUE. How many banks?

Mr. STRONG. There are not half of the banks in the Federal reserve system of the country, are there, or a third of them?

Mr. RUE. It is estimated that there are 78 per cent of the resources of all eligible banks and 63 per cent of the total banking of the country's resources are included in the system.

Mr. STRONG. I am talking about the number of banks.

Mr. RUE. How many banks are there in the Federal reserve system?

Mr. CRISSINGER. Nine thousand and six hundred.

Mr. STRONG. That is about 25 per cent of the banks in the country.

Mr. WINGO. That is in number; not assets.

Mr. RUE. They are probably not eligible.

Senator GLASS. We have made every pawn shop in the United States eligible, pretty nearly.

The CHAIRMAN. As it is now 12.30 I suggest the committee recess until after luncheon.

(Thereupon, at 12.30 o'clock p. m. the committee took a recess until 1.30 o'clock this afternoon.)

AFTER RECESS

The committee reconvened at the expiration of the recess.

The CHAIRMAN. Mr. Warburg, the committee will now be glad to hear you. I assume that you want to proceed for a time without interruption. At least, the committee will give you that opportunity.

STATEMENT OF HON. PAUL M. WARBURG, MEMBER ADVISORY COUNCIL, FEDERAL RESERVE BOARD, NEW YORK CITY

Mr. WARBURG. Mr. Chairman, I have not prepared any notes. I thought Mr. Rue would make a full statement, and he did. I agree fully with the replies he made in reply to the questions germane to the investigation of your committee.

I would like, however, to say just one word with regard to the eligibility of paper eligible for rediscounts by country banks. I think the people believe, and it was assumed here this morning, that the country banker when presenting paper for rediscount has got to present a statement of his borrower even when the borrower borrows as little as $10. The regulations of the board provide quite specifically that for any loan below $5,000 no statement is required. If the country banker knows his borrower personally he can come in and present that paper for rediscount without having the farmer prepare and attach a statement concerning his condition. We discussed that at the time these regulations were originally formulated in the board. We discussed it quite fully. We were leaning over backward to be liberal with the little fellow.

I think what the committee wants to bear in mind is the difficulty involved in writing a regulation that fits a $100,000,000 bank and at the same time the $25,000 bank; that fits a note for $500,000 secured by Treasury certificates and a $10 note made by a farmer. If the Federal Reserve Board liberalized, as was recommended this morning, the requirements, there would result very serious complaints just on account of would-be transactions of large borrowers. You remem-

ber that when the Federal reserve act was under discussion it was claimed as the greatest danger that people would borrow money from the Federal reserve banks on paper which might not be legitimate. It was argued that for financing speculation in Wall Street or elsewhere paper would get into the Federal reserve banks, and to safeguard against any such possibilities it was necessary by regulations to make a very distinct description of what paper should be eligible.

You can not eliminate these precuations without subjecting the system to very great dangers, both as to liquidity and as to its existence, because it is not only in the much-dreaded New York, but I think the danger is just as great in other cities that paper would creep in which might be speculative or illiquid. That is what must be avoided at all hazards; and I do believe that the standard which is laid down for rediscount must not be lowered, but be kept high.

The question is: Can you afford to lower the standards of the Federal reserve system far enough to attract these recalcitrant country banks, and if you succeeded in drawing them in would that really help the farmer as much as you think it might? The country banker does not come in first of all because he does not wish to invest a beggarly $500 or $1,000 in Federal reserve bank stock at 6 per cent. In the case of the small banks, the largest contingent in number, that is the entire amount involved. Five per cent of the capital and surplus may be less than $1,000, and only half of that is actually paid in. To endanger the whole system because such country banker would want 7 per cent on his $500 or $1,000 stock would be ridiculous.

The next condition is that he would want interest on his reserve deposits with the Federal reserve banks. If that were done, it would force the Federal reserve banks to put out its reserve money, because you can not pay 2½ per cent on reserve deposits and keep them idle unless you want to lose the whole 2½ per cent. As a result the Federal reserve banks would therefore no longer have any reserves. The system would be ruined.

My feeling is that if you would look into the statement of these small banks you would find that many of them are overloaned most of the time. A bank with a capital of $25,000 or $15,000 can not go very far. If it has loans of $30,000 to $50,000 from its correspondent, that is about as much as it can afford. So that if the farmer comes in and says, "I want more money," that little banker will say that it is the unwillingness of the Federal reserve bank that stands in the way, while it is not the Federal reserve system but his own overloaned condition or the unsatisfactory condition of the farmer that prevents him from going any further.

My own feeling is that Congress should not be impatient with that situation. It is useful to remember how in the early days of banking reform the big banks said it was unnecessary to have the Federal reserve system and that the national-bank system was good enough as it was. Since then they have learned to take a different point of view. Later on it was the big State banks that said they did not want to come in; that there was no necessity for them to have any Federal reserve facilities. You could not get them out to-day if you tried. All this talk about State banks leaving the system is fool-

ishness. Do not pay any attention to it. They can not afford to do it.

So it will be with the small banks. By and by you will find that the stronger ones amongst them will come in, and when the stronger comes in the weaker neighbor has got to come in, because he could not afford to stay out. Give them time. As a matter of fact, viewed purely from the point of view of the strength of the system, the weak brothers better stay out, because the fact that they would be members would not substantially contribute to the loaning power of the system.

The system is not helped by their coming in, but quite the contrary. The problem becomes more complicated by their inclusion. I do not know whether I should pass on to some other things or whether you want me to proceed with the further discussion of this phase of the problem.

The CHAIRMAN. As I understand you, Mr. Warburg, you do not think it is essential, then, to the Federal reserve system to have an increased membership of these small country banks?

Mr. WARBURG. I think purely from the point of view of the strength of the Federal reserve system it is stronger without them.

The CHAIRMAN. That is to say, you think the present membership of the national banks and those large State banks and trust companies who find it of interest to come in is sufficient to maintain a reserve requirement to take care of any emergency that might arise in the country?

Mr. WARBURG. Amply.

The CHAIRMAN. And it is probably better for those small banks and trust companies to get their relief through the secondary banks in case they require additional loans?

Mr. WARBURG. They are taken care of to-day, and it would probably be better for them if they had two strings to their bow. I think we ought to try to do our best as far as we safely and consistently can do so to open the door wide for them to come in, and by regulation and in every other way try to make it possible for them to come in, even if it is a burden upon the system. That has been the policy of the board in the past. The burden involved is greater than the advantage for the Federal reserve system, because the examination of a small bank takes as much time as the examination of a big bank, and the correspondence and the amount of labor involved is the same whether you get a hundred checks of $5 each or checks of $100,000 each.

But no matter what the burden may be, that is what the Federal reserve system is there for, to be the servant of those who wish to come in and are in a condition to be admitted.

The CHAIRMAN. You do not think it would be advisable, then, to amend the law to meet the source of competition that has been permitted to go on under the broadening of the State laws, etc.; the payment of interest on balances and the question of meeting the reserve requirements to conform to those laws of the States as to the reserve requirements and those many little incidental things?

Mr. WARBURG. I do not think we ought to do it, and I do not think it would help. I believe that even though you permitted those small banks to come in without making them subscribe at all to the

stock of the Federal reserve banks (which amounts in any case are trivial), even though you permitted every bank below $50,000 to become a member by agreeing to maintain the required reserve balance and to submit to examinations, these little fellows would not come in, because most of them will not stand examination and they do not want to subject themselves to any restrictions on their operations.

I think the Federal reserve system has done all it can to get them in and I believe that gradually the better ones will come.

The CHAIRMAN. Would you care to express an opinion as regards enlarging the law on the question of permitting national banks to have branches?

Mr. WARBURG. I think that unless national banks in cities where the State law permits branch banking get the same privileges in this regard as the State banks, that it is inevitable that the national banks will gradually go in to the State bank system. They do not want to do it, because they are sentimentally strongly attached to the national bank system. Moreover, I have never been able to understand why Congress should be so obstinate in conserving a condition which is plainly ridiculous, viz: That a national bank can come in by the back stairs by acquiring or organizing a State bank with branches, and then by taking over or merging with such State bank could lawfully operate a national bank with branches. But that when it wants to reach the same result by a direct process it would commit an unlawful act; why Congress should persist in conserving so anomalous a state of things and to create a condition which plainly puts the national banks at a distinct disadvantage, I could never understand.

Mr. STRONG. If Congress should continue to fail to permit national banks in the States where State banks have branch banks to have branch banks, what do you think of the suggestion that has been made to pass a law providing the State banks that do have branch banks should not continue in the Federal reserve system or should not be admitted in the Federal reserve system?

Mr. WARBURG. Well, it would be turning the clock backwards, and it would create a great deal of harm all over the country and really for no good purpose.

Mr. STRONG. If Congress decides not to permit the national banks to have branch banks, and the national bank system is threatened with destruction because the State banks, in States where they do have the right to have branch banks, drive national banks out of business—it is suggested as the only remedy, that the State banks who do have branch banks should not be admitted to the Federal reserve system?

Mr. WARBURG. I doubt whether Congress would do that, because many Congressmen come from States where there would be a howl of protest if such a thing should hapeen. It is more reasonable to put the clock forward than it is to put the clock backwards.

Mr. STRONG. How many States permit State banks to have branches?

Mr. WARBURG. Some twenty or so.

Mr. CRISSINGER. I think there are 23 that either permit or have especially authorized it.

Mr. STRONG. That leaves the majority of the States against the proposition of State branch banks?

Mr. WARBURG. If you wished to carry out so drastic a plan, you would have to go much further, because if the State banks would not convert into national banks because they would not give up their branches they might prefer to leave the Federal reserve system and make arrangements to work with the Federal reserve system through a member bank. You would then have to legislate against all indirect rediscounts, etc.

Mr. STRONG. That has been suggested at these hearings.

Mr. WARBURG. On the Federal Reserve Board when we started out we had months and months—even more than that—several years of discussions, whether that would be the happy thought; that is to say, try to cripple the State banks, so that they would then go into the more restricted banking system or whether we should start with the policy of rather liberalizing the national banks so as to make them compete on even terms with the State banks as long as these terms were reasonable. It was never suggested that we should follow any State into competition that adopted unsound policies. There are, in fact, States which guarantee deposits and do other undesirable things, and the first consideration should always be that a State should have a safe and sound banking system. If such a banking system permits branch banks, I think then that in cities where the State permits branch banks, national banks ought to have the same privilege.

Mr. STRONG. Do you not think the recent ruling of the Attorney General permitting national banks to have stations where they can receive deposits and pay checks will practically take care of the situation?

Mr. WARBURG. I do not know. By indirection, I believe that a good deal more than receiving deposits and paying checks will, of course, be done in those stations. You can not prevent somebody being near that teller's window and saying, "I am the representative of the down-town head office. I do not belong to this receiving station, but if you wish to do business I will telephone and see if it can be arranged. I will transmit the message to the head office."

That again brings about a perfectly ridiculous condition, a difference between a straightforward permission and all this indirect and undignified roundabout procedure, I think it so slight that really it would be much better for Congress to do the straightforward thing.

Mr. WINGO. They either ought to have permission to have branches outright, or not at all—financial comfort stations do not amount to anything.

Mr. WARBURG. It amounts to providing a certain comfort [laughter], but I think Congress wants to do more than provide these stations this——

Mr. WINGO (interposing). I am inclined to think, as one who believes in either doing a thing or not doing it, the sound philosophy would be to permit them to have branches outright or not at all. I do not know just exactly how to separate these different functions, what could be done at these stations and what could not. I am somewhat confused by the Attorney General's opinion.

Mr. WARBURG. I am, too.

Mr. WINGO. Do you understand what he has ruled?

Mr. WARBURG. No, sir; I can not understand what he has ruled, but I think I can see what he means.

Mr. WINGO. You understand what he is driving at, but you do not know what the legal effect is?

Mr. WARBURG. Yes, sir.

Mr. WINGO. You know this matter has been up to my knowledge personally for 10 years, and at one time Representative Madden and I got together on a compromise bill that I think passed the House, but I do not think it passed the Senate. So this is no new question. We have been proceeding on the misguided theory from the standpoint of the Attorney General that the law was settled, and that Congress did not authorize this thing, and we woke up one morning and our friend over here announced we were all wrong.

The CHAIRMAN. I gather from your answers to Mr. Strong's questions the impression that you think it most unfortunate that any retaliatory legislation be enacted toward State banks in order to force them into the system?

Mr. WARBURG. Indeed I would.

The CHAIRMAN. I think the State banks and State banking commissioners, too, would look upon such legislation as Mr. Strong has suggested as coercive methods, would they not?

Mr. WARBURG. They would.

Mr. STRONG. Please do not quote me as suggesting that. I only say it has been suggested.

Mr. WARBURG. You see the alternative that all national banks in such States might convert into State banks is a very serious one. Of course, I should prefer the national bank system to survive because, as Mr. Rue says, it is a unified system and for many other reasons.

Mr. WINGO. I can not conceive with my limited intellect of a theory of a law for a national bank in one State that would not apply in another. If branch banking is sound why should not every national bank be permitted to indulge in it; if it is unsound, why should we yield to an unsound theory in order to meet temporary competition? Is it not better philosophy that on matters affecting national interests that the States yield to Federal authority, or shall Congress use its own judgment. Will we surrender to the judgment of these legislatures, or shall we say that the expediency and not sound financial operation shall govern. If branch banks is right, why not say to every national banker, "You can have a branch"? If it is wrong, why authorize any of them to compete in wrong?

Mr. WARBURG. It is a question not of philosophy but of conditions that actually exist. If we were not hampered by these conditions we would of course want to go the whole length in mapping out an independent policy for the national banks. But as conditions are you would encounter a determined resistance on the part of the States. Your desire to live up to the highest philosophy would therefore prevent you from undoing the injustice that is now being perpetrated upon the national banks.

Mr. WINGO. You are a practical man and you have observed the practical workings of practical politics. There is not any doubt in your mind that if Congress would authorize the national banks to

have branches in those States where States authorize branch banks that the number of States that authorized that would probably increase and ultimately all States would authorize it?

Mr. WARBURG. I do not know whether that would follow.

Mr. WINGO. Would not that be the natural tendency?

Mr. WARBURG. It might increase the tendency, but would not of necessity break down the dislike of a State of branch banking where such dislike is firmly rooted.

Mr. WINGO. Would not the national banks in a State who desire branch banking and who believe in branch banking then join their forces with the larger and more influential State bankers in having the legislatures to authorize the State banks to have branches, whereas the very moment the State bank goes to the legislature and asks the legislature to authorize State banks to have branches the national banker's influence is trained against that? But you are authorized by blanket law national banks in States that authorized State banks to have branches, then you increase the influence in favor of branch banking in every State lobby in the Nation. I have been a member of a State senate and I know something about the influence of bankers.

Mr. WARBURG. Would not that be a misfortune?

Mr. WINGO. I suspect you believe in branch banking.

Mr. WARBURG. I believe in branch banking only in cities; I do not believe in State-wide branch banking.

Mr. WINGO. Let us see. If those States are wise and Congress has been unwise, then it should apply to all of them, because if it is wise, it is wise; and if a national bank in a State that does not authorize its State banks to have branches—if it is a good thing for that bank to have it, it is a good thing whether the State authorizes it or not.

The CHAIRMAN. We have a practical situation now in St. Louis, Mo., and in Minneapolis and St. Paul, Minn., where it is very acute. Both of those States prohibit branch banking within the States, and we have national banks there, and by force of competition they think they are in a serious position. Some of them are threatening to leave the system unless they have the right to establish branches.

Mr. WINGO. And still old-fashioned enough to believe that we should better proceed with legislation that affects public welfare along sound lines. Whenever you go to floundering around in expediency you meet yourself coming back.

Mr. WARBURG. I agree that this would be the better way, if you could have it; but I am convinced that you will not be able to get it in the near future. Pending that, if you do not go the other way which we have discussed—admitting it to be only 50 per cent of the ideal—you are bound to see a period when the national banks are going into the State system.

The CHAIRMAN. You mean that the political situation is such that there would be much opposition from those States?

Mr. WARBURG. Yes; of course, you are the better judge of that than I. I only know that when we tried it before it was just the kind of argument that Mr. Wingo brings that blocked our attempt to pass legislation authorizing national banks to have branches in States where branch banking is allowed.

Mr. WINGO. Unless there is a very marked change in the next Congress, I think there will be a deadlock on the proposition. I think we might be able to work out something in the House, and I think that those who control the viewpoint of the Senate are going to be opposed to that of the House. The whole thing is going to be permitted to flounder along in a very unsatisfactory condition, and I am afraid the opinion of the Attorney General is going to make confusion worse confounded. That is my opinion, as one who likes to see orderly, settled conditions existing between the State banker and the national banker, with no more friction than ordinarily arises between two legitimate high-minded competitors.

The CHAIRMAN. Unless members of the committee have some further questions, you may proceed.

Mr. WARBURG. I would like to say a word about the question of the note issue. This morning the note issue was discussed as if the entire volume of outstanding Federal reserve notes have been issued against commercial paper; as if that entire volume were elastic. Now, as you all know, Federal reserve deposits and notes are to-day covered by something like 76 to 78 per cent of gold; and only the top, the 22 to 24 per cent, are covered by paper and are what is termed elastic. The Federal reserve system altogether shows to-day investments of about $1,000,100,000. The capital and surplus of the Federal reserve banks amount to $300,000,000. That capital and surplus represents their own resources.

There is no liability against that, and you may deduct these $300,000,000 and figure in a very rough way that $800,000,000 out of deposits and note issue has been invested. There you have then what as a maximum the Federal reserve system, as such, may be held to have added to the circulation. People who talk about terrific inflation which came from the Federal reserve note issue forget how much of the Federal reserve notes were issued against gold.

Until a few years ago a large portion of our circulation were gold certificates which the Treasury paid out every day. Since 1916 the new gold certificates were impounded in the Federal reserve banks and Federal reserve notes were put into circulation.

So that when we say to-day there are 2,200,000,000 of Federal reserve notes outstanding, it is really largely a substitution for our old gold circulation.

The CHAIRMAN. Right there, Mr. Warburg, it is not clear in my mind: Is the 70-odd per cent reserve Federal reserve notes, or does that include a deposit?

Mr. WARBURG. To-day the gold reserve covers both deposit and note issue to the extent of about 77 per cent. Let us call it 75 per cent, which makes it easier to figure. There would then be 25 per cent not covered by gold. Say there is a note issue of 2,200,000,000, and assume we wanted it all covered by gold. Twenty-five per cent of the note issue would roughly be $550,000,000. If you took those out of the gold reserve and put them all behind the notes, you would still have some 45 per cent of the deposits covered in gold, while the limit on deposits is 75 per cent. And that would be on the basis of a 100 per cent gold circulation.

One has to bear these conditions in mind in order to realize that the circulation that we have to-day is not an inflated circulation; quite the contrary. What the circulation is to-day one might well consider as the approximating fairly healthy and normal requirement of the country.

Senator GLASS. Substituted circulation and substitution of the Federal reserve notes for gold certificates?

Mr. WARBURG. Exactly; excepting the aggregate amount of the investments from deposits and circulation, about $800,000,000. But even there the question arises how much the circulation of the United States would have normally increased with or without the Federal reserve system, because the population and their requirements grew as they always did. I do not believe that by any stretch of imagination the Federal reserve system to-day could ever entirely liquidate all its investments unless new machinery were designed to furnish reserve money and circulation. It could not be done, because the aggregate reserve balances of the member banks which form the basis of the credit structure which meanwhile has been placed on it, are partly furnished by the investments of the Federal reserve banks, and I think as years run along you will probably find that the reserve system's to-day's investment will prove to be about its normal minimum investment for some time to come.

If it tried, as suggested, to liquidate, it might contract a little bit. It would be different if we had inflated conditions; then it could shake out a good deal. If, in fairly healthy conditions, it violently tried to liquidate very much more than the situation would stand, you would get the country into trouble, because the banks then could not pay off the Federal reserve banks without drastically contracting their entire loan structure. In that case they would continue to rediscount at higher rates, but the total investments of the Federal reserve banks would not contract materially. Now, it has been said that if one bank liquidates, such liquidation would at once contract its circulation. But it is the essence of the Federal reserve system that not all member banks borrow at the same time. Mr. Rue's bank may liquidate, but Mr. Miller's bank might borrow that day. Liquidation does not always automatically affect circulation.

As far as prices are concerned, I for one do not believe at all that it is the note issue that makes prices; much rather I believe that in healthy economic conditions, where budgets and note-printing presses have not run amuck, prices affect the volume of note issues. You can readily see that when you examine what happened during the whole period of Federal reserve bank operations. You found that during the war prices rose first, and several months later loans and circulation began to rise. Why? Because the man in the street who buys food, transportation, or a suit of clothes needs more money every day, because prices have risen and more circulation is required, particularly because wages have risen. You see that same phenomenon on the down-hill line of prices. You find that the fall of prices preceeded for several months the contraction of loans and circulation. It is a most dangerous doctrine to say that the Federal reserve system arbitrarily can affect prices because it regulates circulation. Circulation adjusts itself according to the interplay of many economic forces. The Federal reserve system, within certain limits, can affect

its loans, and by contraction of loans it can attempt to give a certain direction—no more than that—to the general trend of the attitude of the banks, so that they may feel they ought to go slow instead of going fast. But the decisive effect on circulation is exercised by the greater or smaller intensity of consumption and production, domestic and foreign, and their effect on the movement of prices.

The CHAIRMAN. The arbitrary fixing of rates and discounts in a condition like that would affect circulation up or down, would it not?

Mr. WARBURG. To a certain extent it would affect loans and through that it might affect circulation, but you can not tell how much, because that depends on surrounding circumstances, as described.

Then, you see, there is another phenomenon, and that is that loans and circulation may in effect contract without the outstanding volume of the circulation being affected. It would be the gold cover underneath that would go up and down. This is more readily understood if you contemplate the inverse process. Assume that to-day that we lost $600,000,000 of gold—we could take that out and send it to Europe, and our circulation need not be affected at all, but our reserves would decline.

The CHAIRMAN. I forget whether you stated what is the amount of gold exchanged for Federal reserve notes outstanding.

Mr. WARBURG. You can not tell exactly how much is exchanged, because note issue is not separated that way. If you take our aggregate of Federal reserve notes outstanding and ascertain how much they are secured by gold and commercial paper, you get some indication.

The CHAIRMAN. I remember that during the stress period of the war gold was contributed by the New York banks in exchange for Federal reserve notes, dollar for dollar. That was what I had particular reference to.

Mr. WARBURG. You can get at it negatively; you can say that if only $800,000,000 are secured by commercial paper that all the rest certainly is against gold, which would mean at this time about a billion and a half.

The CHAIRMAN. Of course, that applies after the gold is once in the system. I realize that it is placed with the Federal reserve agent as security for note issues and commercial paper is also placed there.

Mr. WARBURG. I think you have in the Federal reserve banks about one billion eight hundred million dollars deposits, and we have in the system about three billion three hundred million gold. You see, you get the same result. So that withdrawn from circulation, there would be about one and a half billion. I assume the Federal Reserve Board has better ways of approach to this question.

Mr. WINGO. Do you think that the discount rate has the same effect and the same precision as with the Bank of England?

Mr. WARBURG. No.

Mr. WINGO. Our experience has been that different factors and conditions here make it work differently.

Mr. WARBURG. We have entirely different factors.

Mr. WINGO. So with the rediscount rate here we can not have the same effect and the same precision that the Bank of England does with its discount rate?

Mr. WARBURG. We have the same effect, but not the same precision; that is right. It does not respond as readily, because our system is somewhat differently construed, particularly because our open market transactions, which means our discount market, are not as well developed as they are in England.

Mr. WINGO. And the reason for such precision over there is because their market is so fully developed—much more so than ours?

Mr. WARBURG. Yes. And there are other conditions, too, that play into it. It is too complicated a question to answer with yes and no.

The CHAIRMAN. Do you think if our Federal reserve discount rate were above rather than below the market rate, it would have a tendency to retire the note issue?

Mr. WARBURG. That all depends at what time you increase or decrease the rediscount rate. Take present conditions: We have commercial paper selling at about 5¼ to about 5½ per cent, and our Federal reserve rediscount rate is 4½, which is very low. We have an open market of 4⅛ for bankers' acceptances, and that is about the same rate the open market sets for short Treasury certificates—four and an eighth to four and a quarter. If you consider this rate as the open-market rate governing short-term Treasury certificates and bankers' acceptances, because that is what the banks are satisfied to receive from guaranteed liquid investments not involving a credit risk, and if you compare with that the rate of 5¼ to 5½ per cent, which is the rate for unguaranteed papers involving a credit risk, you find a differential of about 1 to 1½ per cent, and that is approximately the level and where the rediscount rate for commercial paper should be. We could, to-day, advance our rediscount rate to 5 per cent and in the operations of the Federal reserve banks it would probably not make any difference at all. The effect would be one of sentiment.

As Mr. Rue said this morning, the people might get into their head that something was about to happen. In other words, raising a rate which is so far below the market when borrowing at that rate is moderate will not in itself have an important effect. Even if you went to 5½ per cent it would have mainly a sentimental effect where people might take a more serious view of the situation, though in actual operation I do not think it would make much difference, because the borrowing that takes place just now from the Federal reserve banks would likely be about the same as it would be at the lower rate.

The CHAIRMAN. As I recall, the Federal reserve banks can buy paper in the open market at any time?

Mr. WARBURG. Yes.

The CHAIRMAN. And they can use that as security back of note issues?

Mr. WARBURG. Yes.

The CHAIRMAN. So that the Federal reserve banks can at any time they see fit go into the open market and buy paper if they have the gold, put it up with the Federal reserve banks, and secure Federal reserve notes?

Mr. WARBURG. Yes.

Mr. WINGO. Which operates with greater influence, the open market rate or rediscount rates?

Mr. WARBURG. In a paper which I read about a year ago I used a simile. I said that the Federal reserve system is the anvil when it comes to the rediscount operation; it is the hammer when it operates in the open market. In other words, when you fix your discount rate you have to wait until a member bank feels like coming into the Federal reserve bank for credit. But the Federal reserve bank in rediscount operations can not take the initiative. In the open market the Federal reserve bank can take the initiative without changing rates; that is what the Bank of England does.

Mr. WINGO. That is the point I am getting at. As a matter of fact, the open-market operations of the Federal reserve bank affects the credit world and the market more than the rediscount rate, does it not?

Mr. WARBURG. That depends. It acts this way: Assume that the Federal reserve bank has acquired $10,000,000 of Government certificates or $50,000,000 of bankers' acceptances, and it felt that there is a speculative tendency all over the country and that loans are rising too fast and too much. Assume that they do not want to increase rates, but they want to exercise an influence of applying the brakes. The Federal Reserve Board might say to the Federal reserve banks: "Try to get out of the open market, try to reduce your holding of certificates and not to replace bankers' acceptances as they fall due." Then the reserve position of the banks as a whole as against the Federal reserve banks—I do not know whether I am making myself quite clear—gets somewhat crowded; and if the banks of the country can not sell their paper or certificates to the Federal reserve banks they would have to sell them something else in order to keep their reserve balances intact. In other words, taking the banks as a whole, they would begin to rediscount. When they are forced to rediscount, the rediscount rate becomes effective, which up to then was only an anvil position, not a hammer position, and from that moment the Federal reserve bank rediscount rate is effective, and if it should be raised the market will be all the more responsive to it.

The CHAIRMAN. As a matter of fact, Mr. Warburg, it has quite a stabilizing influence if the Federal Reserve Board can buy bankers' acceptances in the market and also short-term certificates?

Mr. WARBURG. Certainly; because the Federal reserve banks thereby can do both; they can arrest excessive speed by withdrawing, but they can also give relief by going into the market and buying. You may have a condition when you do not want to decrease rates but still want to ease a situation, which can be done by increased open-market purchases. In other words, the object may be attained and minor fluctuations may be met without being forced to change rediscount rates.

Mr. WINGO. The open-market operations act with more certainty and more promptness than any rediscount operation?

Mr. WARBURG. Quite right, and that is why some of us have always claimed that a reserve system acting with promptness, smoothness, and precision can only be brought about when our open market is further developed; in other words, when you get a country-wide and reliable discount market.

Senator GLASS. Mr. Warburg, you are an experienced international banker. Do you think it would be the part of wisdom for the Congress to modify the Federal reserve act and reduce the standard of the Federal reserve system in order to get some State banks to join the system?

Mr. WARBURG. I stated before you came in, Senator, that I thought it would be wrong in the extreme to do that. I think that the standard of the Federal reserve system should be preserved at all hazards.

Senator GLASS. Do you think that the perpetuity of the Federal reserve system depends largely upon standards of banking that it maintains?

Mr. WARBURG. Yes, sir.

The CHAIRMAN. Mr. Warburg, it has been insinuated that perhaps many of the larger national banks who are now members of the system might be, because of this competition, forced to leave the Federal reserve system; while as a matter of pride and the public interest and partiotism involved in it are compelled to stay in, the actual dollars' value to them would force them out of the system. Suppose a large number of the big national banks, as many of them have already, should leave the system and many State banks and trust companies remain in the system, would that interfere with the continuance of the Federal reserve system?

Mr. WARBURG. When you say that national banks would leave the system, you mean the national banking system?

The CHAIRMAN. Yes.

Mr. WARBURG. But as they leave the national bank system they would remain members of the Federal reserve system as State banks?

The CHAIRMAN. Yes.

Mr. WARBURG. I do not think the Federal reserve system would be affected by it at all.

The CHAIRMAN. You think their coming in in a voluntary way under the laws we have, finally broadened to permit them to come in, would be as satisfactory in the maintenance of the Federal reserve system as if they remained as national banks?

Mr. WARBURG. I can not see that any bank of standing can afford to leave the system, whether national bank or State bank.

Senator GLASS. You see, if we should exclude State banks from the system purely because they may be permitted by their respective States to have branches——

Mr. WARBURG. No; I do not.

Senator GLASS. Do you think it would be feasible and to the advantage of the system to give national banks the same right that State banks have to establish branches in States where the State banks have the right to establish branches?

Mr. WARBURG. In cities, yes; not state-wide. Except that I always thought it would be a useful thing to agricultural counties, not in the cities, if banks were permitted to club together. In other words, that instead of having 10 weak banks with a capital of $15,000 each, you would have one bank with a capital of $150,000, which would have a stronger loaning and borrowing power. I think that some of the complaints that we are getting right

along are not directed against the reserve system, but against the fact that in agricultural communities there are these very small banks which you called "pawn shops," and that if they are permitted within certain limits, to consolidate into stronger institutions I think it would be to the advantage of the borrowers.

The CHAIRMAN. You think such a branch bank as you suggest, then, is not in contravention to the Federal system?

Mr. WARBURG. Properly restricted as outlined it would not be.

The CHAIRMAN. In the limited manner which you suggested of counties and cities?

Mr. WINGO. The other method, then, is to have a bank in each county or large unit similar to a county and let it have branches?

Mr. WARBURG. Yes.

Mr. WINGO. You would not confine it to these "comfort stations" referred to in the Attorney General's opinion?

Mr. WARBURG. No; the banks would be doing the same business as before, but instead of these little stations—small counters with small men behind them—you might secure a larger point of view, and you might find that there was a possibility of getting these larger concerns into the system and giving the farmer the better facilities he wants.

The CHAIRMAN. The central county bank would answer the same purpose and occupy the same position as a city bank does, not confined to any one county but throughout the State.

Mr. WARBURG. Yes, sir. And similarly you would not have a president in each county branch, but probably a vice president or cashier. I think it would be a more economic proposition and would result in lower charges.

Mr. WINGO. That has been tried in some States in America?

Mr. WARBURG. I do not know. The intermediate-credit banks have been organized to do the same thing to a certain extent; that is, substitute a larger credit power for the insufficient loaning power of the small country banks.

Mr. WINGO. I am under the impression that the plan you suggest has been tried out, except that they had a State central bank that was the parent bank and the county bank, and then had branch offices over the county. My recollection is that it did not prove very satisfactory—in fact, that it was disastrous.

Mr. WARBURG. I am not familiar with that.

The CHAIRMAN. Have you some further thoughts to give us?

Mr. WARBURG. I have some notes which I made concerning this morning's discussion. There is one question which was touched upon concerning which I should like to say a word, and that is about salaries of Federal reserve bank officers. I can tell a good deal about that, because I was one of those who as a member of the first Federal Reserve Board used all my powers of persuasion on some of the men who are still in the system in order to have them come into the system and give up positions where they had much larger salaries. They came in, responding to the plea that they would be rendering a public service; and a good many are still there and in that same spirit and position. Of course, the danger of losing them is getting greater every day, because they have shown themselves able men—hey have made reputations for themselves in their communities—

and others want to get them; and the greater danger is that in present conditions they are getting very tired of serving, and they want to get out. Every now and then one of them comes to me and says, "Am I not a fool to stay in a position where I get a smaller salary than I can get elsewhere and where all the advantage I have is that I am being roasted?" That is a thing which—I hesitate to state it here—Congress ought to bear very seriously in mind. These men have been attacked very unfairly. They serve under conditions which are less favorable than what they could get outside, and still they are being held up every now and then on the floor of Congress and outside for being overpaid and the system as being terribly extravagant. These men are underpaid, and there is grave danger, unless the Federal reserve system is treated with a little more kindness and its servants are given a little more consideration, that the good men will leave. I think there is a great danger in that.

The CHAIRMAN. In that connection, you are aware what Congress did in the last session so far as Federal bank buildings are concerned? It put a limitation upon them. It was also discussed that inasmuch as the Government gets a residue in the form of a franchise tax that perhaps they should also undertake to fix the salaries of the officers of the Federal Reserve Board and the banks. What is your thought on that?

Mr. WARBURG. I think it would be fatal. The more you destroy the feeling of these men that they are doing work in a spirit of rendering a public service the more you interfere with their getting a reasonable compensation without being subjected to all kinds of governmental red tape, examinations, investigations, and insinuations, the more you are likely to drive away men that are worth while. In their place you will get fat job seekers if you go that way.

Senator GLASS. Mr. Warburg, outside of the franchise tax that the Federal Government derives from the Federal reserve, does it own a dollar of proprietary interest in these banks?

Mr. WARBURG. No, sir.

Mr. GLASS. Did it ever put a dollar in them?

Mr. WARBURG. Never.

Mr. GLASS. Has it ever put a dollar in these banks, or does it own a dollar of proprietary interest in the banks aside from the franchise tax it derives?

Mr. WARBURG. Not one cent.

Mr. GLASS. Let me say something about the excise tax right there: The Government of the United States derived as a franchise tax from the national banks of the United States in the aggregate at one time as much as $4,000,000 or a little less. One year it derived from the operations of the Federal reserve system $60,000,000. So that if anybody has been profiteering in this matter it has been the Government of the United States, representing the taxpayers of the United States, which does not own a dollar of proprietary interest in the Federal reserve banking system.

Mr. WARBURG. That is the thought I would like to suggest on the question of the excise tax. Originally it was imposed not for the purpose of raising a tax, the name was taken in order to give it a name, but the true object of this provision to safeguard against the Federal reserve banks being operated for profit. That is why the

stockholders' return was limited to 6 per cent; and I might say in parenthesis that I am opposed to any suggestion to increase that return, because I think if you increase those dividends you would make the Federal reserve banks targets for being profiteers, and you would also give them an incentive to try to make more money, which they should not. The writer of the law sits right across the table from me, and he was aware of the fact that somewhere—if you wish to take away these excess earnings from the banks these excess profits had to be put somewhere.

So naturally it was thought, "Let the Government have everything that the stockholders earn in excess of 6 per cent." It was not the idea of developing a tax or of getting revenue for the United States, but it was sought to devise ways and means by which the stockholders should not get more than 6 per cent. Now, the thing is being turned around, and when these banks go ahead and do their business in a businesslike way—and the whole structure of the Federal reserve banks rests on the thought that the banks ought to be business concerns, owned and directed by directors appointed by the member banks, with their directors appointed by the Government—then the Government steps in and says, "These are my creatures and my banks, and every cent that they spend ought to be controlled by me, because the residuary earnings are mine as the excise tax."

Senator GLASS. Although it has not a dollar in them?

Mr. WARBURG. Yes.

Senator GLASS. Is it not a fact that the large gross earnings of these banks was caused by an inconceivable expansion of the business, due to war activities?

Mr. WARBURG. Certainly.

Senator GLASS. And not to the increase of the rediscount rate?

Mr. WARBURG. That is right.

Senator GLASS. Do you conceive that any of the Federal reserve banks ever increased its rediscount rate with the idea of making profits; as a matter of fact, the net result of that was to reduce profits in the gross, was it not?

Mr. WARBURG. Naturally. As a matter of fact, they do not fix the discount rate; in the final analysis they are determined by the board.

The CHAIRMAN. As a matter of fact, there are two interests to this accumulation of profits outside of the Government—the borrowers in the country and the stockholders in the member banks?

Mr. WARBURG. Right.

The CHAIRMAN. The demand has been presented to Congress frequently, and is expressed in these answers to inquiries, that there should be a larger distribution of the earnings to the member banks. What is your thought on that?

Mr. WARBURG. I just mentioned before that I think it would be a mistake. I do not think that the earnings of the member banks ought to be increased, not that they may not be entitled to it; that is not the question. But even as the system stands at present, where the member banks got only 6 per cent, and where all these large revenues Senator Glass refers to went to the Government, still the charges were raised that the Federal reserve system was profiteering for the benefit of the banks.

The CHAIRMAN. What would they say if the member banks got more?

Mr. WARBURG. And, in addition to that, I do not believe it is a good plan that the management of the Federal reserve banks should get the idea into their heads that they should go and do business for business sake, in order to earn a higher dividend. I think, for the future of the Federal reserve system, it is a safer proposition to leave it at 6 per cent.

The CHAIRMAN. I observe a great misunderstanding here in Congress as to just where the interests of the member banks end and where the Government's interests begin on the question of profits. Two hundred million dollars is provided, of course, in case of liquidation for the building up of surplus accounts. The law provides in case of liquidation any surplus which remains which are earnings shall revert into the Public Treasury. Many Members of Congress have expressed to me the opinion that because of that fact, and because of the fact that they receive in the form of a franchise tax the net income that is declared annually, the Government is interested in this subject, and therefore should direct the management of the banks. That is misinformation, which is deeply imbedded in the minds of many people. I think it is well to get that matter clear.

Mr. WARBURG. It is not misinformation. It is correct that the Government gets the surplus.

The CHAIRMAN. Not only that, but the fact that the Government should take over and operate virtually the system. I can see the tendency growing for the Government to first determine how much money shall be spent for the buildings, and then fix the salaries for the officers. It seems to me the next step would be to fix discount rates; and when Congress steps in to regulate the actual operations of the Federal reserve system, I personally can see danger.

Senator GLASS. Inasmuch as that would be taking property without due process of law, I think an act of that sort would be decided invalid.

Mr. WARBURG. You might answer that, if the Federal reserve bank should lose and the capital would be impaired, the surplus would belong to the member banks until the capital should be restored. So they are not entirely without interest in the surplus. The whole thing is really comparable to somebody who has a very rich uncle and who, because he knows he is going to get the inheritance when the uncle dies, presumes to claim the right to "manage" the uncle while he lives. [Laughter.]

Mr. WINGO. That, Mr. Chairman, leads me to the suggestion: The logic of this discussion is that if a trustee is charged with extravagance and his answer is that the person making the charge has no present or residuary estate it would acquit him.

Mr. STEAGALL. I want to say that it occurs to me that there should not be any less concern in the successful and wise administration or conduct of the affiairs of the Federal reserve system because of the fact that the Government had no direct interest in it, and there should be if that interest is held by the member banks.

Senator GLASS. Is not it held? They do hold it.

Mr. WINGO. The Government created certain trustees for certain member banks in this Nation, and in the creation of that trust the very exercise of the power carries with it the control. I am not much of a lawyer, but I think on that basis a man who is a lawyer might figure something that has not been touched on in this discussion.

Senator GLASS. As a matter of fact, the Government does not control; it never was intended that the Government should control. It was intended that the Government should supervise.

Mr. WINGO. Well, "supervise." Is it logic that the Government is an interloper?

Senator GLASS. Oh, no; the Government is not an interloper; the Government is the very proper beneficiary of the system. It drew down $60,000,000 franchise tax, which was never contemplated on earth.

Mr. WINGO. Is that the reason we went in? To profit off of the member banks created for public welfare and service of member banks?

Mr. WARBURG. Or for the people at large.

Mr. WINGO. Oh, the Government came in because it recognized there was a public interest, just like the transportation merchants under the commerce clause; that is the only justification we had and the only constitutional right we had to go in.

Senator GLASS. Mr. Warburg, you had an intimate knowledge of the discussions of this question when the Federal reserve legislation was in the process of formulation and you had an intimate part in the private personal discussions of these matters. Was it ever intended primarily that these banks should make money or that the Government would have any acquisitive interest in the operation of these banks?

Mr. WARBURG. It was never intended that that should be the case. As a matter of fact, when the Federal reserve system started there was some doubt as to whether it would be able to earn its dividends, you remember.

Senator GLASS. Mr. Mondell stated on the floor of the House that it could not earn gas bills.

Mr. WARBURG. But the main thing, Senator, was that the law quite clearly laid down the principles according to which the Federal reserve banks should be kept out of politics; that is why no appropriation was made for the system. But the whole legislation was drawn up so that it should be independent under very rigid Government supervision. If there is extravagance, if anything is wrong with the system, naturally it ought to be found out and it ought to be suppressed, because extravagance should not exist, but not for the reason that the Government might get a dollar more or less. That is entirely different. The Government is simply receiving an excise tax in order to prevent the Federal reserve banks from becoming money-making concerns. That is why the Government came in, and you might just as well have written that law by providing that the surplus should be given to somebody else. It might have been given to China, for that matter. That would have had the same effect, as long as member banks did not receive more than 6 per cent. The main thing was that the system should not profiteer.

Mr. WINGO. And if it had been provided that all of the surplus earnings should have gone to China as a gift, it would not constitute any reason why the good citizens of the country and especially those charged with the possibility of higher office, would not be interested in the wise and proper conduct of the business.

Mr. WARBURG. That is right.

Senator GLASS. Of course, that is true.

Mr. WINGO. Of course, the parent of the child has a good deal to do with the extent and character of its moral training.

Mr. WARBURG. I agree with it.

Senator GLASS. You may not know it, but my friend from Arkansas is the unsophisticated country boy on this committee, and I am told that I am the representative of Wall Street.

Mr. WINGO. The unsophisticated country boy is simply sitting on the side line.

Senator GLASS. While I am representative of Wall Street; I am put in that class.

Mr. WARBURG. I am proud to hear it, but that is the first time I learn of it.

Senator GLASS. I would like very much to get the usufruct of that position, but I have three bull calves on my plantation in Virginia, any one of which is worth more to me than all my banking interests put together.

Mr. WINGO. That leaves me an opportunity to say that you not only contribute to the financial success of the country, but to literature. You may not know, Mr. Warburg, but the Senator is the author of a very fine literary gem entitled "The Tale of the Heifer."

Senator GLASS. Oh, no; "A Tale of Two Heifers." [Laughter.]

The CHAIRMAN. Mr. Warburg, have you any suggestion for constructive improvement in the Federal reserve system which you would like to give to the committee at this time?

Mr. WARBURG. I would like, if I may mention one think that has been in the mind of the board and several of us for many years, and that is the question of whether the comptrollers office should not be brought under the auspices of the Federal Reserve Board. I agree that there should be a separate office, that there should be one man who is responsible, and who assumes all the duties which are now exercised with respect to examinations and the winding up of banks and all that, but I think it has been a deplorable condition ever since the Federal Reserve Board began to function that there were two officers on the same board which gave different rulings and one delayed the other. We lost in the beginning of operations possibly two years. We might have done what we did in two years instead of four if it had not been for the constant delay.

When we were ready to go one way we had to argue and plead with the comptroller's office until he was ready to move the same way. That was so in the question of the admission of State banks, the question of examinations, and open-market operations, and so on. And even to-day you have the same condition that a comptroller may say, "I want to close branch banks; I do not believe in branch banks." The board may believe in it. A comptroller some years back went before Congress and urged the guarantee of deposits; the board came out against it. It brings about absolutely deplorable

conditions, and the member banks are exasperated because they do not know where they stand. It is a case of two authorities trying to run one system, which I think never works. I believe that those two departments ought to be brought together. Not that the comptroller's office should not function as an entity in itself but that when the board reaches rulings or interpretations that the comptroller, a member of the board, should be included in it, and that there should be one definite control over the whole matter.

The CHAIRMAN. The present comptroller presented an argument against that plan the other day. His main argument, as I remember, was that frequently when national banks fail they owe the Federal reserve banks money, and therefore the Federal reserve banks are preferred creditors, and that it would not seem right to him that a preferred creditor should also repay interest of the depositors who are not preferred in national-bank failure.

Mr. WARBURG. I do not think that what I have in mind would involve very much of a change of what exists to-day in this regard. The comptroller is to-day a member of the Federal Reserve Board, and as such he sits on the creditors' side to-day in case of foreclosures. But, as a matter of fact, the board does not actually deal with individual cases; it is the local Federal reserve bank that does. Moreover, the comptroller could exercise the same discretion as he does to-day, with the difference only that the board would vest these powers in this one member. But when it comes to matters of policy, involving the unity of the system, it would rest with the board as a whole, including the comptroller. I do not see what possible objection there could be against it.

The CHAIRMAN. The objection is also brought forward that if the office of the comptroller is continued as at present, that that department should constitute the sole examining body. That would involve the examination of member banks by the 12 Federal reserve banks or by the comptroller's office. Do you care to express an opinion on that suggestion?

Mr. WARBURG. That is a question of preference. If it should be felt that the examination should be carried on as heretofore from Washington—and a great deal is to be said for that—that could be done under the plan I have outlined. To-day the Federal reserve banks have the right to examine any member, too; and they are entitled to the comptroller's reports, even though in our times we had a hard time to get the report for the Federal reserve banks' use. The Federal reserve banks may be the largest creditors and the people rely on them to supervise the member banks, but there was delay and red tape in their getting reports, and there were important secret reports which in some years they never got unless they asked for them. So you see the difficulties of this dual rulership. I think you could have it both ways. Probably it would be just as well to have the examinations directed from here in Washington, but naturally if the Federal Reserve Board and the comptroller were operating together as one, it would be natural that the Federal reserve banks would get all the information more promptly and automatically without being dependent upon the good will of a comptroller.

The CHAIRMAN. My understanding is that they can simply go out and get the information, but there is no appeal, so to speak; they

have no power to enforce any situation. It is just a matter of information with the board.

Mr. WARBURG. The power to enforce would be the refusal to rediscount. They have more power in that respect than the comptroller. The comptroller can only close up the bank, and that he generally wishes to avoid.

The CHAIRMAN. That would mean practically the retirement of the bank from the system.

Mr. WARBURG. Yes. And then there is this, too: When a bank gets into trouble it is not a question of closing it up; it is much more important to keep it going, and in order to keep it going the Federal reserve bank has to cooperate. It is very easy to close it up but more difficult to keep it going. It is important therefore that there should be the most intimate cooperation between the comptroller and the Federal Reserve Board and Federal reserve banks.

The CHAIRMAN. Of course, there has in the past been some conflict as to who was in control; whether the comptroller was in control or whether the Federal reserve bank was in control, and there are instances, I believe, where some embarrassment has resulted to the bank that was affected.

Mr. WARBURG. That is so. If you permit me I would like to add a word about the future of the reserve system. There is grave danger of its gradually going down, for the reason that the system is not sufficiently protected by Congress. Congress takes a whack at it every now and then, but, as I said before, it shows very little concern to safeguard its integrity.

Take the Federal Reserve Board as such. In eight years there have been six members that went out; which is a terrific turnover. A system of that sort should have continuity, and the member banks and the country at large would like to see continuity and they are entitled to it. But what has happened Men who have made themselves unpopular with certain Senators could not be reappointed, simply because they incurred the enmity of these men. At the meeting of the American Bankers' Association at Atlantic City a few days ago there was passed a resolution suggesting among other things whether it would not be possible for Congress to trust the President in reappointing a Federal Reserve Board member when once he had been confirmed by the Senate at the time of his first appointment. You see what is involved in that. It is all right for the first time when a man is appointed to the board that he shall go through the whole process of investigation, if that is desired. But once the Senate has been satisfied that the man is all right he should not be exposed again to this process of grilling or knifing, because, for one reason or another, he conscientiously could not make himself subservient to a Senator.

Mr. WINGO. That would mean, permanent appointment at the will of the Executive?

Mr. WARBURG. Yes. I think the President ought to be trusted with that responsibility.

Mr. WINGO. That would be the effect of it. A man could serve during the pleasure of the Executive, with no power of the Senate to reach him except at certain periods.

Mr. WARBURG. The President has the right to remove any member at any time.

Mr. WINGO. In other words make the life employment subject to the pleasure of the executive?

Mr. WARBURG. No, not at all, because I should think if a member is not a good member and his term expires the President would not reappoint him.

Mr. WINGO. A man might be a good Member of Congress, and yet the voters desire to retire him. But, according to your theory, if a man makes a good Congressman, the voters ought not to be given the power to retire him.

Mr. STEAGALL. I think if you can extend your doctrine far enough it will meet with great approval around the Capitol!

Mr. WINGO. As a matter of fact, it is just as well to recognize the tendency.

Mr. WARBURG. I assume——

Mr. WINGO (interposing). With the exception of one Member the Senate of the United States has not been inclined to be that liberal. Have you ever heard of the Senate giving up a prerogative?

Mr. WARBURG. Not unless there was very strong public opinion back of it. But I believe if the Congress saw this system headed for the rocks. unless something is done for the Federal Reserve Board——

Mr. WINGO (interposing). Suppose you could convince Congress that that was wise, what kind of a propaganda would you get out to convince the public?

Mr. WARBURG. I would not undertake any propaganda, but I think the thing would unfortunately carry its own propaganda, because if this tendency as it now exists continues it will be found increasingly difficult to get good men to serve on the board and by and by the system from top to bottom will deteriorate. Imagine what it means to-day when any man going on this board knows in advance that when his term expires unless he has complied with certain things he should not comply with, he is exposed to that kind of knifing. For a small salary a man is expected to give up his career and undertake a public duty which he knows he can not conscientiously perform without becoming a helpless target of some disgruntled Senator. I do not like to discuss this, but I think it is my duty to do it since I have been on th board, since I am deeply concerned in the future of the Federal reserve system, and since I know what I am talking about.

Mr. WINGO. Do not misunderstand me. The discussion must nec essarily be an academic discussion, because it is not in the realms ot possibility.

Senator GLASS. You had just as well talk about the revolution of the earth on its axis as to talk about the Senate giving up its prerogatives.

Mr. WARBURG. If this suggestion is academic, I think Congress ought to study what other relief may be practicable. I think something ought to be done.

Mr. STEAGALL. All men who hold high positions in this country are subject to criticism and are going to continue to be, whether officers or private citizens or what not. Our theory of government is that discussion and freedom of speech revealed the truth and no man should dread it.

Mr. WARBURG. Does it, though, Mr. Congressman? I think Senator Glass will bear me out that the rights and chances for the use of the freedom of speech are very unevenly divided in such cases and frequently there is not freedom of speech at all, because the subtle work is done in the dark or behind closed doors. In any case the fact remains that service on the board in such conditions opens possibilities so distasteful that men of independence and worth will hesitate more and more to accept it.

Mr. WINGO. If you mean the United States Senate, that is the only place I know of where there is freedom of speech.

The CHAIRMAN. The committee will now be glad to hear Mr. Miller.

STATEMENT OF HON. JOHN M. MILLER, JR., RICHMOND, VA.

Mr. MILLER. Mr. Chairman and gentlemen, so much has been said that it is quite difficult for me to know where to begin, but it is well for me to say that I am from Richmond, Va., of the fifth district, composed of Virgina, the two Carolinas, West Virginia, Maryland, and the District of Columbia. The fifth district outside of the cities of Baltimore, Washington, and Richmond, is composed of what we term country banks, and it seems to me that one of our first duties ought to be to try to satisfy the country member banks of the system. There is a very general feeling, I think, with a number of country banks that they are not in close touch with the system; they do not understand it; they are not at all enthusiastic, and to me it seems that one of our first duties should be to make our banks enthusiastic members of the system, thereby emissaries to bring into the fold other banks who should be in the system.

I am of the opinion that where there are hundreds of banks we ought to have in the system there are probably thousands of banks that are ineligible and will never come into the system. I think we ought to address our work and thoughts largely to making more enthusiastic members who will in turn help to bring in nonmembers who are eligible and should be in the system.

The member banks are dissatisfied in many respects, and for various reasons. One of the chief objections of the average member bank that has not studied the system as possibly some others have, is that they get no interest on balances. I will not undertake to argue that, because I think we all agree that interest on balances in the reserve bank is absolutely unsound and should not be considered; but they lose interest on balances, and that does not make them feel good.

The CHAIRMAN. In other words, Mr. Miller, they have forgotten the changes in the reserve requirement that came about with the Federal reserve act, which was lowering the legal reserve requirements?

Mr. MILLER. Yes; to a considerable extent they have. But later on I will undertake to show you that while although that reserve requirement has been reduced the average bank that I have investigated carries nearly as much working capital as it used to carry under the old national banking act.

Another thing that does not appeal to the average country bank is this, that no part of its actual cash in its vault counts as reserve.

Another is that the city bank—that is, the bank located in the 12 Federal reserve cities and the branch bank cities—has some decided advantages over banks located in the country miles away from the centers.

One of the obstacles to nonmember banks coming into the system is the reputed action of the Federal reserve banks in forcing par collection, which the courts have ruled against, made a great many enemies for the system.

A large majority of the nonmember banks—or, probably I should say, practically all—want interest on their balances, which can not be considered, but which we will talk about later.

Of course, the nonmember banks have the advantage of more liberality in the State charters. They can do a great many things under State charters in a great many States that can not be done under a national charter. The nonmember bank objects seriously to the reserve requirements of the Federal reserve system; it objects to the supervision. You know that numerous reports have to be made; the fact that it can not make loans on real estate as freely, and various other things. They speak of the ineligibility of their paper. That can be corrected in a great many cases, as has been cited here to-day. But do not let us overlook the fact that the country bankers, I think, probably expanded in greater proportion during the past few years than the city banks. I know we had many cases in the fifth district, where practically all country banks were borrowing from the Federal Reserve Bank of Richmond; some were borrowing to the extent of five or six and seven times their capital.

Senator GLASS. In one case seventeen times.

Mr. MILLER. Was it that much? Now, they must have eligible paper in pretty considerable proportions in order to get all of that. The basic line did not apply in those cases.

The basic line at that time had to be waived to keep some of them from failing. But I am not prepared to believe that the well managed country bank can not have enough eligible paper to give him a pretty liberal line in the Federal reserve banks. That is evidenced by the fact, that, as Senator Glass said, one bank got seventeen times its capital.

Under the old national bank act, we were limited in borrowing money to 100 per cent of our capital. The Federal reserve system, in the mind of the average banker, meant an unlimited credit. I have heard very intelligent men ask, "Why can not the Federal reserve bank lend indefinitely?"

We reached a point where we found we had to stop and a deflation period came on. So, I think the ineligibility of the paper of the country bank has been very much overrated, because that has been proven by the fact that they have found eligible paper to the extent of five or six times; and in one case seventeen times their capital stock.

Let me get back to the question of payment of interest on balances, which is unsound and which should not be done, as more profound bankers than myself have said, but it does seem to me entirely reasonable and proper that a member bank at the end of the year, if there is any profits over and above proper taxes, dividends, salaries, etc., and overhead should share in it—that the mem-

ber bank who has contributed all of the capital to the system, with the exception of $85,000 appropriated by Congress for organization purposes—that is all the Government, I think, ever put into it—it does seem reasonable to me that at the end of the year, after proper provision has been made for dividends, taxes and a certain proportion to the Government, that a certain percentage of the earnings should be divided among the member banks in proportion to the average reserve balances for that year.

I do not believe that that would be an incentive to the directors of the Federal reserve banks, or to the Federal Reserve Board, or to the managers, to do an unwise and unsafe business for the purpose of making profits. But the profits are incidental. If they are there, I believe a certain proportion of them ought to go back to compensate these banks for the balances they have carried throughout the year. I do not believe there is anything unsound in that, and I believe that sooner or later something of that kind must be done to hold these banks to the system.

The CHAIRMAN. What per cent of the earnings do you think should be made applicable to that payment?

Mr. MILLER. Mr. Chairman, I have not studied that out carefully. But, first, I think the Government ought to be compensated with a certain tax on its uncovered circulation. A 6 per cent dividend ought to be paid on the stock. Profits over and above that—just for illustration, I should say, might be divided equally between the Government and the banks.

The CHAIRMAN. Based on the average balances?

Mr. MILLER. Based on the average balances.

The CHAIRMAN. You would consider that an equitable distribution?

Mr. MILLER. I would consider it an equitable distribution. Every dollar that was put into these banks, with the exception of that original fund for investigation, location, etc., has been paid by the banks.

The CHAIRMAN. You do not think that would be an inducement or encourage the Federal reserve system to be a money-making system?

Mr. MILLER. I do not. I think you can always count on good men on the boards, conservative business men to be elected by those boards and to be appointed from Washington. The Federal Reserve Board is appointed by the President. It seems to me that is all the protection that a practical business man could expect to get from any business organization.

The CHAIRMAN. You agree that the Federal reserve system should not be placed in competition with other banks, do you not?

Mr. MILLER. I certainly do. To pay interest on balances would force the Federal reserve banks into competition with member banks; it would force them to go ahead to make money to pay the interest and the overhead, etc. Interest on balances would defeat the purposes of the Federal reserve system. You would not have any reserves at the time when the strain came if they were in the money-making business.

The CHAIRMAN. That would put the Federal reserve system in straight competition with banks. In other words, they would have

to go into the open market and buy paper or invest in securities to get money enough to pay interest on those balances?

Mr. MILLER. Certainly; that would put them in competition with member banks. The theory I had in mind was something like a mutual life insurance company. You pay a premium on your policy of probably $50 a year. At the end of the year you get a dividend. You do not know what that dividend is going to be. It may be considerable; it may not be anything. But it is just excess profits that are incident to the business that will come back to the member banks in consideration of their balances which they have kept, and it will, I believe, tend to offset this hue and cry for interest on balances.

You will be surprised from where that demand for interest comes. It comes from nearly everywhere, from people who have not studied this system or understand it. It is easy enough to explain it to them if you can reach them. But few are making it their business to reach them on that point. There is something like $200,000,000 surplus in the Federal reserve banks. Who does it belong to? Not to the people who have contributed the capital. It is a dangerous fund there to-day, in my opinion, and will grow more so year by year. It belongs to the Government, and is a temptation to break up this system when the charters expire, an awful temptation to have probably half a billion dollars in the Federal reserve banks that belongs to the Government. Why can not a number of statesmen come along and say: "We will break up this system, and we will take the half billion dollars and cover it into the Treasury." There is a great danger in building that fund up as property of the Government.

Now, Mr. Chairman, I am going to make a suggestion which I know will not meet with Mr. Warburg's approval. I do not know whether it meets with Mr. Rue's approval or not. Those gentlemen are scientific bankers, and I doubt if this proposition is scientifically sound, but I believe it is practically safe. No part of the cash in the vaults counts as reserve. I do not know what Senator Glass is going to say. You have reduced the reserve requirements. I am going to tell you about the bank I represent, the First National of Richmond. Our reserve in the Federal bank, our cash in our vaults, our balances due from Philadelphia, New York, Chicago, Boston, Baltimore, and other banks necessitates our working capital to be just about as much as it was under the old national bank act, and possibly more; but it is about 25 per cent of our gross deposits. Scientifically what I have got with the Philadelphia National Bank, the National City Bank of New York, and the Continental-Commercial Bank of Chicago is not real reserve.

The CHAIRMAN. What you might call a working balance?

Mr. MILLER. Yes. But practically it helps very much. The requirement in Richmond and Philadelphia is 10 per cent reserve in the Federal reserve bank; in New York and Chicago it is 13; in Danville and Lynchburg it is 7 per cent.

Philadelphia, New York, Chicago, and Richmond each have a Federal bank in their city. We can conduct our business with a very limited amount of cash. Why? Because we can go across the street to the Federal reserve bank and replenish it in 15 minutes.

Danville and Lynchburg can not do that. They have to carry more, because they are 24 hours away from the Federal reserve bank. In Richmond we carry in our bank approximately $200,000 of cash. Under the old system we carried $500,000 or $600,000. We carry a limited amount of cash because we can replenish it, as I say, in a few minutes. Lynchburg and Danville, in my opinion, can not conduct their business with the same proportion of cash in their vaults that we can, because they are 24 hours away from the source of supply. It seems to me that probably not exceeding 1 per cent, or one-tenth of our reserve, in Richmond or a Federal city might be counted in the vault. New York and Chicago have 13 per cent requirement; 1 per cent might be counted, which would be the one-thirteenth of their reserve; in Richmond, one-tenth; and Danville and Lynchburg, one-seventh of their reserve. I think we shall have to make the Lynchburg and Danville banks, just as an illustration, feel that Richmond will have no decided advantage over them from a cash standpoint. There can be no better real reserve than lawful money in your vault; that is 100 per cent reserve. In Richmond if our requirement was 9 per cent balance in the Federal reserve bank and not exceeding 1 per cent in our vaults, we would be equally as strong, although we would take from the Federal reserve bank 1 per cent, or one-tenth of our average balance.

I say it may not be scientifically correct, but practically I believe it is absolutely safe.

I was talking a month ago with the president of a bank in Chattanooga, and he said he had to carry just as much cash in his vault as he did under the old national bank act. Why? Because he was probably 100 miles from the Atlanta Federal Bank.

The CHAIRMAN. Let me see if I get clearly just how you would do that. You would allow a certain percentage of your total reserves to be kept in the vaults of your own bank?

Mr. MILLER. Yes, sir.

The CHAIRMAN. In any kind of money known as cash?

Mr. MILLER. Lawful money, we would call it. I would not say Federal reserve notes, because that is scientifically, I judge, incorrect—but lawful money.

The CHAIRMAN. If you did not have a limitation on it, there are some banks that would keep all of their reserves in their own vaults.

Mr. MILLER. But, remember, I said 1 per cent of your net liabilities, but one-tenth of our Richmond reserve. Let me illustrate that. Our average reserve requirements in the Federal reserve bank is $1,500,000. If that were changed we could keep $1,350,000, and the other $150,000 in our own vaults, we might keep $300,000 or $400,000 in our vaults, but should not be allowed to count over $150,000 of it, viz, one-tenth of our total reserve.

In Danville, for instance, their requirement may be $700,000, just to illustrate. They would carry $600,000 in Federal reserve bank, and $100,000 in their vault. I assume that is about the proportion of cash they would have to carry, because they are 150 miles from the Federal reserve bank.

Mr. WINGO. In other words, you would permit a certain part of the reserve to be made up of that particular part of lawful money in your till?

Mr. MILLER. Yes.

Mr. WINGO. In other words, say a bank in Richmond had $100,000 in its reserve requirement, and for arbitrary illustration you would say they might count $10,000 of lawful money in their till as part of that reserve.

Mr. MILLER. Yes.

Mr. WINGO. Even though they might have $100,000 till money, but you just count a certain percentage of their reserve might include that amount that is in the till?

Mr. MILLER. Yes.

The CHAIRMAN. That would mean, then, simply a lowering of the legal reserve requirements in the Federal reserve banks?

Mr. MILLER. Certainly it would, sir.

Mr. WINGO. Do you think that on the theory that the basis for which reserves are maintained could be conserved in practice, though not in theory?

Mr. MILLER. Yes.

Mr. WINGO. In other words, reserves needed for such purposes, and as a practical matter you could meet those purposes with this till money just the same as reserve balances?

Mr. MILLER. I do.

Mr. STEAGALL. You say it would result in lowering the reserve requirement. You do not mean that entirely. You would leave the law exactly like it is. You would leave the requirement in the law as it is, but you would let him count against that certain percentage carried in the vaults of the banks as lawful money, and that at all times to be accounted for?

Mr. MILLER. It would reduce the amount of legal reserve in the Federal reserve banks, but the total percentage of the legal reserve would be the same.

Mr. STEAGALL. The total would be the same. So they would be checked on it and required to maintain it as required by law?

Mr. MILLER. Yes.

Mr. WINGO. You would not change the money segregated; you would just allocate the amounts in point of segregation?

Mr. MILLER. Yes. In the case of Richmond 9 per cent would be in the Federal reserve bank and 1 per cent could be carried in your vault.

Mr. STEAGALL. And that you think would relieve the complaint on the part of the banks removed from Federal reserve cities on account of the advantages enjoyed by those competing?

Mr. MILLER. I think it would go far toward it.

Mr. WINGO. In other words, that would equalize in actual practice the difference in the till money that has actually to be carried?

Mr. MILLER. Yes. Right at that juncture I might say this, that a bank located a hundred miles or two hundred miles from the Federal bank has one advantage over the member bank located in a Federal reserve bank city.

Mr. WINGO. That occurred to me awhile ago that there was an advantage.

Mr. MILLER. This is one advantage which is offset by another which I shall mention later. The checks on the First National Bank of Richmond in the hands of the Federal Reserve Bank of Richmond are presented to us to-day and we pay them in cash. The checks held by the Federal reserve bank today on Danville or Lynchburg have to be sent to them by mail, and they have practically two days in which to pay those checks, and they sen back the checks in payment to-morrow, to Richmond, and they really have that advantage of two days.

To offset that, however, the items that we send to the Federal reserve bank for our deferred credit reach the Federal reserve bank the same day, whereas those same checks sent by a Danville or Lynchburg bank could not reach the Federal reserve bank until the following day. They lose one day on that, but they beat us on the paying, which more than offsets the advantage we enjoy, and therefore I do not think there is any necessity for suggesting a change in that.

Just one more practical suggestion, as I am talking purely from the standpoint of practicability. It may not be scientifically sound, but it is on this question of deduction from your total liabilities. We have the country bank at a disadvantage; that is, the city banks have. Under the present law due from banks——

The CHAIRMAN (interposing). You are speaking now of the float?

Mr. MILLER. No; I am not talking about the float. I do not believe in the float as reserves. Under the present law and the old national bank act, due from banks and checks on other banks in the same city may be deducted from "due to banks" in figuring your reserve. Let us see how that works. I hesitate to be talking about the First National Bank of Richmond all the time, but I know more about that than any other bank, and therefore use it as an illustration. We have about $7,000,000 due to country banks. On an average every day we will have due from deferred Federal reserve bank account, and due from New York, Baltimore, Philadelphia, Chicago, and country banks an average of $4,000,000. In computing our reserve that $4,000,000 due from banks may be deducted from that $7,000,000 due to banks, and our reserve requirements then is on $3,000,000 of country bank deposits—the net amount—and not on the total $7,000,000. That reduces our requirements very considerably, and it is a decided advantage.

The bank in Lynchburg and the bank in Danville, which I use again as illustration, do not get that same advantage. Why? Because, we will say, they have comparatively small amounts due to country banks. If the bank at Danville, for instance, owes to country banks $100,000 and has due from its deferred account in the Federal Reserve Bank of Richmond, from banks in New York, Philadelphia, Chicago, and other places, and checks on the other Danville banks $400,000, they can deduct that $400,000 only from that $100,000, which leaves $300,000 that avails them nothing.

Due to banks and due to individuals, merchants or corporations is actually the same liability. In the case of liquidation, they absolutely stand on the same footing. They both are liabilities, and the bank in Danville or Lynchburg should, in my opinion, be permitted to deduct from the total of their liabilities their total due from banks, etc.

The CHAIRMAN. Or, in other words, from their regular deposits?

Mr. MILLER. From their regular deposits; they are all the same liability. Why cut them out of an advantage we happen to have simply because we have a large volume of country-bank balances?

Mr. WINGO. That is for the purpose of figuring reserves.

Mr. MILLER. For the purpose of figuring on the reserves required.

The CHAIRMAN. I was interested in your suggestion on the other matter of the exchange in reserves and the advantage that Richmond has over Lynchburg and Danville in that respect. Could you not carry that still further if you applied your rule to the small country bank in, say, a town of 5,000 or 10,000? In other words, if you establish that, would not the banker in the small town of five or ten thousand feel he was being discriminated against by the bank in Danville or Lynchburg? Would it not accentuate that situation, and would not it also necessitate lower reserve requirements in the small country towns to meet that competition?

Mr. MILLER. The small country banker in the town of 5,000 or 10,000 population has a reserve requirement of 7 per cent, Danville 7 per cent, and Lynchburg 7 per cent. I am inclined to think that is just about as low as you ought to go.

Before I came up here I correspended with a number of banks scattered through Virginia, North and South Carolina, and West Virginia, and as far as Chattanooga and Atlanta. I received various ideas from them. But this suggestion as to a certain amount of cash in the vaults being computed as reserve and this equalization on account of deductions it seems to me ought to have consideration. I repeat it may not be scientifically sound, but I believe it is absolutely and practically safe, and we should, I think, look at the practical, safe side of it.

Mr. MILLER. Just one more thought, about bringing member banks closer to the administration of the Federal reserve banks. There is undoubtedly a feeling of aloofness on the part of many country banks. They do not understand the system thoroughly. They do not meet the officers and managers of these Federal reserve banks as we people in the same city with them have an opportunity to know them and to become intimate with them and get their point of view. There is a feeling of aloofness that ought to be overcome. A Federal reserve bank is different from a commercial bank such as I represent. The Federal Reserve Bank of Richmond has no competition, and in any line of business where you fail to have competition there is bound to grow up a feeling that there is autocracy or arbitrary management in any concern of any kind or any men in any line of business without competition. Therefore we should try and overcome that in some way. We should try and bring these member banks in close contact with the officers of the Federal reserve banks, make them understand the system, explain things to them, answer questions. Some of the questions that they will ask may appear simple, but how can a man find out things without asking questions, and frequently apparently simple questions, when he is not well informed. But they have a timidity about them and must learn these things as we people do who come in close contact with the problems.

The member banks own the Federal reserve banks under Government supervision. But they do not feel sufficient interest in the

management. What do you know about it? They have only a voice in electing directors, but probably only half or two-thirds vote and the others do not. They are more or less indifferent. They say, "It is going on anyhow. Let somebody else do it."

The CHAIRMAN. Let the correspondent banks run it?

Mr. MILLER. The correspondent bank as a rule is in closer touch, and these people rely on the correspondent banks, as Mr. Rue said, for a great deal of advice and suggestions. They ought to be brought in closer contact with the reserve banks, and they ought to get into gatherings, ask questions, and have the whole thing explained to them, and make them feel they have a proprietary interest and have a voice in the management and ought to take a more active part in the management.

The CHAIRMAN. You think that might be brought about by a different method in holding elections?

Mr. MILLER. I do not know. I had not thought of that. But here is a thought I had in mind and I would not have you understand that all these thoughts I am trying to express are original with me. Very few of us have original thoughts. We get our thoughts from reading and study, just like lawyers and statesmen, by collation of what we have read and heard. But all of our five States and the District of Columbia have their banker's associations. I should say that probably every member bank of the Federal reserve system in the fifth district is a member of a State Banker's Association. At least once a year member banks should have a convention. That convention could be held at the same time that the State banker's associations have their conventions, and a day set apart which would be Federal reserve member convention day. A representative of every member bank should be urged to attend that, and he would probably be more careful to attend his annual convention if he knew that the Federal reserve system was going to be threshed out for a whole day. There should be as large an attendance as we could get. We should have the officers of the Federal Reserve Bank of Richmond, we will say, there to explain the system, to answer questions and hear criticisms, and to, if I may use the much used term, "sell the system" more thoroughly to the member banks. Every State has its banker's association; every State could have gatherings of that kind and in that way enlighten their member banks.

Further than that, this work should be carried on throughout the year. You know we have the advisory council that advises with the Federal Reserve Board. That advisory council, as you gentlemen know, is composed of one delegate from each of the 12 districts, selected by the Federal reserve bank boards of those respective districts. They come to Washington and advise with these gentlemen and help keep them in touch with conditions through their respective sections. These banker's associations in each district ought to have these annual meetings for this exchange of views. Each association ought to have at least one member of the advisory council of that district. That advisory council's duties should be very similar in respect to the Federal reserve banks, as the advisory council of the country is to the Federal Reserve Board, where they can meet four or five times or oftener a year if advisable to, get in touch with the Federal reserve bank officials, bring to their attention criticisms, com-

plaints and suggestions, and in that way bring the member banks in closer contact with the Federal reserve bank officers. There is an ignorance of the Federal reserve system that I believe should be corrected and cured by educational methods, and I cannot think of any better method of doing so than in this way.

The CHAIRMAN. In each one of the Federal reserve districts it has been pointed out to this committee there is a bank relations department. Such a plan as you suggest here would naturally be worked out through that, would it not, in cooperation with the State Banker's Association?

Mr. MILLER. I do not know much about the bankers relations department. What do you call it?

The CHAIRMAN. Member bank relations service.

Mr. MILLER. I am not familiar with it. I am from Richmond; and have not come in personal contact with it.

The CHAIRMAN. Some of the banks do maintain it.

Mr. MILLER. Doubtless they are doing educational work.

The CHAIRMAN. I know in my State, for instance, at our anual State conventions usually the governor and the vice governor and the officers of the bank are in attendance. Pennsylvania is divided up into eight groups, and they have their group meetings at different periods during the year, and there are always present representatives from the Federal reserve bank who usually speak at these meetings. That somehow answers your plan?

Mr. MILLER. I think undoubtedly the Federal reserve bank at Richmond is doing a lot of educational work.

Senator GLASS. By personal contact?

Mr. MILLER. By personal contact and otherwise.

An advisory council, it seems to me, from the various districts should have about the same authority as the advisory council to the board has to advise. But it cannot enforce any of its ideas upon the board, only by moral suasion and influence, and giving the board the status of what is going on in the territory and the complaints here and there and helping them find a way to solve difficulties.

The CHAIRMAN. As I recall it, the creation of the Federal advisory council was the answer which the framer of the law made to the bankers who demanded representation on the board. They were willing to have a man representing the interests of each district to meet at certain periods in Washington with the board and present the views of that district as regards the service and condition of that district?

Mr. MILLER. Sure.

The CHAIRMAN. That is really the function of the Federal advisory council, is it not?

Mr. MILLER. Yes, sir. And therefore my idea is to apply that same idea to the several districts. I can not speak for the Federal Reserve Board, but I believe the Federal Reserve Board has a pretty high regard and respect for the advisory council. I am a new member, probably the newest on the council, but it seems to me—Mr. Platt can correct me if I am wrong—that the Federal board has a good deal of respect for the advisory council.

The CHAIRMAN. While you say that the Federal advisory council has not any authority at all, it has come to my attention as presiding

officer of the Banking and Currency Committee during the past two or three years that the Federal advisory council did during the deflation period remotely have some authority by way of suggestion.

Mr. MILLER. They have all sorts of power of suggestion, but then it is entirely up to the board whether they will accept the suggestions. Some things we advised them to do they did not do.

The CHAIRMAN. Some people in the country think that the sudden deflation was essentially a recommendation of the Federal advisory council. I do not care to inject that into this discussion.

Mr. MILLER. I can not answer as to that.

Mr. WINGO. Your theory, then, is that there is a great deal of misapprehension even among banks already in as to the policy and workings of the system and the real philosophy of the law, and that that accounts for their restiveness and irritation that has been evident in some communications to us, and that it would be better for the system if you had a more practical discussion in the organized way you have suggested of the problems and the requirements of the system, so that the system could be explained, its virtues pointed out, and wherein it is of real value to them as well as to the public?

Mr. MILLER. Yes. Mr. Chairman, I have a copy of a letter here that I would like to read to you, but I have not the authority of the writer of the letter to put it in the record.

The CHAIRMAN. Suppose we put it in the record without the name.

Mr. MILLER. The signature is not on the letter, and I hope you will not ask me who wrote it.

The CHAIRMAN. We would not expect that.

Mr. MILLER. I want to say he is one of the brightest, most intelligent country bankers in our district and has an excellent bank, and he is well educated, a good all-round man, that is far above the average for a bank of that size. This is addressed to me and dated October 7. When I received your communication, I sent it to 15 or 20 banks to try to get some views on the subject from others. This says:

DEAR MR. MILLER: On my return after several days absence I find your letter of the 27th ultimo. I can not say that I feel qualified to answer your inquiry in any comprehensive way, but it may be that some of the reasons, in our own case, for not even considering coming into the Federal reserve system may be of some use to you. You will recall that, armed with Federal authority, the Federal Reserve Board, almost immediately after organization, launched into an arbitrary and coercive policy toward all State banks. This instantly stirred up a bitterness and prejudice that it will take years to overcome. Apparently the Reserve Board sees the reaction that has strongly set in, and is now inclined to undertake to "lead" instead of "drive"—a far more effective way of dealing with the average red-blooded American. While we regard the principle of par clearance as correct—having from the beginning and up to the present time observed the par remittance rule—at the same time we frankly confess that we strongly share the resentment of the methods above referrd to, and with which you are perfectly familiar. In this connection I will say candidly that I do not believe that half of the national banks located in the smaller towns would be in the Federal reserve system to-day if they were not compelled to be. I have heard no other expression from the many with which I have come in contact. We may some day be "led" into the system but "driven"—never. That is reason No. 1.

Then we balk at the requirement to carry 7 per cent of our gross deposits with the Federal reserve without interest, and if half that is reported as the enormous earnings of the Federal reserve banks is true, and as to the vast sums they are spending for bank buildings, and extravagance of management, it would seem that there is urgent need for modification of that regulation.

We figure that it would cost approximately $5,000 a year to "belong," and, to us, it is not worth the cost. Next in order, there is, we think, a growing revulsion against the ever-increasing tendency to "regulate" and "run" almost literally everything from some "department" or "bureau" in Washington or our State capitols, or both. We have just as many yokes of this kind around our necks now as we want, so why take on another? Then this thing of having to make endless "reports" on a prescribed set of blanks that do not fit in with our records as kept (and which are entirely satisfactory to us) is to us one of the most hateful things that comes along in our business experience, and if further multiplied will make it absolutely necessary for the average bank of any size to take on another man just to handle such stuff as that—

I think he has in mind the numerous reports we used to have to make prior to Mr. Crissinger and Mr. Dawes as comptrollers.

As it has already become necessary for us to employ exceedingly high-priced accountants to make up our tax returns, these should be simplified that any man of ordinary intelligence and business experience could make up his own returns and know that they were right when he sees it. I trust you will not get the impression that your friend has taken on Bolshevik symptoms, but you have held up before me a "red flag" when you ask me in your recent letter what I think of these things. We are, it seems to me, on strange times, and with an ever-increasing restlessness under the paternalistic governmental "rules" and "regulation," an increasing disrespect for the courts and impatient at its delays (often manipulated), and many other things that you and I never expected to live to see in our day, and I sometimes wonder how long it will be until something "breaks loose" somewhere in an inevitable adjustment to saner conditions.

Let me add before closing that I do not for one moment overlook nor forget the splendid service the Federal reserve system has rendered this country, and, indirectly, the world, and some day hope to see this great system conducted on such fair and reasonable basis that we will be eager to come into it.

Senator Glass over there questions the intelligence of that man in some respects.

Senator GLASS. No; I do not question his intelligence. I think he discloses a woeful lack of information.

Mr. MILLER. On some points.

Senator GLASS. One reason he gives for staying out of the Federal banking system is that he has to pay an excess-profits tax and has to have somebody to make it up for him.

Mr. MILLER. That is irrelevant, but the first part of that letter in particular says he has not found a little country banker of his acquaintance that is at all enthusiastic.

Senator GLASS. Mr. Miller, in his exclusively expressed philosophy there would not have been any Federal reserve system to-day. He is opposed to the compulsion of a national bank by law to come in. So that under his idea of the Federal banking system we would not have any Federal reserve banking system at all.

Mr. MILLER. I realize that, that he feels as a country banker he is not enthusiastic. That is what we want to try to reach.

Senator GLASS. We ought to reach people like that and brush away that misconception, explain to them that the things that they imagine are visionary and that they do not exist, a great many of them—some of them may.

Mr. STEAGALL. I think your suggestion very wise that you made at the outset of your remarks as to the importance of enlisting the hearty and enthusiastic sympathy of the member banks already in the system.

Mr. MILLER. Yes; member banks.

Mr. STEAGALL. As well, I suppose, relieving as far as you can misapprehension and misinformation and objections on the part of those eligibles that are not in the system.

Mr. MILLER. In other words, you agree with me that the proper place to work is on the inside and from the inside out, do you not?

Mr. STEAGALL. Why, of course, I think that if every bank now in the system had just the proper friendly attitude toward the Federal reserve system, that the other difficulty would soon adjust itself.

Mr. WINGO. Mr. Miller, you have expressed the feeling that the member banks have written the member banks to say as this man—it is not a question of saying that they are wrong. If they are wrong, then the condition is all the more distressing, because you have got men upon whose good will the system has got to depend for success and for harmonious working, with their judgment blinded by a feeling of resentment that is going to take, I fear, a long time to overcome. Just as long as they are absolutely wrong about their criticism. My observation has been, especially on a two weeks' trip I took on my own initiative, talking to country bankers in some instances without their knowing who I was, I want to tell you I am surprised to find how many feel just like that man.

I am a great believer in the system; I want to see it succeed. I believe if carried out as originally intended on the original philosophy it means wonderful things to the business of the country. I believe it can render as great service in time of peace as in time of war, but I do not believe it can render great service with the feeling of misunderstanding and with the feeling of restraint there is in the minds of a lot of good men. I know some men who are as fine as any in American, not Bolsheviks, yet when you go talking about the Federal reserve system they get wrought up. I hope that you will have your Federal reserve bankers down there pursue the policy you have suggested—get out and reason with these men. If they are wrong try to show them where they are wrong. If they are right and some changes ought to be made in the regulations which can be done sanely and consistently, let it be done. I believe that a change of policy, not so much of eligibility of paper, but changing the manner somewhat of doing business and a lot of other matters that can relieve a great portion of the misinformation and misapprehension that exists in the minds of these country bankers. If I had my way about it, I would make every one of these members of the Federal Reserve Board get out just like they do on the Chautauqua circuit and make talks to these country bankers.

Mr. MILLER. When Senator Glass and his associates were writing this Federal reserve act, the vast majority of bankers, the most intelligent and best informed were opposed to it. Most of the well-informed people have been converted, but the idea went out from the beginning that this was not probably just what we ought to have. I do not believe there has ever been as much talk since the system was organized to correct those impressions and the false impressions and the misunderstandings as was the propaganda that went out in the formative period. A lot of these people you talked to in your travels I expect in nine cases out of ten are misinformed and do not understand the system. But do not forget nearly every one of them will tell you right off the bat that they can not afford

to put their balances without interest, and we can not pay them interest in the Federal reserve system.

Mr. WINGO. Should not pay them.

Mr. MILLER. Should not pay them, I should have said. It would destroy the system.

Mr. WINGO. One said, "I am not willing to buy membership by doing anything that is unsound."

Mr. MILLER. We can not afford to weaken the system, but I can not see any reason why that if there is profit at the end of the year, after proper administration expenses, etc., is deducted, a part of that profit should not go back to the people who contributed all the deposits, capital, and business.

I have one letter in here from one of the ablest bankers I know of, formerly of Lynchburg, who suggested we pay a quarter or one-half per cent interest on these balances. That would be wrong in principle and wrong from every standpoint, but if you can hold out to the member bank in the event of a profit he is going to get back a part, that would come near overcoming this interest on balances that has kept out hundreds.

Mr. WINGO. I think your suggestions worthy of consideration, but I do not believe either branch of Congress is going to be willing to make any change in the law that is not sound and in keeping with the original philosophy of the system.

Mr. MILLER. I hope they will not, if after consideration, they come to the conclusion it is not sound. I do not believe in sacrificing principle and soundness for expediency, but I believe in my suggestions, as practically safe.

The CHAIRMAN. Before the committee adjourns I want to suggest that the committee when it does adjourn will adjourn until Tuesday, October 9, when the Association of Reserve City Bankers have a committee which want to appear, and there will be a committee of the American Bankers' Association, and a committee from the New England State Bankers' Association which will also be present.

On the program as it was outlined the representatives of the Farm Loan Board were to appear to-day. A letter from the board which I received a couple of days ago indicated they would like to appear later on. I see Mr. Corey here, who is a member of the board now. Is there any new thought on that?

Mr. COREY. Not any. I doubt very much if we care to appear at all.

The CHAIRMAN. That can be arranged later. I just wanted that to go in as a part of the record.

The committee will now stand adjourned until Tuesday morning next.

(Thereupon, at 4.50 o'clock p. m., the committee adjourned to meet Tuesday, October 9, 1923, at 10.30 o'clock a. m.)

INQUIRY ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM

TUESDAY, OCTOBER 9, 1923

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON INQUIRY
ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM,
Washington, D. C.

The joint committee met at 10.30 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee will resume its sessions. On the program for the meeting this morning is the testimony of reserve city bankers, representatives of the American Bankers' Association, and the representatives of the New England banks. The committee is willing to hear these gentlemen in any order that they may desire. The suggestion was made that perhaps the representatives of the American Bankers' Association would like to be heard first. If it is agreeable to the reserve city bankers, that will be the order of procedure.

STATEMENT OF MR. WALDO NEWCOMER, PRESIDENT NATIONAL EXCHANGE BANK OF BALTIMORE, MD.; CHAIRMAN OF COMMITTEE OF AMERICAN BANKERS' ASSOCIATION

The CHAIRMAN. Mr. Newcomer, will you please state your full name and whom you represent?

Mr. NEWCOMER. I am president of the National Exchange Bank of Baltimore and chairman of this committee of the American Bankers' Association.

Mr. Chairman, this is a small committee representing the American Bankers' Association, and we have recognized the difficulty of a small committee attempting to present the views of the testimony of 22,000 members, among whom are very varying views.

The CHAIRMAN. Of course, Mr. Newcomer, you understand the scope of the inquiry is covered by the law in the last agricultural credits act.

We are authorized to inquire into the effects of the present limited membership of State banks and trust companies in the Federal reserve system upon financial conditions in the agricultural sections of the United States; the reasons which actuate eligible State banks and trust companies in failing to become members of the Federal reserve system; what administrative measures have been taken and are being taken to increase such membership; and whether or not any change should be made in existing law, or in rules and regulations of the Federal Reserve Board, or in methods of administration, to bring

about in the agricultural districts a larger membership of such banks or trust companies in the Federal reserve system.

Of course, that brings in several collateral issues.

Mr. NEWCOMER. Yes.

The CHAIRMAN. When the committee organized it sent out a questionnaire, I would like to repeat here, and in reply to this questionnaire the committee has received many replies from banks. The first question was, "What reasons have made it seem inadvisable for your bank to become a member of the Federal reserve system?" Second, "What amendment of the law would you suggest to attract eligible State banks?" Third, "What regulations, if any, of the Federal Reserve Board or banks operate to repel eligible State banks, and what changes would you make to insure membership of State banks?" Fourth, "What suggestions, if any, would you make with reference to the policy of the Federal reserve system, which, in your belief, would induce State banks to become members?" Fifth, "In your opinion, what service or benefit do you procure outside of the system that you can not get by becoming a member?"

I call those questions to your attention to give you an outline of the scope of the inquiry, so you may have an outline of our purpose before proceeding.

Mr. NEWCOMER. I take it, then, Mr. Chairman, you do not wish any suggestions as to amendments to the reserve act—questions of policy and general amendments?

I have here a report of the Economic Policy Commission, which was adopted by the banks and which was the only official backing up our opinion would have, and that takes up some questions regarding the organization of branches and the appointment of members, qualifications for members of the Federal Reserve Board. That sort of thing you wish to rule out?

The CHAIRMAN. We have had before the committee some discussions on branch banks, etc.

Mr. NEWCOMER. I meant to say branch banks of the Federal reserve bank. Do you wish any of that, or shall I rule that out?

The CHAIRMAN. I would suggest that inasmuch as that is a report of the committee of the American Bankers' Association it be put in the record.

Mr. NEWCOMER. They start out by approving and affirming again their complete adherence to the fundamental principles of the system and their belief in the indispensability of this system to the health and growth of America's industries, commerce, trade, and finance.

They look with disfavor on the authorization recently given by the Federal Reserve Board to two Federal reserve banks to establish, under the guise of agencies, organizations of their own in Cuba as being a bad precedent, and suggest either the recinding of your ruling, or, failing that, that an amendment to the Federal reserve act be sought, forbidding the establishment by any Federal reserve bank of branches in foreign countries under the guise of agencies. That is quite lenthily drawn.

The CHAIRMAN. I would suggest that the report in full be placed in the record at this point.

(The report of the Economic Policy Commission to executive council, of the date of September 24, 1923, submitted by Mr. Newcomer, is as follows:)

REPORT OF ECONOMIC POLICY COMMISSION TO EXECUTIVE COUNCIL SEPTEMBER 24, 1923

The Economic Policy Commission of the American Bankers' Association at a meeting held on July 12 and 13 devoted itself largely to a consideration of the Federal reserve system and voted to affirm again its complete adherence to the fundamental principles of the system and its belief in the indispensability of this system to the health and growth of America's industries, commerce, trade and finance.

While your commission is unanimous in the belief that the Federal reserve system during the period under review, has functioned in an entirely satisfactory manner, there are two features in the system's development that your commission observes with profound concern and which it deems it its duty to bring to the attention of the council of the association together with certain remedial suggestions.

First. The commission looks with disfavor upon the authorization recently given by the Federal Reserve Board to two Federal reserve banks to establish, under the guise of agencies, organizations of their own in Cuba. It believes that the precedent thus established is fraught with the most serious dangers, and it suggests that the Federal Reserve Board reconsider its policy adopted in this regard or, failing that, that an amendment to the Federal reserve act be sought, forbidding the establishment, by any Federal reserve bank, of branches in foreign countries, under the guise of agencies.

Without asking to go into the question of whether or not the language and meaning of the Federal reserve act, which does not contain a clear and specific authority in this regard, could safely be construed to confer upon the Federal Reserve Board the far-reaching power of establishing what are in effect Federal reserve branches in foreign countries, your commission desires to point out that all traditions and practices of central banks of other countries confine such central note issuing institutions to establishments within their own borders. Their outstanding duty is to provide currency for and to protect the gold and credit structure of their own countries. While for such protection of the gold and exchange position of their countries they may properly carry on certain well defined transactions through foreign correspondents, whom, in given circumstances, they may designate more formally as their agents, they carefully and wisely refrain from establishing in foreign countries branch organizations of their own. It is unnecessary to emphasize the danger of legal and political complications that may arise from such governmental or semi-governmental institutions domiciling in foreign territories. In addition, in order to lay bare the risks to which central banks would expose themselves by venturing across their own border lines, one need only point to the appalling losses suffered by both European and American banks through operations in foreign countries with uncertain credit and fluctuating exchange standards. Moreover, operations in distant countries aggravate the difficulties of proper supervision by the central office and enhance the ever threatening danger of abuse and corruption.

Your commission is not unmindful of America's duties toward Cuba and of our vast commercial and financial interests in that

island. But it believes that the object to be attained by the opening of Federal reserve bank branches in Cuba could be accomplished in other ways that would not create so fateful a precedent. Once the principle involved is broken down, your commission fears there is no telling whither, ultimately, the Federal reserve system may drift, and your commission is alarmed, though not surprised, to learn that proposals are already materializing designed to secure from the Federal Reserve Board permission to operate similar branches in other countries. Your commission deems it its duty to urge the Federal Reserve Board carefully to reconsider the step taken; in the commission's opinion the board has embarked upon a course fraught with grave dangers.

Second. The Federal reserve system consists of 12 organically disconnected, autonomous Federal reserve banks. The only link tying them together, assuring and directing effective cooperation amongst them, is the Federal Reserve Board. The task imposed upon the board, remote as that body is from the actual operations of the districts, is, at best, a most difficut one. It requires intimate understanding of the Federal reserve banks' intricate problems and expert knowledge of their technique. The first draft of the Federal reserve act very wisely provided, therefore, that two of the members of the board should be appointed by, or be representative of, the Federal reserve banks. This provision was sacrificed, however, later on in order to satisfy the apostles of the theory of absolute Government control, whose cooperation was indispensable if the Federal reserve act was to be passed. Thus a compromise was reached by which the duty to appoint the five members was vested in the President, while at the same time it was provided that at least two members of the board should be experts in banking. Since then an amendment to the Federal reserve act recently eliminated this provision requiring the President to see to it that amongst the five appointed members there should always be at least two bankers. As a consequence, amongst the appointed members, whose number has now been increased to six, there is to-day not one who may be considered as an expert banker by profession and training. Your commission does not wish to indicate any doubt whatsoever as to the qualifications of any single board member serving at this time. What your commission is discussing is the composition of the board as a whole. Your commission does not believe in class representation as such. It believes that the first qualification of every member should be his ability faithfully and effectively to serve the interests of the country as a whole. But just as much as it disapproves of class representation, just as earnestly does it protest against class discrimination, when plainly the best interests of the country would require the inclusion amongst the members of the board of men who could be recognized, both here and abroad, as experts in banking of national reputation.

If the Federal reserve system is to survive, and if it is to render the invaluable services which it can give if properly protected and directed, it is imperative that the position of the Federal Reserve Board be strengthened and that measures be taken which would assure for it the continued service of the best men the country can produce for the job.

There is no use blinking the fact that the whole trend of the history of the personnel of the Federal Reserve Board has shown that there has been hardly any continuity in service on the part of its members. The record shows that valuable members resigned because they became disheartened or that they could not be reappointed on account of objections of politicians, whose wishes or preferences they found it necessary to disregard in the conscientious exercise of their duties. Your commission believes that unless something is done better to protect faithful servants and to enhance the standing and independence of the Federal Reserve Board a gradual independence or deterioration of the entire Federal Reserve Board is inevitable. It is unnecessary to elaborate the great danger that faces the country if the Federal reserve system should step by step be dragged deeper into politics and ultimately should be forced to envisage a fight as disastrous in its consequences as that faced by the two banks of the United States.

Your commission believes that this problem is worthy of the most careful thought of this association, and that a dispassionate discussion ought to be sought with leading Members of Congress with a view to devising ways and means of avoiding the dangers for which the system is now headed. The question ought to be examined whether or not it would be possible in some way to revert to some scheme as embodied in the first draft of the Federal reserve act or whether it may not be possible to provide that members of the board, at the expiration of their terms, might be reappointed by the President without subjecting them once more to the hazards of a confirmation by the Senate. The Senate would continue to pass upon the qualifications of board members at the time of their first appointment, but by relinquishing their right of confirmation in case of reappointments the friends of the Federal reserve system in the Senate would provide a most desirable protection for faithful and conscientious board members. As it is nobody can blame men of worth for declining service on a board where, at the end of their term, duty courageously performed will inevitably deliver them to the knife of politicians whose wishes a conscientious administration of their office forced them to disregard.

Your commission is also of the opinion that service on the board would prove more attractive if the board itself were permitted to designate its governors and vice governors instead of having the President charged with the duty of promoting and demoting individual members according to his preference.

Furthermore, it may be worth while to amend the Federal reserve act so as to make the governor the chairman of the Federal Reserve Board, the Undersecretary of the Treasury becoming a member of the board ex officio instead of the Secretary of the Treasury himself, who naturally is generally so overburdened with other duties that it is quite impossible for him to be a regular attendant at the board's meetings.

Finally, your commission wishes to reiterate the recommendation repeatedly made by this association that the major functions of the Comptroller of the Currency be transferred to the Federal Reserve Board with a view to bringing about a simplification and uniform system of examination and rulings. The present system makes for

costly duplication, and in the past has often led to unnecessary delay and irritation. The Federal reserve system is one of the most precious assets of our country. No effort should be spared to diagnose and remove in its very beginning any unhealthy growth that, if left undisturbed, may sap the strength of the Federal reserve system and undermine its integrity.

It is my pleasure, Mr. Chairman, to move the approval and adoption of this report and the order of its publication.

The motion was seconded and carried.

Mr. STEAGALL. Let me say just a word there. The discussions here so far have covered a pretty wide range, such as branch banking and, in fact, nearly everything referred to in the special report to which you have alluded, Mr. Chairman, and I think I speak for the committee when I say there is no objection to hearing you, Mr. Newcomer, further on any of those points as to which you have any views that you desire to submit. The discussions up to now have covered a pretty wide range on all those various lines, and we are willing to get any information we can, really, and we do not mind hearing you at length.

Mr. NEWCOMER. So far as that report is concerned, I went over it last night to see if I could condense it or simply express offhand some of the things, and I find their reasoning is so clear and concise that I could not improve upon it. If I did do anything I would rather read a section from the report. I am speaking simply as our committee agreed last night to, without official backing up of the association we represent.

It has seemed to us that there were six considerations possibly keeping the eligible nonmembers out. I speak strictly of eligible nonmembers. I am not in favor of any particular efforts to try to make more members eligible. In other words, we do not believe it is of any great importance to get in the small banks, unless it was practicable to get them all in in a body. If there could be an absolutely unanimous system, that would be of some advantage. But to make concessions that would bring in 10 banks here and 10 banks there among the smaller banks, we do not think it has any advantages, and in a sense question whether it was wise to make the concession that was made by permitting them to come in with smaller capital and build the capital up.

The CHAIRMAN. I would say that none of them have made application to come in.

Mr. NEWCOMER. The things, however, that we do think are keeping out the eligible ones——

The CHAIRMAN (interposing). Before you go into that: You say it is not necessary to the successful operation of the Federal reserve system to give relief in times of stress or that all banks be members thereof. Would you infer by that that possibly the system could be confined to membership to reserve depositors of the so-called reserve city banks?

Mr. NEWCOMER. No; I do not think that.

The CHAIRMAN. You would not attempt to confine it to that class—I mean the larger reserve cities. In the mobilization of those

reserves, perhaps, it was not necessary for small country banks to join at all?

Mr. NEWCOMER. I did not quite mean that.

The CHAIRMAN. I did not mean to say that you did say that. But other testimony before the committee indicates perhaps that a drawing of the line——

Mr. NEWCOMER (interposing). I said if it were practicable to get all banks in I could see the advantage of it, but that to make concessions in your law the result of which would bring in the 8 or 10 small banks here and 8 or 10 small banks there might not help any with the present eligible banks. I do not think that is going to improve your system particularly. Is that clear?

The CHAIRMAN. Yes; that is perfectly clear.

Mr. NEWCOMER. The six points that have seemed to us are keeping members out, reading them right off the bat, are: First, inadequate return on stock; second, lose of interest on reserve balances; third, lack of eligible paper in the applying bank; fourth, the requirement of statements and other formalities that are not required by their correspondents; fifth, the fact that they can secure from their correspondents most of the advantages of the collection of checks and other facilities without corresponding obligations; and, sixth, a resentment of the apparent attempts to force them in.

I was rather curious in looking over the record of the other day to find that four of those things had been put before you by another gentleman. I am not prepared, sir, to say that the change of any of those would bring any material number of members in. It is one of the things where five or six things are acting together and, as one of the members of our committee said to me last night, "Do you think if you gave a man more on his stock it would bring people in?" I said I did not know that people would come in because of that particular thing, but it is one of the excuses they give.

The CHAIRMAN. Might I insert here a section from a letter I have received this morning on this subject? "As the capital paid in is now idle, and is no longer and never will be needed for operating the Federal reserve system, why not return it to subscribers and take in all new members without paying or owning any capital stock, and agree as earnings (in the discretion of the board) justify to pay interest on reserves?"

Of course, the latter is an impossible proposition which I think any banker would be able to figure out himself. A large surplus. But what do you think of the suggestion of reducing the amount of capital to banks? Of course, it could not be reduced entirely, or there would be no method of electing, but if it was reduced down to the very minimum, instead of leaving their capital there, what would be the result?

Mr. NEWCOMER. In general, Mr. Chairman, the amount that is paid in is not a very serious item in the account of any one bank, as I see it, in proportion to its capital—the refunding of 50 per cent would undoubtedly please them. But it is not a very vital point.

Might I at this point inject a telegram we received this morning from another member of our committee, who is unable to be here,

which fits right in here? This comes from Mr. Evans Woolen, of Grand Rapids, Mich.:

Sorry unable to be with you. Principal reason for staying out of system is of course cost of membership. This cost can not wisely be reduced by payment interest on deposits or modification of reserve requirements, but can wisely be reduced by division of earnings between Government and member banks.

He has somewhat that same idea in his mind.

It had occurred to me that the way in which some of these people look at this is this, not that 6 per cent is insufficient return on investment, but they say, "We are compelled by law to invest in a stock, and we are told when we do it that there is not any guaranty of any return." Of course, the indications are now we will get a good return. But should the earnings fall off and it does not make 6 per cent we do not get it; and yet, no matter how high they get we get no more, and I am not at all sure but what a good deal could be accomplished if the Government could safely guarantee the 6 per cent. If you feel that the earnings are sure enough in normal times to do without——

The CHAIRMAN (interposing). Do you think it would be a wise policy if the Government should guarantee 6 per cent in a privately owned system?

Mr. NEWCOMER. Is it privately owned?

The CHAIRMAN. Is it not?

Mr. NEWCOMER. Technically, yes.

Mr. WINGO. Do you not also overlook the fact that you are proceeding upon the theory that you are calling on these banks to do something for the Government benefit, and do you not overlook the theory on which the system was established? Why was the system established?

Mr. NEWCOMER. It was established to get a liquid currency and to stabilize and coordinate the reserve system for the general good. I do not know that it was done for the particular good of the banks any more than they are a part of the country.

Mr. WINGO. It may be immaterial to you, but I think I have struck pay dirt. You say you do not think this system was established for the good of the banks?

Mr. NEWCOMER. I do not think that was the primary purpose. I think it has been a benefit. I think our bank has benefited very largely by it.

Mr. WINGO. You do not think we contemplated protection to the banks as one of the basic reasons for establishing the system?

Mr. NEWCOMER. I think the basic reason for establishing the system was for the protection of the currency and the reserves as they would affect the general welfare of the country; and in suggesting this guaranty I see the difficulty that it is not practicable for the Government. I am merely pointing out the technical suggestion that it can be done in either of two ways: Either by guaranty of the 6 per cent, or a provision without any guaranty that when the earnings run above there should be some division of the earnings to a limited extent.

Mr. WINGO. What part of the philosophy of the system did you understand contemplated profits by those who established the system?

Mr. NEWCOMER. Profits above 6 per cent were all to go to the Government.

Mr. WINGO. Was it your understanding that this system was established for profit?

Mr. NEWCOMER. No, sir.

Mr. WINGO. And yet your suggestion is predicated purely upon profitable return or investment return above the 6 per cent return of the capital invested for the member banks and the capital stock of the concern.

Mr. NEWCOMER. For the purpose of satisfying those who are keeping out and who are not willing to come in on the present basis.

Mr. WINGO. Of course, I can readily understand why it would occur to these member banks it would be a proper suggestion to have the Government carry the loan and guarantee the profits. Since everybody else is asking a guarantee from poor old Uncle Sam, I suppose it is natural for the banks to come in and ask him to guarantee them something, too. Who is going to meet all these guaranties, if you keep on. The farmer has got as much right to a guarantee as the manufacturer and banker.

Mr. NEWCOMER. I do not suppose there would be a law passed compelling a farmer to invest in a bank and say to him that he will be guaranteed a certain earning.

Mr. WINGO. We are not doing the Government any favor when we permit a man to take out a national-bank charter. The presumption is we are granting him a privilege.

Mr. NEWCOMER. With all due respect, we are not discussing the national bank at this stage, because they are in already and are not making any complaint. You are asking me how to get in the eligible nonmember banks?

Mr. WINGO. You made the statement that we compelled the national bank to go into this system.

Mr. NEWCOMER. Yes, sir; you did.

Mr. WINGO. We did not compel him.

Mr. NEWCOMER. Yes, sir; you did. He had his charter and he had to come in or give up his national bank charter.

Mr. WINGO. In other words, he had to forego the future privilege?

Mr. NEWCOMER. Yes.

Mr. WINGO. He was not giving up a vested right at all.

Mr. NEWCOMER. No.

Mr. WINGO. Nobody has ever contended that the national banks had a vested right in the laws that existed because Congress had specifically reserved the power to amend the terms of the franchise that they gave them.

Mr. NEWCOMER. I am not pretending for one moment that as a national banker I am not satisfied, because if I was not I could go out at any minute. But you were trying to get in the member banks. And you said to him, "If you come in you must take this stock," and you were trying to get him in.

Mr. WINGO. Suppose we take the small banks. They are the ones the trouble is caused by, those having from $25,000 to $50,000 capital in a community. We will take a bank with say, $30,000 capital stock and surplus. In the scheme you have just suggested what would probably be their returns in a year's time?

Mr. NEWCOMER. Very small.

Mr. WINGO. Would it amount to as much as $100?

Mr. NEWCOMER. I forget right off what percentage he would have in there.

Mr. WINGO. It is worth the time to just sit there and think of your basis. You have a bank with a capital of $25,000 and a surplus of $5,000, and it says, "I am coming into the system." How much has it to subscribe?

The CHAIRMAN. Three per cent of its capital.

Mr. NEWCOMER. That would only be $900.

Mr. WINGO. If you guarantee 2 per cent additional on that $900, how much would it get a year?

Mr. NEWCOMER. $18.

Mr. WINGO. Does that appeal to you?

Mr. NEWCOMER. No, sir.

Mr. WINGO. Do you think any banker who has enough sense to run a bank can have his system overturned by $18?

Mr. NEWCOMER. No, sir. I tried to say a moment ago that any one of these questions when settled would not amount to very much, but I am honestly trying to answer your questions as to the reasons that are keeping them out.

Mr. WINGO. Do not misunderstand me that I am critical of your viewpoint. You have not heretofore been before the committee, and I am appreciating your viewpoint. I am just trying to sound the depths of your views.

Mr. NEWCOMER. I will say frankly this does not mean anything to me, and I do not think in itself it would amount to much to any banker, but it is one of the six reasons, and I have tried to point out what might be a possible way to improve. It is like a man who comes to you with six arguments and you knock one of them out and he says, "I have got five good reasons left."

Mr. STEAGALL. You are not urging this as a view of your own?

Mr. NEWCOMER. Not at all.

Mr. STEAGALL. But you are simply calling attention to the reasons of others who are interested and attempting to help the committee answer those arguments?

Mr. NEWCOMER. If the committee feels it should be made, there are two ways of reasoning it.

Mr. WINGO. You are undertaking to cite what has been proposed and showing how it might be met?

Mr. NEWCOMER. I have tried to find out the reasons. I have talked to people in Baltimore, and I have read some of the arguments on it; I have boiled it down and six reasons are all I can put my hands on. Perhaps all of them are not worth anything.

Mr. STEAGALL. It is true also that while the Federal reserve system was not established as a money-making proposition, either for the Federal reserve banks or for the member banks, the act contemplated the profits should go to the Government. The law was subsequently amended, was it not, in order to permit the Federal reserve banks to accumulate a larger surplus, and, as a matter of fact, they have made a great deal of money and have been spending a great deal, and there has been a great deal of talk about their spending a great deal of money. You know what I am talking about. Profits have been made and there has been criticism. Maybe some of it is true

and maybe some of it is not well founded. But a great deal of criticism has been indulged in about the expenditures of the Federal reserve banks, as well as what they have been accumulating.

The CHAIRMAN. Mr. Newcomer, it has been suggested to the committee by men who have preceded you, that perhaps the member national banks themselves were not entirely solid on the Federal reserve system and that perhaps if they were enthusiastically for the system that might encourage many of the other banks to become members. Do you understand that all of the national banks, both large and small, are favorably disposed to the Federal reserve system?

Mr. NEWCOMER. Mr. Chairman, I do not come in contact enough with the small banks individually to answer that question. The national bankers with whom I have been able to talk are in the main very friendly. I have heard comparatively little criticism from them. But I do not meet the country banker and the men you are trying to reach.

The CHAIRMAN. It occurs to me there have in the last two or three years been many of the larger banks who have left the system due to the fact they were not in accord with the Federal reserve system, or was it a matter of competition?

Mr. NEWCOMER. I should say it was a matter of competition, and, of course, that branch bank question has had a great deal to do with it in a great many places. In other words, there were things that State charters would allow them to do that a national bank could not do.

Mr. WINGO. You think these men you have talked to do not take the position that membership in the Federal reserve system is onerous?

Mr. NEWCOMER. No, sir.

Mr. WINGO. They appreciate the real benefits?

Mr. NEWCOMER. I think they do. I do not get the country member's viewpoint.

The CHAIRMAN. What does the larger bank, for instance, your bank view as the best part of the Federal reserve system to your institution?

Mr. NEWCOMER. First of all—it is hard to tell any one thing—the reduction in the reserve we have to carry over from what we had to do under the old national bank act has set free more money for lending purposes, so that the loss of interest of that balance is more than compensated. Practically the discount privilege gives us a much wider leeway than we had before. Before we always had good credit with corresponding banks and always got everything we asked for. But I would hate to ask correspondent banks for such an amount as we required during the war, when the reserve banks took care of us in splendid shape.

Then, of course, this collection matter is a great big help to us. Personally I am enthusiastic about the system. There are some details I might want to criticize, but they are details.

The CHAIRMAN. Do you believe, for instance, that the par clearance system is an essential and necessary part of the system that is intended to mobilize the reserve funds of the country and keep them liquid for use in the development of industry and commerce?

Mr. NEWCOMER. I would not say it was an essential part of the system, but I think it is a tremendous advantage to such banks located as we are.

Mr. WINGO. I see a trend of argument in some of the literature that is coming to me which if followed to its logical conclusion means making legal tender out of checks. Just what is the philosophy of that?

Mr. NEWCOMER. I think it is a great mistake. I think a check should get back and get canceled just as promptly as possible, and that is one of the advantages of this present collection system.

Mr. WINGO. While you believe in having free play of banking checks you do not agree in having them become legal tender?

Mr. NEWCOMER. I think it is dead wrong.

Mr. WINGO. There are some of our distinguished financiers who think we should not make any distinction in that.

Mr. NEWCOMER. I do not claim they are wrong, but I simply say I do not see it.

The CHAIRMAN. Assuming a bank credit has the same effect upon business in a crisis as a bank note, which some economists assert to be a factor, do you believe unlimited credit is any less dangerous than unlimited circulating notes?

Mr. NEWCOMER. I do not think I would be in favor of unlimited credit, and I do not think we have it to-day. When a bank gets up to the point of borrowing up to its capital and surplus, there begins to be some little things put in there to stop it. First of all it has got to put up marginal collateral for 100 per cent, and in the time of the war when some of them got very high they put a progressive interest rate on them to stop it.

Mr. WINGO. You are speaking about extension of credit upon which Federal reserve notes are based?

Mr. NEWCOMER. Yes.

Mr. WINGO. I presume the chairman is speaking generally of extension of bank credit, whether that credit is transferred to Federal reserve banks or not?

The CHAIRMAN. It is interesting as to both.

Mr. NEWCOMER. Neither one is unlimited. For instance, take our bank. We can not extend credit beyond what our resources justify, except by rediscounting at the Federal reserve bank. We can only discount with them to the amount of our eligible paper, and there is a limit to that to start with, and if we have such a large amount of eligible paper that we get to the danger point, the reserve bank will stop us by making such a rate that it is not profitable.

Mr. WINGO. If you were really in need of funds, do you think a little thing like a high interest rate would prevent you from borrowing?

Mr. NEWCOMER. It would prevent expansion. If I was in a hole where I had to have $100,000 to keep my bank from going into receivership, I might pay 100 per cent over night—that would not stop me. But if a man came into my office to borrow money and I had to pay 8 or 10 per cent for that money, I would not likely do it.

Mr. WINGO. If the legitimate needs of your city required credit facilities to an extent that you and your banks could not give and

you had already reached your limit, and you went to your Federal reserve bank and could show that it was a bona fide need in order to meet the legitimate exchange demand of trade and commerce, do you believe trade and commerce ought to be penalized by a higher rate? Do you think it unwise? Do you think that extension of credit ought to be refused regardless of rate, and the legitimate, necessary expenses ought to go without any theory of rate at all?

Mr. NEWCOMER. It is very difficult to draw that line, and I think that the raising of the rate in general has the effect of stopping the fellow who wants to extend for the purpose of profit.

Mr. WINGO. Right there on that point, if you will?

Mr. NEWCOMER. Yes, sir.

Mr. WINGO. I want to get your viewpoint on that, because we frequently discuss that. As a matter of fact, in practical experience—you were stating theory—in rediscounting or borrowing from the Bank of England all they have to do is to automatically raise the rediscount rate and you check things. In actual practice, if you used the progressive rate—I am not saying this in a controversial spirit—is not the speculative fellow about the only one who feels like he can take advantage of it? Will not the legitimate business that is figuring upon a narrow margin check its activities and its expenses, if the cost of that credit extension, including the cost of financing, is greater than the possible return; will you not have a tendency of checking legitimate expansion, and will not the speculative fellow, who is really gambling on the future of the country, feel he can afford to pay the exorbitant rate because he sees the possibility of exhorbitant profits—is not that the man who can take advantage of the speculative rate.

Mr. NEWCOMER. I do not think, sir, that it would work that way on the expansion that we had. I know when the rate in Baltimore was raised to a higher point that our banks were guarding everything and making every customer explain why he needed that money. and if it was for real legitimate needs, they would let him have it.

Mr. WINGO. Who should draw this line, the banker who knows the needs of his particular customer or the Federal reserve bank?

Mr. NEWCOMER. I think the Federal reserve bank in a great many cases has compelled a banker to draw it.

Mr. WINGO. I am talking about as a general rule.

Mr. NEWCOMER. Among 30,000 bankers there are some who are improvident, some speculative, and some not particularly conscientious, and I think you would get into pretty big difficulty unless there was a check put on the bank and let the bank decide how it was going to stop it.

Mr. WINGO. In your experience do you think the rediscount rate is going to check the improvident and crooked banker?

Mr. NEWCOMER. To some extent—it would not stop him entirely.

Mr. WINGO. If you were head of the institution that had to watch that man—just bring it to the point of homely illustration, if you had a customer that you doubted his ability—we will take the question of competency first—to handle his business, is the precaution you are going to take one of the interest rate you charge him?

Mr. NEWCOMER. Oh, no, sir.

Mr. WINGO. Suppose you thought he was an unreliable man, would you think that by penalizing his loans you would be protecting the stockholders and depositors?

Mr. NEWCOMER. No; I would not want to deal with him at all.

Mr. WINGO. Is not that true of the Federal reserve banks? If here is a banker who is improvident and who has got no business in the banking business and his bank is in an unsound condition, is not the remedy something other than penalizing his loan with an excessive rate?

Mr. NEWCOMER. Could a Federal reserve bank refuse to deal with that fellow?

Mr. STEAGALL. So the most that could be said for it is that it would at least put the same penalty on the fellow who is trying to meet the legitimate requirements of his community as it would put on the speculator or the incompetent or the dishonest banker. Do you think that would be fair?

Mr. NEWCOMER. Unless the banker makes the discrimination that we can not take care of all of them, which should he take care of? As a matter of fact, sir, am I not right in saying that through the expansion period, when the Reserve Board was so much criticized for getting things done, the men who did most of that complaining were men whose banks had borrowed to unsafe point, and unless the Federal reserve bank had cut them down in some way there would have been wholesale failures among the banks. They stopped them from going too far. How else could they stop them?

Mr. STEAGALL. My information is that the cases you have cited were widespread; my information is that, as a matter of fact, some of the Federal reserve banks were entitled to credit for having recognized that by straining a point they could prevent some banks from failing, and they did go to their rescue, even though such banks were beyond their limit in loans.

Mr. NEWCOMER. That is true.

Mr. STEAGALL. And I think the banks should be commended for that. In other words, they met the emergencies required and kept a place to which banks in time of storm could have come as a city of refuge. They said, "You are sound and we are going to see that you ride the storm. We are going to protect you."

Mr. NEWCOMER. They undoubtedly did that.

Mr. STEAGALL. We are going to serve the public by serving you and carrying you through the storm. The criticism has been that they did not always do it.

Mr. NEWCOMER. The point comes back to my own case and our bank with several customers. I have several customers now who can not collect the money due them and who are borrowing all the money they ought to borrow, if that fellow's assets are sound I am glad to step over the line and lend him some money until he can get liquidated. But another fellow who gets that way by overtrading, I may do him a great kindness by refusing to make a loan to him.

Mr. STEAGALL. Do you not think it would be better if the Federal reserve banks used less theory and more horse sense and pursued the same policy you have just suggested?

Mr. NEWCOMER. My experience with those I have dealt with has been in the main they are pretty broad-minded.

The CHAIRMAN. Mr. Newcomer, to get back to my question, assuming that the bank credit has the same effect on business in time of crisis as does the bank note. You make a loan to a good customer and you place that loan to the man's credit in your bank. In case you need to have accommodations, you can take his note, if it is eligible, to the Federal reserve bank and get credit. That can be used as the basis of issuance of Federal reserve notes. What affect does that operation have, or is it any different than the bank credit when you get the issuance of Federal reserve notes? Is not that pyramiding?

Mr. NEWCOMER. I do not think, sir, it becomes a dangerous pyramiding or inflation, so long as the original note is based on a legitimate transaction. You are carrying on a perfectly legitimate transaction, and you are increasing the currency of the country as business proves it needs. That is not an objectionable inflation.

The CHAIRMAN. Do you regard a bank credit in the same category as a reserve note in that respect?

Mr. NEWCOMER. In its effect on prices?

The CHAIRMAN. Prices and business generally.

Mr. NEWCOMER. I presume a very large expansion of bank credit would have some effect on raising prices, yes. But I do not know that I quite understand you. In other words, it is one of those things you have got to do normally and within certain limits.

The CHAIRMAN. You think an over issue of notes would affect prices and business?

Mr. NEWCOMER. Undoubtedly. But they would correct themselves by being automatically retired almost as the transaction for which they were issued was concluded.

The CHAIRMAN. Do you think the present Federal reserve notes are automatically retiring? If so, what is your opinion as to the 2,300,000,000 of them being outstanding at the present time?

Mr. NEWCOMER. What was the high point?

The CHAIRMAN. Three billion six hundred million or three billion four hundred million.

Mr. NEWCOMER. I am not enough of an economist to say why they have not gone farther down, except that I do not think this, that business is much more active in this country than many people realize, and prices are high. How much of that is due to the expansion of the currency and how much is due to increased business is something you will have to get the opinion of an economist on.

Mr. WINGO. In dollars and cents the handling of a crop of the same volume selling at $2 a bushel requires twice as much credit as the same volume selling for $1.

Mr. NEWCOMER. I should think it would. I am not a political economist——

Mr. WINGO. And yet there would not be any inflation.

Mr. NEWCOMER. No.

Mr. WINGO. You catch the point?

Mr. NEWCOMER. Yes.

Mr. WINGO. In other words, the size and volume of credit outstanding as compared to another size at another period is not conclusive that there is inflation; the test is, are the instruments of credit outstanding, whether they be book credits or whether they be credits of whatever description, that are acting as legitimate exchange in-

struments to carry on the necessary business of the country, is not the real test, have they actually got back of them bona fide, or, as you bankers say, self-liquidating transactions that determine it; is not that the real test?

Mr. NEWCOMER. I think so.

Mr. WINGO. With a large volume of notes outstanding, if there is an increase in the volume of Federal reserve notes outstanding and if at the same time they have been soundly and profitably issued, is it not a case of congratulation on the expanding business of the country, except the fear that maybe we are inflating a little bit?

Mr. NEWCOMER. I think the business of the country has expanded more than people realize and that there is more of a reason for those outstanding notes than some people think.

Mr. WINGO. I find a whole lot of men whose theories for years I have been almost worshiping as being absolutely sound, that they get out a little glass and look at statistical figures, and because they see an increase in volume of credit they immediately say, "There is inflation," without trying to find out if there is an additional expansion of business and commerce that requires the additional credit.

Mr. NEWCOMER. I agree fully with you on that.

Mr. CHAIRMAN. We have been speaking of reserves and mobilization of reserves in the Federal reserve system, first, to bankers and then to the commerce of the country. Do you believe it is the function of the Federal reserve to furnish capital in addition to the temporary credits in order to develop and maintain a stable condition of business?

Mr. NEWCOMER. Furnish capital for business?

The CHAIRMAN. Yes.

Mr. NEWCOMER. No; I do not think so.

The CHAIRMAN. Of course, the Federal reserve system does to a certain extent.

Mr. NEWCOMER. In what shape do you mean—in loans to the farmers?

The CHAIRMAN. Yes.

Mr. NEWCOMER. There have been a great deal of exceptions made for the farmer that I better not discuss.

Mr. STRONG. What are some of these exceptions that have been made for the farmer that you do not like to discuss?

Mr. NEWCOMER. I am not speaking especially of the Federal reserve system; I am speaking generally, the attempt to get special legislation for them, this immediate credit bill, for one thing, and various propositions have been made in Congress, some of which have not gone through, it is true, but there was a pretty strong attempt to have some class legislation for the farmer.

Mr. STRONG. There has always been an attempt made to get class legislation for all classes.

Mr. NEWCOMER. There was one case that appealed to me, the intermediate credit bill, which I think was an unnecessary thing.

Mr. STRONG. Why was it unnecessary?

Mr. NEWCOMER. Do you want to take the time for that?

Mr. STRONG. Yes; I do.

Mr. NEWCOMER. I think the farmer, say, was covered by the provision in the Federal reserve act which increased the length of

time paper up to nine months, which was sufficient to take care of the legitimate needs of the farmer.

Mr. STRONG. That was increased by the intermediate credit bill up to nine months.

Mr. NEWCOMER. That is a longer time; am I not right?

Mr. WINGO. You are in error there. I do not think it is violating any secrets when I say that the intermediate credit act possibly got through on account of such provisions as that; in other words, the pill was sugar coated.

Mr. STRONG. We never had a credit for the farmer beyond six months before the intermediate credit act in the Federal reserve system.

Mr. NEWCOMER. I think it could have been covered by giving him nine months in the Federal reserve act, and not establishing a special Government agency for the purpose.

Mr. STRONG. But there was a good deal of opposition to extending the length of credit he might have in the Federal reserve system, was there not? That was one reason we considered putting it in another system, because it was said that the Federal reserve system could not extend to the farmers, loans for the length of time he needed credit without endangering the system.

Mr. WINGO. It might interest you to know that frequently the view of you gentlemen is wholly erroneous as to the motives that prompt Congress. I do not think it is violating any confidence of either the men who are responsible in Congress or in this committee to state that there were some gentlemen who swallowed some socialistic ideas in that bill that were advocated by the conservative financiers of the country, because as a friend of agricultural credits we saw some practical nonsocialistic relief in the bill and around this table we debated certain features that would never work and never be taken advantage of, and so far that has happened.

Mr. STEAGALL. Mr. Wingo, Mr. Strong and I are supposed to be standing for the farmers here.

The CHAIRMAN. Why do you exempt the chairman? [Laughter.]

Mr. WINGO. The chairman's well-known standing as a dirt farmer precludes any question of discrimination.

Mr. STEAGALL. We followed in that instance the lead of certain men—the President of the United States, the steering committee of the House, and some very well-known Senators who had a prominent part in the real work of drafting and shaping that legislation—and such gentlemen as Mr. Wingo, Mr. Strong, and myself differed from such men as Senator McLean, Senator Glass, and Senator Pepper.

Mr. WINGO. It might interest you if you look up the files of some of the conservative newspapers—for instance, the well-known court organs here in the city—that was a regular charter of liberty for the farmer, and the same paper criticized a well-known railroad minister who indulged in some horse-sense observations.

Mr. NEWCOMER. If I have said anything that reflects on any of the distinguished Members of the Senate or House I withdraw it.

Mr. WINGO. I was just trying to give you a little enlightenment. The conservative element of the country pressed through Congress the intermediate credit act that men like you who throw out the

suggestion you did awhile ago was class legislation. The conservatives came down here, and, of course, unsophisticated country boys like some of us thought surely it was unsound, but thought "far be it from us" to question the wisdom of their philosophy.

The CHAIRMAN. The point I gained from what you have said that you did not believe it is the function of the Federal reserve system in addition to furnishing temporary credit to also furnish capital, etc., to maintain stable business.

Mr. NEWCOMER. No; I did not.

The CHAIRMAN. We have taken you far afield. Will you please proceed with the balance of your statement?

Mr. NEWCOMER. I have disposed of one of my six points, Mr. Wingo.

Mr. WINGO. I thought you had 14 points.

Mr. NEWCOMER. I do not belong in that category.

Mr. STEAGALL. I want to say right there, seriously, in connection with what we have been saying lightly, that legislation passed here at the last session of Congress was put together overnight at the wind-up to take care of the drift and developments that were not altogether removed from political considerations. But I have always thought and was especially impressed with the fact in connection with the history of that legislation that if the Federal Reserve Board and the conservative bankers would welcome criticism and attempt to deal with it wisely by liberal and thoughtful and well-worked-out legislation instead of stating their views autocratically and winding up in the rush, we would act more wisely and get along better in the long run. The legislation we passed at the closing hours of the session was whipped into shape overnight because it was thought that Congress had to do something before we adjourned.

Mr. STRONG. It was whipped into shape during a good many days and nights.

Mr. STEAGALL. Not so many.

Mr. STRONG. I think we spent several weeks considering it and whipping it into shape.

Mr. WINGO. Here is a question I would like to have answered for my information, and I think there is another member of the committee that would like to have your views. You awhile ago suggested that there was not any necessity for this intermediate credit act, and there was something in your suggestion that the needs of the farmers were already taken care of by the Federal reserve system. Do you think that the intermediate-credit needs of the American farmer represented by their intermediate-credit paper are probably instruments for the portfolios of the Federal reserve banks? That is the logic of your statement awhile ago.

Mr. NEWCOMER. Yes.

The CHAIRMAN. That, of course, is taking into consideration the fact that some of your paper might be determined eligible to be used as security for the issuance of Federal reserve notes?

Mr. NEWCOMER. As I understand it, the farmer's paper running nine months payable out of his crop was, I should think, as self-liquidating as the average merchant's paper payable out of his merchandise.

Mr. WINGO. There has been an arbitrary classification, not by me, but by some of the more conservative Members of Congress, that intermediate-credit paper is what might be classed one to three year farm paper. In other words, do you believe that one to three year farm paper is proper for Federal reserve portfolio?

Mr. NEWCOMER. For three years?

Mr. WINGO. On to three years.

Mr. NEWCOMER. No, I think not.

Mr. WINGO. As a banker, how would you take care of it?

Mr. NEWCOMER. Is not that taken care of by the land banks?

Mr. WINGO. I am not talking about land credits; I am talking about intermediate personal credit.

Mr. NEWCOMER. If it runs for three years that is not a personal credit; would it not be a land credit?

Mr. WINGO. The farm-loan system, if conducted soundly, is supposed to take care of capital for the purchase of land.

Mr. NEWCOMER. Anything running a year or more, should not that be taken care of in the land bank?

Mr. WINGO. Would you put into the Federal farm-loan system cattle feeders' paper?

Mr. NEWCOMER. I am not familiar with those things.

Mr. WINGO. The point that I want to get out is, possibly you were a little too sweeping in your statement.

Mr. NEWCOMER. It is possible.

Mr. WINGO. That the credit needs of the farmer be taken care of in the manner you suggest; and you are liable to be called one of the demagogues that want the Federal reserve system to take care of the farmer. I was trying to give you an opportunity to retreat from your position. Let us be frank. The theory of the Federal reserve system is that into the portfolios of these banks should come nothing but self-liquidating, prime commercial paper, including what is called paper of commerce, industry, and agriculture—the short-term, self-liquidating paper?

Mr. NEWCOMER. Yes.

Mr. WINGO. That is the theory of it. Now, the investment capital that investment bankers take care of from industry does not go into the Federal reserve system?

Mr. NEWCOMER. No.

Mr. WINGO. The capital requirements of the farmer for purchasing land or for permanent improvements are comparable to the needs of the railroad for permanent equipment, such as roadbeds or building or extensions. That requirement is supposed to be taken care of by Federal land banks. What would you do with that other class of credits for which no machinery has been created? I am talking about prior to the passage of the intermediate credit act. Would you leave it without the same facilities that the other class of paper in the country has? Would it be class legislation to give to that character of paper the Government-supervised machinery that was safe and sound to meet its needs just like you have for the commercial needs of the Nation? Is that class legislation to advocate that?

Mr. NEWCOMER. What does that paper consist of? I did not think even cattle paper ran such a long time.

Mr. WINGO. Cattle paper runs from one to three years. In other words, the thought I am trying to get at: It is called class legislation by some gentlemen who are just as conservative as you are, who say that, "Now, here, by the establishment of our National banking and the State commercial banking system, the Government, whether it be Federal or State Government, has recognized the public interest in that matter and has given them a public charter and subjected them to public supervision." But you have given to those people a Government controlled and supervised agency that meets their needs in a sound manner in establishing the land-bank system, you are attempting to meet the needs of the farmer on his capital land credit, and yet there are millions of paper each year that are safe and sound that are known as intermediate farm-credit paper that runs from nine months to three years. Where is there any credit agency created by either State or Federal Government that is comparable to either?

Mr. NEWCOMER. I should think the land bank could be extended to take care of that, as between those two bodies, that were there a little extension of the Federal reserve part that covers capital and things self-liquidating, and a little broadening of the other to take care of the other kind, a mortgage on land, or stock, I did not see why that could not be covered.

Mr. WINGO. You would not, then, as a practical, conservative banker, think it was class legislation if Congress contented itself with providing a similar agency or class of machinery for this class of intermediate credit paper that I have mentioned that it has for all other classes of paper? That would not be class legislation; it would be simply equality of payment, would it not?

Mr. NEWCOMER. That is all.

The CHAIRMAN. Just this one additional thought: You were speaking of nonmembership of State banks and trust companies and the question of compulsory entry into the system of the national banks. Now that the system has been established and has been well under way, do you think compulsory membership on the part of national banks is necessary to the successful operation of the Federal reserve system?

Mr. NEWCOMER. No; I do not think it is. I do not think any national bank that is in would want to withdraw. Again I say I am not familiar with the small bank's position. I may misrepresent them very much. Take the small bank in Missouri or anywhere or any place else, I do not know how it looks at it. I only come in contact with the city banks, and I think they are pleased with it and would stay in.

Mr. WINGO. As a matter of fact, the city banker is a very fine credit agency. There is nothing comparable to it in any other country on earth, is there?

Mr. NEWCOMER. No.

The CHAIRMAN. Is it your observation that the criticisms of the system which come to your attention deal with the fundamentals or the administration of the Federal reserve act?

Mr. NEWCOMER. With the administration mostly.

The CHAIRMAN. You do not think they are fundamental at all?

Mr. NEWCOMER. No, sir. I think point No. 2 can be disposed of very quickly, unless some of you gentlemen want to make it longer.

The CHAIRMAN. All right; go ahead.

Mr. NEWCOMER. There is the suggestion I made of loss of interest on reserve balances. I frankly do not see how that can be met. I have talked with some of the larger financiers and best bankers of the country, and they seem to be agreed it would be wrong or bad policy to allow interest on reserve balances. I do not know that I fully followed their argument, but it seemed to me it has been very much opposed, and I can only pass it over as one of the reasons for staying out without offering any suggestion.

The CHAIRMAN. It has been suggested that inasmuch as most of the Federal reserve banks simply keep Federal reserve requirements with the Federal reserve system, that if the Federal reserve system would pay interest on the excess reserves it might induce many men to go in.

Mr. NEWCOMER. The diametrically opposite suggestion has been made. Under your plan, when money was very easy and the banks had no use for it they would flood the Federal reserve banks, and that the proper thing is to allow 2 per cent on the legal balance alone and refuse anything on the excess.

Mr. WINGO. Do not some of the gentlemen overlook the fact that if you were to flood the Federal reserve banks with these funds that as practical men they would go into the open market and use these funds and compete with you in that field?

Mr. NEWCOMER. On this question of excess reserve. I think possibly to keep their balances up to the legal reserve with no allowance after that would be more conservative than the other.

Mr. STRONG. Is the Federal reserve system earning enough money to pay on the legal reserves?

Mr. NEWCOMER. I have not gone into the figures.

The CHAIRMAN. You spoke of the main advantage in membership that the Federal reserve was to that proposition of lowering the legal reserve requirements?

Mr. NEWCOMER. Yes.

The CHAIRMAN. Do you think that lowering of the legal reserve requirement would compensate for the loss which the member banks might sustain by the loss of interest on their reserve deposits?

Mr. NEWCOMER. It does in our case, sir. But the trouble comes; it does not offset it in the case of State banks, where the State legal reserve is not as high.

The CHAIRMAN. Many of the State requirements in regard to reserves are much more liberal than was the Federal reserve system, I would say.

Mr. NEWCOMER. Yes; and to them it is a loss.

The CHAIRMAN. The Federal reserve requirements of States forbid the carrying of float. They compel banks to take credit immediately for handling of checks, not taking into account the time necessary for the return of those checks. So it is not as liquid reserve as it is in the Federal reserve system.

Mr. NEWCOMER. I think it is objectionable reserve, but I am simply coming to the point that it does mean to the State chartered bank this sacrifice to come in.

The CHAIRMAN. That is one of the big objections that you find among State banks and trust companies to coming into the system?

Mr. NEWCOMER. That is one of the objections.

Mr. WINGO. They balance the benefits and the burdens, and they say the burdens outweigh the benefits.

Mr. NEWCOMER. Yes, sir. The lack of eligible paper you have discussed over and over. You have to have those; you can not lower the requirements. It simply puts into the record the reasons they have given. It is not worth while to comment on them.

The CHAIRMAN. Mr. Newcomer, might I ask right there in connection with that: Another objection that is advanced by many bankers is the fact that they are not permitted to carry vault cash as legal reserve. Is there not a distinction between what is meant by legal reserves on deposit with the Federal reserve system and vault cash? There is no question but what cash is a reserve, but it is not the legal reserve that is intended under the operations of the Federal reserve system, is it?

Mr. NEWCOMER. Mr. Chairman, as I understand the purpose of that clause in the law, it was not that 10 per cent was enough reserve for a balance, but that 10 per cent should be there in addition to what they are carrying in tills for current purposes. If you are going to count the money in the bank as part of the reserves, or even count 2 per cent of it, or anything else, it looks to me as if you might have to increase the reserve requirement by a similar amount. We are required to keep 10 per cent in the Federal reserve bank. We, as a matter of fact, have 4 or 5 per cent in cash. For one to say we could count 2 per cent as part of our reserve, it seems to me you would have to change the wording and make it 12 per cent, otherwise you are going down to 8 per cent with the reserve bank, which I question being a wise reduction.

Mr. WINGO. It has been suggested that one of the prime purposes of the system was to create a safe reservoir for reserves, and that the measure of the reserves that should be segregated to this storm-proof reserve reservoir was fixed, having in mind the ordinary amount of till money an ordinarily wise banker would keep. Is that sound theory or not?

Mr. NEWCOMER. I think it is. I think this, if you gentlemen think or the Reserve Board feels that 10 per cent reserve is more than required, that could be reduced to 8 per cent without saying anything about the money in the vault of the bank.

The CHAIRMAN. Would not increased membership in the Federal reserve system mean perhaps the segregation or mobilization of a larger amount of reserve; in other words, it might be safe to reduce the reserve requirements under those conditions?

Mr. NEWCOMER. I am not at all sure that, because those reserves have increased in amount, so long as they are increased only in proportion to the deposits, it is wise to reduce them.

The CHAIRMAN. Has not the Federal reserve system the responsibility of taking care of that situation, whether the banks are members or not? Does not the final push or pull come on the Federal reserve system, through the rediscount privileges which are extended to the nonmember banks through their correspondence banks in reserve cities, etc?

Mr. NEWCOMER. Yes; to some extent it does come on them.

Mr. WINGO. Is not this true, that the question of the necessary reserves in the member banks is one that is measured by the re-

quirements based upon general experience—the average bank—and not upon the reserve requirements of the Federal bank? In other words, reserves required by each member bank is on the theory that the average member bank experience has shown that it is wise to have that much actual legal reserve segregated and storm-proofed by that particular bank?

Mr. NEWCOMER. Yes; I do not think we have gone through any period to show whether that is a proper test to say that is too much.

Mr. WINGO. But if it is too much, your theory is that it is separate and distinct from how much working till money the bank might require?

Mr. NEWCOMER. I do.

Mr. WINGO. In other words, that reserves mean reserves to be segregated for protection and not for use.

Mr. NEWCOMER. May I ask you gentlemen one question? Is it a fact, as I have heard stated, that in some cities, at least in one of the larger cities, the member banks make practice of over-night hauling their cash to the reserve bank and depositing it and having it counted and withdrawing it on the following morning? If that is being done, they are doing exactly what these people are asking.

Mr. WINGO. You want to go to somebody who knows something about the practical workings and inquire of them.

Mr. NEWCOMER. If so, that bank was doing this very thing and getting around in great shape.

Mr. WINGO. I am wondering why some of these nonmember banks really keep greater reserves now than would be required to be kept if they came into the system.

Mr. NEWCOMER. You say they are keeping greater reserves now than they would be required to keep?

Mr. WINGO. Some of them have actually more reserves than the Federal reserve system.

Mr. NEWCOMER. Some have and some have not; and, then, as the chairman has said, they are counting their float in. Mr. Chairman, there is just one of these things which I do not know whether I ought to say anything about or not. I want to call your attention to it, however, and that is the resentment that some of these nonmember banks feel at what they call attempts to coerce them into the system. There was a great deal of anxiety to get them in. There were undoubtedly inducements made to get them in. I do not know whether anybody has gone far enough to try to coerce them.

The CHAIRMAN. If there was coercion, was it not through the par collection system?

Mr. NEWCOMER. I do not know. I am not passing on that or criticizing, but I want to point out the facts. But even though there are no such attempts made now, some of them have gotten to the point of view that no matter what you do, whether it has any connection with their coming into the system, they fly off and say that is an attempt to force them into the system. We had in Baltimore an illustration that showed that that was the attitude that some of those nonmembers took, that we, who are members, were trying to force them in. We had not any such thought. You can not handle that by law. But I thought you ought to know it.

The CHAIRMAN. There are outside of the system such banks as really would be helpful if they were members of the system?

Mr. NEWCOMER. Undoubtedly.

The CHAIRMAN. And there are other banks in your view that might prove a hindrance rather than a help.

Mr. NEWCOMER. I do not think it would be enough of a help to justify making concessions, where you are not succeeding in getting them all in. We would not recommend making concessions which would leave out 10,000 banks and which brings in only 500 or 1,000.

The CHAIRMAN. You do not think that many banks in the system are not pleased with it?

Mr. NEWCOMER. No; unless some of the small banks of which I am not familiar; those I know are pleased with it.

The CHAIRMAN. If those banks left the system it would be largely through ignorance of the benefits of the system to them in times of stress?

Mr. NEWCOMER. Either that or the fact that they can get from the big banks what service and accommodations they needed.

Mr. WINGO. But they then would be relying upon this theory, would they not, that in case of need they could go indirectly to the Federal reserve bank rather than to their correspondents?

Mr. NEWCOMER. Yes.

Mr. WINGO. They are doing that in spite of the ruling of the board that they will not take up paper with the indorsement of the nonmember bank?

Mr. NEWCOMBER. Yes. There is a certain amount that follow the attitude of the man who does not join the club, but goes in as an invited member and works it a month or two that way.

The CHAIRMAN. In other words, that bank that left the system would lose its opportunity as a matter of right to go directly to the Federal reserve system in times of emergency?

Mr. NEWCOMER. Yes.

The CHAIRMAN. And they would be giving up the opportunity of going to a banker who was a member of the Federal reserve system and letting him decide whether or not they should rediscount.

Mr. NEWCOMER. I do not know.

Mr. WINGO. By the way, I noticed in the proceedings of the American Bankers' Association that I do not right at the moment recall, but it was proposed to amend the law as the proponents to carry out the original provisions proposed.

Mr. NEWCOMER. That referred to membership of the Federal Reserve Board, I think.

Mr. WINGO. Just where do those bankers get that idea? I have not been able to find in the original proposals, and I think I have in my files all the original confidential prints and I have searched diligently several nights to find anything upon which they could base that.

Mr. NEWCOMER. Are you referring to the provision that two members should be selected by the Federal reserve banks?

Mr. WINGO. My mind is not very clear.

Mr. NEWCOMER. That was one suggestion which was said to be in the original draft and changed before anactment.

The CHAIRMAN. I think I can answer the gentleman.

Mr. WINGO. Who did the drafting?

Mr. NEWCOMER. I do not know who did the drafting. I think I know who wrote that in.

Mr. WINGO. There were several things that some gentleman who thought they were writing the act wanted, that they were very much exasperated because they could not get them in, but my files show they stated that Congress had permitted that to be done. I know in none of the prints—I am not talking about bills introduced even the first proposals contained in the confidential prints that came to us as members of the committee, do not contain anything comparable, so far as I am able to find in my files.

Mr. NEWCOMER. I do not think it is any impropriety for me to say I think it emanated from Mr. Paul Warburg.

Mr. WINGO. There is some dispute as to what particular part in the original architectures Mr. Warburg played. Several disputes among the original carpenters of the structure exist in regard to that, as to who really cut the framing. I do not care to inject myself or you into that controversy.

The CHAIRMAN. It is my understanding, if I may be permitted to say so—and I would not want to be recorded as voicing anyone's opinions—that I have heard this matter discussed by bankers and some others at the recent convention of the Bankers' Association at Atlantic City, what I think was in the nature of completely divorcing the Federal reserve system from the Government.

Mr. NEWCOMER. I do not think it was that so much, sir. It was to try and emphasize the two facts: First, that it was a banking system and a very big banking system; that there should be a requirement for trained bankers, that that was not class legislation for the bankers, but that the country required trained bankers, and that the change in ceasing to require that and simply mentioning, as it does now, to put the farmer on; there was no objection whatever to putting the dirt farmer on.

Mr. WINGO. That was not in the original proposal.

Mr. NEWCOMER. I am talking about what took place in 1896. The objection was not to putting the farmer on, but to having specified that there should be a representative of any particular interest other than bankers, which was not put on to represent banks, but because it was a banking system and required a banking expert.

The CHAIRMAN. The discussion I heard frequently was the continuance of the membership of the Secretary of the Treasury on the Federal Reserve Board and having a political domination of decisions of the Federal Reserve Board in times of need, and that it would be better if the Federal Reserve Board were permitted to elect their own governor and officers, and not have the domination of the Secretary of the Treasury to the extent it has been in the past under the needs and requirements of the Government.

Mr. NEWCOMER. The only criticism I heard of putting the Secretary on there was the fact that he was such a busy man that he could not give it the necessary time and attention, and therefore it should be the work of an undersecretary, and then they did not want to provide that the undersecretary should be governor of the board.

Mr. WINGO. And that indicates it was a political proposition. There is politics in this country other than party politics. I do not

think I violate confidence in saying that I have long been of the opinion that both political parties in this country could profit by the politics and political sagacity displayed in bankers' associations and in conferences of my own church; and the only politics I have observed and I have been on this committee ever since the Federal reserve system was inaugurated, and I have not even asked the ordinary favors, though I know bankers have appealed to me and wanted my indorsement, and I found they afterwards got what they were asking for.

Mr. NEWCOMER. There is a lot of human nature in some people.

Mr. WINGO. Do you know of any way of preventing that human nature from creeping into any agency, whether public or private?

Mr. NEWCOMER. No, sir.

Mr. WINGO. If you have a recipe for it I would like to have it.

Mr. NEWCOMER. Mr. Chairman, the charter of these Federal reserve banks expires in 1934. There has been considerable anxiety expressed that if there was a big surplus at that time the politicians and human naturists might try to refuse those charters for the purpose of getting that money closed into the Government. Whether that is true or not or whether you can do anything thus far in advance of 1934, certainly that ought to be kept in mind, that some provision ought to be made for a prolonged charter. We would like to see a perpetual charter, if possible, but a 20-year charter is just a little dangerous.

Mr. WINGO. Men who are in public life and who have to depend on the votes of their constituents usually say that the best policy is to play none at all, but give the service. Do you not think in considering the Federal reserve bank and making this study of what it ought to be and what you and I know it is competent of doing in the way of public service, that that is the best way to insure renewal of a charter, to make a success of the system?

Mr. NEWCOMER. Yes, sir; that together with what you can not give us, that would be some sort of an assurance of the kind of Congress that is going to be in force in 1934.

Mr. WINGO. The kind of Congress that is going to be in force in 1934 if the American people improve is going to be a better Congress. The Congress is never going to be able to rise above the average of the American people.

Mr. NEWCOMER. There are two or three suggestions for changes in the Federal bank I have been asked to put before you.

The CHAIRMAN. That would be very proper to offer at this time.

Mr. NEWCOMER. One is the granting of the privilege to hold stock in safe deposit and investment companies. As the matter stands to-day, the banker can run a safe deposit department or can open an investment company and get the ownership of it in that way, but that brings up a difficulty. Sometimes some of the stock is held by a trust company, and the recipients own the principal and the life tenants get the dividends and the trust company has no say of what is to be done with the dividends, and that takes a certain amount of that stock away. It would be very much simpler if without all that manipulating around they could form a trust company and own the stock themselves. Of course, it would have to be safeguarded that they own all the stock or 90 per cent. But it is a legitimate part of the bank

business. Many of them feel they ought to segregate part of the capital and make that a separate thing from the banking business.

Mr. WINGO. They ought to have the right to do it directly by clear provisions of law?

Mr. NEWCOMER. Yes, sir.

The CHAIRMAN. That would apply also to authority passed in 1864, I think it was, permitting the taking over of the national system of State banks and trust companies with branches. You think it would be better to authorize that directly than in a roundabout way?

Mr. NEWCOMER. Yes.

Mr. WINGO. On that very point of doing things directly, so that you can understand the viewpoint of Congress, Congress has had some things put over on it that it was not willing to do directly; for illustration, I notice the Treasury Department has given out a statement this morning trying to interpret the Attorney General's ruling. Now, do not laugh; the lawyer is the only person permitted to laugh.

Mr. NEWCOMER. I do not intend to laugh.

Mr. WINGO. I notice the suggestion that it did not affect the rights of the bankers here in Washington because of the Millspaugh Act, wherein certain things are authorized. I violate no confidence when I say that gentlemen on this committee were given positive assurance that there was no such provision in that bill, and would not be, and for that reason this committee did not assert his right to have jurisdiction. Now, it is boasted that they got around us because they thought we would not permit it. I for one was seen, and I was consulted about it, and I said, "If they will assure us on two things, I do not care what committee has jurisdiction." I want sound banking in the District of Columbia. But if we are going to involve this matter of branch banking, I thought our committee ought to work that out, and the chairman and I were both assured that no branch banking was involved in that bill.

Mr. NEWCOMER. I ask, then, Mr. Chairman, the possibility of granting national banks the authority to loan on such real estate under proper restrictions, something similar to what they have in farm lands. It is another step in the line of possible competition with State trust companies, which can do that in a great many cases. I do not think it is wise for any bank to tie up any very large amount of its money in real estate loans, but might it not conservatively be given a limited real-estate loan privilege comparable to what is granted on farm lands?

Mr. WINGO. Do you think the assets of a commercial banking system that is presumed to keep its asset liquid ought to be permitted to apply on loans on long-term obligations?

Mr. NEWCOMER. I do not see any objection in moderate amounts. We have a merchant come in frequently who is borrowing for the purposes of his business, and he wants $10,000 more, perhaps, to run a year. That is what you might call an intermediate credit merchant, and he is perfectly willing to give us a mortgage on his place. We can not take it. The law does not allow us to do that. He says, "What can you do?" "We can loan it to you without collateral, but we can not take that collateral"; or we have to take it in some direct way and forego the collateral that is offered.

I do not want to tie up a million or two million dollars in real-estate loans, but I would like to have the privilege of taking up

$50,000 or $100,000 in our bank, and I think it would open up the way to getting collateral on existing loans.

Mr. STRONG. That helps the banker to get a long-time loan through but it is not a good thing for the farmer?

Mr. NEWCOMER. The banker gets that long time to-day, but he gets it without collateral.

Mr. WINGO. You say as a sound proposition the banker is not going to run wild and tie up his funds with nonliquid assets, but that he should be given a leeway to meet the special cases?

Mr. NEWCOMER. Yes.

Mr. WINGO. Your advocacy is changing the law so as to permit larger activities along that line founded upon sound practice and theory, and not upon the competitive theory, we have one it for the farmer and we ought to do it for the city man.

Mr. NEWCOMER. Not at all.

Mr. WINGO. In other words, you think that you can soundly meet that competition?

Mr. NEWCOMER. Yes.

Mr. WINGO. You think it is perfectly sound and legitimate to meet that competition?

Mr. NEWCOMER. I should say to the extent of 10 per cent of capital is perfectly legitimate.

Mr. WINGO. Do you not think it would be wise to found it upon common sense and not upon the theory that because you have done it for the farmer you ought to do it for the city man?

Mr. NEWCOMER. Oh, yes.

Mr. WINGO. But as a practical experienced banker you think it would be perfectly safe to raise the restriction to a certain extent so that you could be permitted to meet those exceptional cases you have mentioned?

Mr. NEWCOMER. Yes.

The CHAIRMAN. As I recall, Mr. Newcomer, there is an authority permitting such banks in rural communities to make loans on real estate within two years when they are within 50 miles of the bank.

Mr. NEWCOMER. On farm loans?

The CHAIRMAN. You want practically that same extension granted to city banks on city property?

Mr. WINGO. We have practically that same provision now.

The CHAIRMAN. Through the process of renewals.

Mr. WINGO. We have that door opened now.

The CHAIRMAN. That leads right to the point I was going to raise here, through the process of renewals, which is a well known process to bankers. That can be extended over an unlimited period, as a matter of practice.

Mr. NEWCOMER. It is just the right to take a piece of real estate as collateral which we can not do to-day, as I understand it.

Mr. WINGO. And that within a certain restriction you can take care of even though it may not violate the commercial banking theory, yet it is so infinitesimally small that it is like putting a drop of cream in a cup of dark coffee. Theoretically, it may be unwise, but as a matter of fact it is not going to affect the liquidity of your paper.

Mr. STRONG. It has been suggested that the national banks have a lot of time deposits that they could use for that purpose, you suggest.

Mr. NEWCOMER. You might put it that way, if you want to. But there is no provision to-day permitting that to do it.

The CHAIRMAN. The country banks can do that up to a certain per cent of their time deposits.

Mr. NEWCOMER. It is not even extended to farm lands?

The CHAIRMAN. No; that is extended to village property. The section referred is section 24 of the Federal reserve act [reading]:

> Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within a Federal reserve district or within a radius of 100 miles of the place in which such bank is located, irrespective of district lines, and may also make loans secured by improved and unencumbered real estate located within 100 miles of the place in which such bank is located, irrespective of district lines; but no loan made upon the security of such farm land shall be made for a longer time than five years, and no loan made on the security of such real estate as distinguished from farm land shall be made for a longer time than one year nor shall the amount of any such loan, whether upon such farm land or upon such real estate, exceed 50 per cent of the actual value of the property offered as security. Any such bank may make such loans, whether secured by certain farm lands or such real estate, in an aggregate sum equal to 25 per cent of its capital and surplus or to one-third of its time deposits, and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

As I understand, Mr. Newcomer, your situation is just that.

Mr. NEWCOMER. I think that is all right. I was not aware of that provision in there.

Mr. WINGO. That is the point I was getting at. You want to raise these restrictions, but having heard them read, do you not think they are liberal enough now?

Mr. NEWCOMER. Yes; I was not aware of the last part of that.

The CHAIRMAN. Under the rules and regulations of the Federal Reserve Board it is provided [reading]:

> Though no national bank is authorized under the provisions of section 24 to make a loan on the security of real estate, other than farm land, for a period exceeding one year, nevertheless, at the end of the year, the maturing note may be renewed or extended for another year, and in order to obviate the necessity of making the new mortgage or deed of trust for each renewal the original mortgage or deed of trust may be so drawn in the first instance as to cover possible future renewals of the original note. Under no circumstances, however, must the bank obligate itself in advance to make such a renewal. It must in all cases preserve the right to require payment at the end of the year and to foreclose the mortgage should that action become necessary. The same principles apply to loans of longer securities secured by farm lands.

Does not that ruling permit you to do what you are suggesting?

Mr. NEWCOMER. I was not familiar with the last half of section 24.

The CHAIRMAN. Do you not think that is about as far as the system should go?

Mr. NEWCOMER. Yes.

Mr. WINGO. As a matter of fact, that, as you will discover—and I say this with all respect to bankers—there are a whole lot of things in the law we overlook. You frankly admit that is liberal enough?

Mr. NEWCOMER. Yes.

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Mr. WINGO. I will be frank with you and say I thought both provisions were too liberal, and, of course, I was denounced as very unwise when I suggested that some provision ought to be made for the customary practice of renewing farm loans.

Mr. PATON. The proposition presented by Mr. Newcomer was a proposition that has been considered and resolved upon by the American Bankers' Association, and that was that this section 24 be amended so as to permit a national bank to loan on city real estate for the same number of years, namely, five, that it loans on farm land, with the same restrictions. Whether or not there is good reason underlying that I do not know, as I am prepared to argue, but there is some reason why a great many banks in the cities are not satisfied with the regultaion of the board that it can be renewed year after year.

Mr. WINGO. Do you think it is wise and do you want Congress to authorize you to make loans on city real estate for five years?

Mr. NEWCOMER. I do not wish for it myself.

Mr. STRONG. It appears that the condemnation of the bankers is not so much as to the system we attempted to give the farmers but that they want it themselves.

Mr. NEWCOMER. The law regarding charters of national banks was recently amended by making the charters for 99 years. There is a feeling among a good many, especially those banks that have trust departments, that those charters ought to be made perpetual, or subject to revocation by Congress or by the comptroller. There are so many trusts given to them running for a long period of years, and though 99 years may cover that it would not be many years before you will get up to where it ceases to cover it. In other words, after you pass 50 years you have a period where trusts may run 70 or 80 years, which the bank can not give, because their charter will run out in the meantime. We have no trust department in our bank, so I am not interested in its personally. I simply throw it out that a number of banks running those departments would like the thing changed.

The CHAIRMAN. I will say to you, Mr. Newcomer, that the members of the House Committee on Banking and Currency were practically a unit on charters in perpetuity. The reason that that was not done was a situation which developed in the Senate. We found in conference—and I do not believe I am divulging the situation there——

Mr. WINGO (interposing). That is perfectly all right. That rule is breeched every minute by some Member of the Senate.

The CHAIRMAN. That parliamentary situation was such in the Senate by the time that bill got over that any one Member could object, and that would have stopped even the passage of the 99-year bill. We were the victims of a parliamentary situation, so far as the House conferees were concerned. We had to take 99 years or nothing. The Senator from Georgia was objecting to granting the right in perpetuity, and in conference we had to agree to 99 years.

Mr. WINGO. The old conservatives who have some conception of the philosophy of our Government objected to even 99 years.

Mr. NEWCOMER. Mr. Chairman, in conclusion, there is just one subject that you referred to awhile ago and that is this question of branch banking.

The CHAIRMAN. Yes.

Mr. NEWCOMER. We are here as a committee of the American Bankers' Association, and the association is plainly on record both at the Kansas City convention and at the New York convention as opposed to branch banking in every form. So that there does not seem to be much of a position for this committee to take. But I would like to present the point of view of the national bank division. which differs from the acts of the association in this sense: We agree fully with their point of view and would cooperate with it if it were practical to stop branch banking, if it was possible to say we would have no branch banking in the United States; whether some of us wanted a branch bank or not we would be glad to cooperate. We face the situation that branch banks exists; they can not be stopped.

They are granted in a lot of States and they continue to grant State banks. They can be gotten by a national bank by absorbing a bank with branches; they can be gotten indirectly and it is utterly impossible to stop and do away with branch banks. Consequently, whatever the American Bankers' Association may legislate about being opposed to it in every form, it is there. Under those circumstances the national bank division advocated a distinct provision of the law in accordance with Comptroller Crissinger's ruling, that in a State where State banks were permitted to have branches that national banks should be permitted to have branches within their own city. I present that as a point of view of one division of the association and not of the whole, but excepting the one point we cooperate with the association's position.

The CHAIRMAN. In other words, you voice the fact that there are in spit of the process of confiscation two or three different systems of branch banking in operation now, and they are going to continue to exist and they can not be legislated out by the process of confiscation.

Mr. NEWCOMER. You can not legislate those out of the State banks.

The CHAIRMAN. It would be confiscation if you take those rights away now, would it not?

Mr. NEWCOMER. Yes.

Mr. WINGO. You understand the Attorney General's decision handed down the other day?

Mr. STRONG. As interpreted by the Treasury Department.

Mr. NEWCOMER. I read it. I understand the purport of it; yes, sir.

Mr. WINGO. What is it?

Mr. NEWCOMER. That the bank is only required to designate its home office; that that means it must designate only the city or town in which located; and that it can have several offices. But he puts in the restriction that those offices must be merely places of deposit and cashing of checks and not to transact any business requiring discretion or judgment. To my mind it requires some discretion to know whether to cash a check or not.

Mr. WINGO. Do you not think it would require discretion at all times as well as knowledge?

Mr. NEWCOMER. Yes. I would not want to dispute with the Attorney General's opinion.

Mr. WINGO. I would not say I disagree with the Attorney General's opinion, because I have not been able to find out what he means. You rely upon this statement of the Attorney General, and I better read that first section of 5190:

The usual business of each national banking association shall be transacted at an office or banking house located in the place specified in its organization certificate.

The Attorney General says this, following the citation of the section we just read [reading]:

The provisions of section 5190, Revised Statutes, as to the place where the usual business of the bank shall be transacted refers to the city or town in which the bank is located and not the particular place within the city.

That is what you had reference to?

Mr. NEWCOMER. Exactly.

Mr. WINGO. And he cites authority for that, and I assume he combed the record pretty thoroughly, the well-known case of McCormick *v.* National Bank (165 U. S. 539–549).

You will find that the Supreme Court, for reasons that can no doubt be figured out, did use this obiter dicta, and I will read from that decision [reading]:

The provision of section 5190, that "usual business of each national bank association shall be transacted at an office or banking house located in the place specified in this organization certificate," "refers to its usual business," after obtaining a certificate from the comptroller, and "to the place," that is, the city or town in which, after it has been authorized by the comptroller's certificate to commence its business of banking, its "office or banking house" is located.

That is the only place in the whole decision where 5190 is referred to, and it is not referred to for the purpose of showing that they may have more than one banking house. But it is referred to for this reason: "After obtaining certificate from the comptroller," to quote from that very paragraph, because in the McCormick case the question was at issue that they were not conducting their business at a place other than that designated in the city. But the whole question was this: "That before they received," quoting from this paragraph cited by the Attorney General "the certificate from the comptroller that one business house," not two or three or four, and the sole question in there was the power of this organization committee to execute a lease before they received the certificate from the comptroller. The Supreme Court held that they had no such power because the statute carefully enumerated the things that they might do before they received the certificate from the comptroller. So that a citation of this is clearly far fetched to say the least of it, and there is not any authority in the McCormick case for any such ruling.

Mr. NEWCOMER. Then, Mr. Wingo, should they not get it down in the law and say what they can do and not do.

Mr. WINGO. If it is right—I am not saying it is not—for the Riggs National Bank—I am using that because they are relying upon another clear provision by which they acquired other institutions that had branches under the Millspaugh Act, and I am not enough of a lawyer to see how that could be under the Millspaugh Act. But

using that without having any attention to Riggs Bank, if it is right for any national bank in any city to be permited to open up what I have referred to as "financial comfort stations," do you not think the law ought to be clear and specific?

I read further from the opinion that the Attorney General himself cited in this opinion. [Reading:]

> It is quite probable that some national banks, under peculiar circumstances, should be permitted to establish branches, but this should not be done except under the supervision and direction of the comptroller, who should possess the authority to make careful investigation of all the conditions and exercise his judgment as to whether the establishment of such branch should be permitted, and to prescribe proper regulations by which it should be conducted.
>
> It is needless to say that such power can be granted only by Congress, and can not be vested in the comptroller by a mere construction of the statute, when the statute contains no clause which will warrant such a construction.

That is what the Attorney General of the United States says about the matter.

Mr. NEWCOMER. I said to our committee last night that I did not think there was any possibility of a question that the real intent of the man who drew the national bank act was to prevent branch banks.

Mr. WINGO. Do you not think that rule of Attorney General Wickersham that even conceding that the comptroller should have the power to do what is being done now, that even that power is vested in Congress. I am not blaming the national banks. If I was a national bank, I would be fighting for the right to put out branches anywhere I wanted to. What are the general operations just now? As I see it, they are twofold: One a deposit operation, and the cashing of checks is incidental to that operation; the other is a rediscounting operation, that of making loans?

Mr. NEWCOMER. Yes.

Mr. WINGO. The little things that enter into it are incidental, but receiving deposits is not incidental; that is a major function of the bank. Can you draw a fine distinction? Suppose you were comptroller, even in view of this Attorney General's opinion, this later opinion which contradicts this former opinion; how would you draw the regulations and determine when a branch is not a branch? That is equivalent to asking, "How old is Ann?" or "Who hit Billie Patterson?" When is a branch bank not a branch bank, in your judgment, within the meaning of the Attorney General's opinion?

Mr. NEWCOMER. I am not passing on it.

Mr. WINGO. Do you know of anybody who has passed on it? The banker does not seem to know and the comptroller does not seem to know; I have not seen any regulations, but we want your experience as a banker, because out of these hearings I think there will be an effort to follow out the philosophy of this moment, that whatever rights the national bank ought to be clearly expressed beyond peradventure. If it is right to have branches, let us have the courage to say so.

Mr. NEWCOMER. I will outline what we have recommended. I see in one of the published reports of your hearings the other day that Mr. John M. Miller, of Richmond, had recommended setting aside

a day of the State conventions for the discussion of the Federal reserve system, and so on. I have the greatest respect for Mr. Miller, but I do want to throw out the warning that I think there is danger of getting into acrimonious discussion which will do more harm than good.

Mr. WINGO. You do not believe in the philosophy of letting those on one side speak out what they please and the other philosophy that you can depend on enough intelligence on the other side to refute that, and out of this conflict of discussion there will be a well-matured opinion of what is wise. I have heard there is a certain group of humanity that has never been capable of self-government, but I thought bankers in open meeting are able to solve problems.

Mr. NEWCOMER. I will not say they can not; and I do not want to oppose Mr. Miller. I simply throw that thought out.

The CHAIRMAN. Apropos of that I want to read an extract from a letter I received this morning from a national banker in Pennsylvania, who says:

> One of the most serious things lacking in the system is any human touch. The small member banks apparently have no interest in the reserve and can not see the many advantages it has for the smaller banks, who know how bad it was before the reserve system was started. The elections are held by mail, and no member banks ever officially come in touch with each other. Many of the districts run through a couple State bankers' associations, where at the convention Federal matters are not discussed. Last fall in the election for third district director my recollection is that only about 60 per cent of the banks voted at all; in other words, they took no interest in it.
>
> My suggestion is that a conference of the member banks be called each year in each district. I use the word "conference" so that the gathering would have no power to do anything more than to fraternize and discuss Federal bank matters. Probably speakers could be brought to these conferences and answers could be made to questions, all of which I believe would go a long way to bringing member banks in closer touch with the officers of the various banks themselves and possibly with the reserve board. I think you would be surprised, if you investigated, to find how little the average small bank knows about the workings of the system and how little is known about the necessities.
>
> Unfortunately, the war brought to the system the idea that it was a great credit bureau, and it has functioned away outside of the original intention of taking care of the reserves and supplying the country with elastic currency. Mistakes, of course, have been made; I think also you will find that the average speech made by the officers of the banks to bankers is not sufficiently instructive and deals in platitudes rather than a demonstration of the necessities of the system and reviews of past experience prior to the organization of the system. I believe that a number of other things could be done in a small way to put more human element into the system.

Mr. NEWCOMER. This conference of members is rather different from discussion in a State convention.

The CHAIRMAN. I am going to suggest now that the committee recess.

Mr. STRONG. Before you recess I would like to say that before I came to Washington to attend these hearings—believing that one of our duties was to try and find out why the State bankers did not come into the system—I addressed a letter to the bankers of my State. I sent out a couple hundred letters, and as a result I am receiving a good many letters asking for information; and I want before I go any further to ask if the information Mr. Crissinger was to furnish

regarding the earnings of the Federal reserve system has been filed with the committee?

Governor CRISSINGER. It has not been filed yet, but I will bring it.

Mr. STRONG. Out of these letters I have received I have prepared the following list of five things that they seem quite generally to be asking for: First, what has been the earnings of the Federal reserve system each year since organization? Second, what amount has been paid into the United States Treasury each year? Third, what has been the salaries and expenses of the Federal reserve system? Fourth, what has been expended for buildings? Fifth, what is the present surplus?

Out of the many letters I have received it seems those five points are quite generally inquired for, and I wanted to ask, as Governor Crissinger is here, if he would file that information with the committee?

Mr. WINGO. Most of that information, I will state to my friend, is available in the reports.

Mr. STRONG. I understand that, but I want it made a matter of record here.

The CHAIRMAN. I would suggest, Mr. Strong, that you give Mr. Crissinger a list of those questions and let him place the questions, along with the answers thereto, in the record at this point.

Mr. WINGO. I do not know about that. I thought that was a matter that would come up later. The question of expenses is to come up before the next Congress, and if the statement was to come in now there might be an effort made to clarify it by examination. I suppose Governor Crissinger will be back here two or three times. Suppose he prepares it and then we decide whether or not it shall go into the record before we have opportunity to examine it.

Mr. STRONG. I do not see any objection to having it go into the record, and then we can study it.

Mr. WINGO. I may want to examine him on it.

Governor CRISSINGER. I will bring it with me to-morrow.

Mr. STEAGALL. There is just one thing I wanted to direct attention to, and that is the suggestion or recommendation of your committee with reference to the branch Federal reserve banks in Cuba.

Mr. NEWCOMER. That was in the record on file there, sir. Might I read it? I could give you the substance of it, but I think it is so much more clearly placed than I could memorize it that I think I had better read it [reading]:

> The commission looks with disfavor upon the authorization recently given by the Federal Reserve Board to Federal reserve banks to establish, under the guise of agencies, organizations of their own in Cuba. It believes that the precedent just established is fraught with the most serious dangers, and it suggests that the Federal Reserve Board reconsider its policy adopted in this regard, or, failing that, that an amendment to the Federal reserve act be sought forbidding the establishment, by any Federal reserve bank, of branches in foreign countries under the guise of agencies.

Governor CRISSINGER. Where do they get the idea of branches in Cuba?

Mr. NEWCOMER. Their point, Mr. Crissinger, I think was that the provision in the law to establish an agency meant practically what they say others have done—appoint an agency. That when you appoint an organization of your own to handle your currency down

there it was all right as to Cuba but probably dangerous if you want it any place else.

(Thereupon, at 1 o'clock p. m., the joint committee took a recess until 2 o'clock this afternoon.)

AFTER RECESS

The joint committee reconvened at the expiration of the recess.

The CHAIRMAN. I have a telegram here I want to put into the record, which I have just received, and which I will read [reading]:

Your telegram received. Am sending Assistant F. R. Jones to represent association at hearings.

L. R. ADAMS,
Secretary Country Bankers' Association of Georgia.

I have also received a telegram from Hon. Carter Glass, a member of this committee, saying he is detained in Richmond on official business but will be present at the hearing to-morrow morning.

Mr. PATON. I do not want to take up much time, but I would like to call attention to your committee to one interesting thing about the 20-year life of these Federal reserve banks. The charter is for 20 years unless sooner dissolved. You will notice section 18 in regard refunding bonds that it gives a national bank the right during a period of 20 years after two years after the passage of the act. I should say that a period of 22 years from the time the Federal reserve bank was first established to apply to the Federal Reserve Board, who may require a Federal reserve bank to purchase its outstanding bond. There is a sort of inconsistency there, and when you go to suggest any amendments to this act it ought to be cleared up.

The CHAIRMAN. That section pertaining to what you have just quoted will be inserted in the minutes at this point. It provides:

After two years from the passage of this act, and at any time during a period of 20 years thereafter, any member bank desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

The Treasurer shall, at the end of each quarterly period, furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed—

In other words, there is a requirement of 22 years after the passage of this act a Federal reserve bank must purchase bonds of a member bank.

Mr. PATON. So there is an inconsistency in the act that is worth noting.

The CHAIRMAN. It contemplates the renewal of the charter.

Mr. PATON. It contemplates the renewal of the charter certainly in the minds of the original national bank act as a basis, and it was put in without thought, but it looks as if the whole framework of the act contemplated a continuing reserve system.

The CHAIRMAN. We will now hear Mr. Oscar Wells, vice president American Bankers' Association and President Frst National Bank, Birmingham, Ala.

STATEMENT OF MR. OSCAR WELLS, VICE PRESIDENT AMERICAN BANKERS' ASSOCIATION AND PRESIDENT FIRST NATIONAL BANK, BIRMINGHAM, ALA.

Mr. WELLS. Do you want to suggest what I shall discuss?

The CHAIRMAN. You may proceed in your own way, Mr. Wells. I believe you have a statement you would like to make to the committee.

Mr. WELLS. Mr. Newcomer is chairman of our committee, and we had agreed upon the form of discussion, but in the discussion backwards and forwards we went far afield from that. I did make some notes as we went along, because it was interesting to me to consider how those questions might be answered by different bankers. It serves to illustrate the correctness of his position this morning when he said that after all what we gave as our opinion must be an individual opinion, because there has been no way of crystallizing the opinion of the association except as might be reflected in its resolutions or as in such acts as the association has put on record, such as the report of the Economic Policy Commission and the action of the National Bank Division in asking for a widening of the powers given to national banks for investing in real estate loans. The first thing I made a note of was in answer to Mr. Wingo's inquiry as to whether or not the Federal reserve system was designed as a benefit to banks. I do not think Mr. Newcomer meant to say that it was not a part of the intent of Congress in passing the act, that it become a benefit to banks directly. I think he tried to say, perhaps, that primarily it was for the benefit of the country at large as a reformation of the currency and banking systems of our country, but undoubtedly the banks of the country were foremost in their desire to have some changes made in the banking laws which would go toward stabilizing conditions, and which they believed could be done by the three underlying principles of the Federal reserve system.

The CHAIRMAN. But there is a great difference of opinion as to how that should be done.

Mr. WELLS. There was no great difference of opinion as to what was desired. The bankers came before the committees and expressed different views, many of them urging changes in the law, and, perhaps, that might have kept up indefinitely. There were some 200 and odd changes made before the Senate committee indicating the wide range of discussion involved in the public consideration of the whole question.

The CHAIRMAN. As a matter of fact, Mr. Wells, at that point, when the bill was up for final amendment, there was great divergency of opinion among bankers here in regard to Federal legislation. But when completed bankers pretty generally agreed about it.

Mr. WELLS. I think that is true, Mr. McFadden. For a number of years I think every convention of the American Bankers' Association had on its program one or more speakers urging some type of banking and currency reformation, because we had a loose-jointed system of banking.

Mr. WINGO. Possibly you did not catch what was back of my suggestion to Mr. Newcomer this morning.

Mr. WELLS. I thought he gave an unfortunate answer in seeming to minimize the benefit to bankers.

Mr. WINGO. The theory was that the national bank system was created for the public good; that the public had an interest in the credit market and that interest had reached the point where the Federal Government would undertake to regulate; and that the very service going to be rendered to the public was conserving the reserves which are invaluable in times of stringency and for providing a certain discount market; that that benefited also the banks, inasmuch as it enabled them to weather these storms which hurt them as well as hurt the public. In other words, they being the credit merchants, that the public was conserved by the Federal reserve type of legislation that would undertake to coordinate their operation and would mobilize their reserves at a given point and to make them available in times of need by having a rediscount market that is always sure and certain; that instead of the public good being conserved in a way that was inimical to the bankers, as a matter of fact, who had, even from his own business standpoint a selfish interest in the carrying out of that theory of public welfare; and that he himself was benefited in this broader benefit that came to the general public, and that it was a matter of service to him; and that he, as the agency that was handling the public credit, by conserving and enabling him to discharge to the fullest his function as a credit merchant that thereby the general public was served by maintaining adequate credit machinery for the business of the country, both commercially and agriculturally.

Mr. STRONG. In other words, a strong financial system not only helps the banker but helps the country?

Mr. WELLS. The answer that Mr. Newcomer gave might have been construed as not including the banker, and I think he agrees with that idea exactly, that it is of great benefit to the banker. Call it selfishness, professional interest, or anything else, if the financial system helps the country it is bound to help the bank as the channel through which that system operates.

Mr. WINGO. As a matter of fact, you take the country banker, who is supposed to be the one who is restive under this system—by those who advocated the Federal reserve system, the position was, "Here, you are at the mercy of these central reserve bankers."

Mr. WELLS. I do not think any of the reserve city bankers would deny that fact. I think they were anxious to have that even to the extent of losing some of their deposits.

Mr. WINGO. That is the crux of the whole system, these country banks as contradistinguished from banks of the Federal reserve city, we have them with that feeling whether it would be wise or unwise. The system has not been not one of service, whereas the original thought was that we would be the ones that would be benefitted, and that the special privileges that were at the bottom of the abuses that wanted to be eradicated, were special privileges the Federal reserve banker had and under which the country banker would be at the mercy of the central reserve bankers.

Mr. WELLS. Mr. Wingo, they have been served by the system, even though there may have been an apparent greater service to the larger banks. My answer was intended to say this: That the country banks who think they have not been served, in my judgment, are simply wrong in putting an emphasis on the service they think has gone to

the city bank and not to them, because no kind of bank suffers more in times of panics and distress than the rural banks of the country.

Mr. WINGO. Your theory is that the country bank overlooks the theory in the long run. In other words, the banker thinks it is of greater benefit for him to stay out than to come in, and your viewpoint is that he overlooks the broader viewpoint over a longer term of years?

Mr. WELLS. It takes a right broad-minded country banker, even if he sees the advantages that come to him, to decide that he should contribute to the maintenance of that system so long as it is going to go on anyway. I do not know whether if I were a small country banker I would go into the system.

Mr. WINGO. Why is it they do not become member banks; and if their objections are bottomed either upon regulations, administration, or law that can be revised soundly and safely, what shall those changes be? That is the scope of our investigation.

Mr. WELLS. That is the purpose of the resolution which creates this joint committee. I doubt if any substantial or constructive law can be passed in the form of an amendment that can bring the country or small banks in in larger numbers—I am using "country banks" in the same sense you were. I would like to see the larger commercial State banks come in upon the theory that we have been discussing the last two or three minutes; and if we do that, in my judgment the system would continue to serve the purposes intended at the time the law was passed.

The CHAIRMAN. The position of many of these country banks upon the branch-bank proposition is pretty well known. It has been suggested that it was the fear these small banks have of stimulating the branch banking system in this country is one thing which keeps them out of the Federal reserve system, on the theory that the Federal reserve system is a certain form of branch banking, and when they joined, for instance, the system they lose a certain amount of their individuality.

Mr. WELLS. That may be an argument in theory. I have never heard a country banker advance that theory, and I do not think that theory prevails among country bankers generally.

Mr. WINGO. There is another phase of that, if the chairman will permit, as expressed by one country banker to me. I asked him where does the branch banking question constitute any objection to his bank coming into the system. He said: "I do not want to come in and strengthen the system that would be in control of men who believe in the branch theory." In other words, his objection was not bottomed upon the theory that the Federal reserve system was branch banking, but that those who are responsible for its administration were fathering the branch banking system in this country, which he thought would ultimately destroy his independent banking, and therefore he did not propose to come in and strengthen the system that ultimately meant his destruction as an institution.

Mr. WELLS. I imagine that the whole discussion of branch banking has had its effect upon the attitude of the nonmember bank. I do not think any banking question can come up for general discussion that would not have some influence on the question of membership in the Federal reserve system.

Mr. WINGO. You do not think there could be any changes made in the law that would meet the objections of the country banker that you have heard?

Mr. WELLS. I think you might make some changes in the law that would meet some of these objections, but I seriously doubt if they would avail themselves of the privilege of membership even though you met those objections.

Mr. WINGO. You think if any changes, if made at all, having the effect of bringing them into the system, would have to be administrative more than legislative?

Mr. WELLS. Yes, that is true; and I think, further, if you made any changes in the law which would carry an inducement for the State banks to come in that you would probably lower the standard and affect the general value of the law.

Mr. WINGO. Is it true or not true that most of the objections are bottomed on administration features, whether that objection is well founded or based upon misapprehension, or whatever it is?

Mr. WELLS. That is true, indeed, if you will take into consideration that before the administrative features become known—I mean in the early operations of the Federal reserve system—there was a reluctancy upon the part of the small State banks to come in, and large State banks for that matter; and I think perhaps that it may be true, too, because of the element of selfishness. Whether they are convinced or not, they believe that they would have to give up a certain amount of their operating profits if they put their reserves into the Federal reserve bank instead of carrying them with the correspondents where they bear interest.

Mr. WINGO. Do they also believe they will be subjecting themselves to more stringent regulations than are necessary?

Mr. WELLS. I do not think there is any doubt but what the average nonmember bank feels that it would be subjecting itself to a dual examination, even though the board has made every effort to accept the examination of State bank examiners. The Federal Reserve Board has the right to examine under the present act, and I think perhaps that constitutes a substantial objection in the mind of the banker when he realizes that present examinations would be continued by the State banking department, and that the Federal Reserve Board would also have the right to require still other examinations.

Mr. WINGO. In their answers to our questionnaire and in their personal conversation as members of the committee, they frequently refer to what they call "red tape." How wide in extent is that objection?

Mr. WELLS. That is everywhere in dealing with governmental agencies, because it must be somewhat mechanical. You can not possibly run a department of the Government without some of it being done mechanically or impersonally, or at least under a plan which applies to all, and I do not think anybody deals with Government departments who does not feel that there is a certain amount of red tape that they would like to get away from. I think that is fundamental.

Mr. WINGO. Is it your theory, then, that necessarily a Federal reserve bank has to be conducted with more rigid adherence to ordinary rules and regulations than the business of the member bank,

where the operating officers are in close and intimate touch, and necessarily know more than the Federal reserve bank officers can both of the business and the character of the men being dealt with in making individual loans to members?

Mr. WELLS. I was governor of the Federal Reserve Bank of Dallas, and I believe out of that experience I can say that in dealing with member banks who are members by right of becoming stockholders and whose relations are on a different basis from that of customer and bank, that the transactions must be under some sort of a plan or a system that can be made to apply pretty generally to all. Credit risks, value of securities, the general policies of the bank in expanding too rapidly; in fact I think there are many instances where the operation would be exactly what it is in commercial banks. But there is a different sort of relationship. There is an institutional relationship there which does not exist between the average bank and the average bank customer.

Mr. WINGO. The ordinary banker, whether in a city of 25,000 or 2,500, necessarily is guided to a very large extent by his judgment that he has arrived at from an intimate knowledge of the purpose for which the funds are to be used, the character as well as the ability of his customer to use those funds, whereas a Federal reserve bank officer must necessarily confine his operations more to the mechanical and within regulatory lines, and can not undertake to have that minute personal information that is the bottom of every piece of paper that the banker himself would have in dealing with his own customers.

Mr. WELLS. That is absolutely true, and to prove that it is true, the country bank can do the thing in dealing with his customers that you have outlined very much more easily than the banker in the larger city, who must be somewhat mechanical in the matter of fixing credits for example. He is not as close to the customer and there is not the personal equation; he can not form a judgment as to the capacity of the borrower to take care of the obligation incurred.

Mr. WINGO. In meeting the requirements of a small manufacturing concern, the cashier of the bank in that manufacturing locality has arrived at definite judgment as to whether or not that is a feasible industrial proposition. He realizes that that is a good paying proposition and that it is on the grow, that it is going to be an industrial success. Then he can use that judgment and will use it in determining the extent of the credit he will extend to that corporation. Whereas if that corporation's paper is brought up to the Federal reserve bank officially, they have no intimate knowledge of either the field in which this corporation disposes of its products, the capacity of the men managing it, the cost and transportation and other items in order to determine whether or not it is a good business risk. They must necessarily confine themselves to the mechanical limitations involved both in the law and the regulations that are applicable.

Mr. WELLS. Their definition of eligibility of paper proves that fact. I have made many a loan to a man with good business capacity whose paper could not have been rendered eligible in the portfolio of the Federal reserve bank. I was going to say that, in my opinion, the criticism of the Federal reserve system largely

arises out of the subversion of it during the war when it was necessary for us to do with the system so many things that perhaps analytically should not have been done, such as taking care of Government financing. The reaction from the habit of freely borrowing for the same purpose has asserted itself. I can conceive of no broad changes that can be made without lowering the standards of the Federal reserve act as it applies to its original principles on which we are agreed, which would have the effect of overcoming the criticism against it. I think it is unfortunate. It has been alleged that coercion was used in trying to extend par clearances. I think everybody will agree that it was a mistake. I do not mean to be critical of those who undertook it, for they may have had good reasons, but I think it has been proven to have been a mistake, because it gives the nonmember banks the opportunity to raise the cry of intimidation, force, and coercion. I think that it would be a mistake to again try to have the nonmember clear at par. But I think all of these criticisms are greatly exaggerated and that we are passing through a naturally prejudicial period so far as the Federal reserve system is concerned.

Mr. WINGO. Whether they are right or not, it is true that there are a large number of the banks that went into the par-collection system which went not because their judgment told them it was wise, but because they were left with no other alternative.

Mr. WELLS. I was raised in the Southwest and lived in the South where exchange charges prevail as much as in any part of this country. I have never heard a good substantial, broad-minded national country banker complain because in going into the system he gave up the question of exchange, but I suspect that there are national bankers who feel some resentment of having to do so.

Mr. WINGO. You have heard a good many say they were left with no alternative?

Mr. WELLS. I have never heard any national bankers find fault with it and seriously complain.

Mr. WINGO. I am talking about the nonmember bank that went into the par-collection system. They did not go in of their own volition, but they felt like they were left with no alternative.

Mr. WELLS. I do not think there is any doubt in the world but what every nonmember banker who had grown up under the system of charging exchange and who had profited by that general practice, gave it up only through some spirit of reluctance and who believed that he had no other way of doing it, or that he had better accede to it rather than to stand out against such forces as he recognized in the Federal Reserve Board interpreting the Federal reserve act to enforce par clearance as far as it could.

The CHAIRMAN. Is it not optional with the Federal reserve bank as to whether they participate in the parcollection?

Mr. WELLS I know some bankers who have come to the conclusion that they want to go on parring, not among those who express themselves most readily, but there is quite an undercurrent in the minds of country bankers who believe in time as they give up the profits arising from the charges of exchange that they will get offsetting advantages, that they will get larger deposits, that they will contribute towards greater circulation of checks and that by so doing they will receive larger benefits. But there are a good

many who can not see any other way to it but that they are being forced to send the money to some point without reasonable charge. To show you there has been some change in the minds of the nonmember banks, no nonmember bank to-day will argue for larger than a dollar a thousand. Every law that has been passed in the Southern States takes recognition of the fact that this is a reasonable charge. The general prevailing practice in small communities of one-bank towns or even two-bank towns in certain sections had been from $1.25 to $2.50 per thousand. It was rather the exception that 10 cents a hundred was charged. So it has had some advantage. And if the banker thinks about it, it seems to me he is bound to draw this conclusion, that if we are going to conduct the banking business of this country on the check system that trade and commerce is entitled to the advantage which comes through the operation of the zoning clearances provided by the Federal reserve banks. Domestic exchange to-day under the operation of the gold settlement fund can be created less expensively than it was in the days before the Federal reserve banks began to operate, and for the banker to want to hold onto the whole amount of that and not make any concession as the result of that natural advantage certainly is taking a selfish point of view.

Mr. WINGO. You seem to adhere to the theory promulgated by an interesting document filed, I believe, by Governor Crissinger. It is entitled Federal Reserve Collection System, based on the par payment of checks. It is a very interesting document. The gist of this document is that these poor country bankers are misguided, and, as a matter of fact, the par collection system is to their selfish interest, and that they have been kicking against a reform that was against their interest selfishly that they could not comprehend.

Mr. WELLS. I think, Mr. Wingo, that if you and I were running a small bank in the territory where the charging of exchange has been prevalent, we would object just as tenaciously as these gentlemen have been objecting, but I believe if we could get cooperation, if we could get a willing attitude to abandon the exchange charges for a period of 20 or 25 years that the banks of the country would be glad that the thing was in the past, and that it would prove to be a matter of reformation in banking.

The CHAIRMAN. This is the report, I understand, which was prepared by a committee representing governors and Federal reserve agents of the Federal reserve system.

Mr. WINGO. I want to make a note of the gentleman's name who wrote it. They go into detail, and they prove just like a lawyer proves his case in court and it is less expensive to the country banker, and, as a matter of fact, he carries more money under the par collection system than he did under the other, and that instead of losing money he has had increased revenue, and it goes so far as to lay down the bald proposition and supports it that, as a matter of fact, he would have less expense under this than the old system.

Mr. WELLS. I can not go that far. I might agree with him if I had read it, but I am rather of the opinion that the profits that now come to the average small bank would be offset in the increased volume of banking arising from making checks circulate more freely.

Mr. WINGO. After all somebody has got to pay the cost, has he not?

Mr. WELLS. Somebody always had paid the cost.

Mr. WINGO. Somebody has got to pay for this service, have they not?

Mr. WELLS. But the cost has been reduced.

Mr. WINGO. Somebody has got to pay it?

Mr. WELLS. Yes. You can not pay money at a distant point——

Mr. WINGO (interposing). The old system grew out of this: In the old days when the country merchant paid his bill, the wholesale houses sent a collector out and he collected cash, and you had numerous cases of robbery and defalcation. So ultimately the jobber and the wholesaler commenced to preferring checks, because his collector would generally go to the merchant and take a check for the amount. So they commenced encouraging the merchant to send in a check; and then the wise and farsighted jobber made an arrangement with his banker to carry those checks in return for the service of this wholesale house. He unloaded those checks on that bank. That bank in the past, prompted by selfish interests and exercising that ingenuity that every intelligent business man will exercise, found a way of getting a return on that, and that was that he made arrangements with the country banker by which he carried it for him and accepted in return certain favors he did them. That is the way the old system grew up. Now, it was contended in the initial stages of this controversy that that put a load on somebody, that somebody had a cross to bear; and that inasmuch as the accommodation was for the country merchant and not the wholesaler, that the country banker and his merchant wanted to find out who paid the expenses. Was not the whole object of the par clearance proposition to shift the burden of that cost?

Mr. WELLS. You mean the object of putting it into operation by the Federal Reserve Board.

Mr. WINGO. Was not the whole selfish object to shift that cost to take care of the city merchant and the city banker and to turn the load back onto the man who ought to bear it?

Mr. WELLS. Undoubtedly, the city bankers and wholesalers were very urgent in their desire to have the par collection extended.

Mr. WINGO. Parring was growing?

Mr. WELLS. By competition.

Mr. WINGO. Members of Congress were flooded by the wholesalers and jobbers in their districts in support of this. On the other hand the country banker and country merchant were against it?

Mr. WELLS. Absolutely.

Mr. WINGO. The gentleman who wrote this wonderful document is candid. He, in spite of what has gone before, made a very candid admission down here at the close of one paragraph, although he announced a discovery I had never made before. He says Congress intended to relieve the city merchant and the consumer of this element of cost of collecting checks as a part of its larger plan to give larger circulation to bank checks. I never heard of anybody in Congress making that effort.

Mr. WELLS. A freer collection of checks would be a better word to use.

Mr. WINGO. So socialism will even creep into the most conservative document.

Mr. WELLS. I have not read the document.

Mr. WINGO. Let me remark that there is a very clear distinction between the use of bank checks and the use of paper money as a circulating medium.

Mr. WELLS. Oh, yes.

Mr. WINGO. Nobody's paper should circulate as a circulating medium?

Mr. WELLS. No. They confine their demand to Government paper. They did not go to the extent of saying that everybody's paper should become a circulating medium.

Mr. STEAGALL. Mr. Wells, what do you think might be done to cause the member banks not now availing themselves of the use of the Federal reserve system to avail themselves of it?

Mr. WELLS. In what way?

Mr. STEAGALL. The statement states, and I suppose it is true, that about a third of the national banks declined and failed during the period of stress and storm to avail themselves of the credit facilities of the Federal reserve system.

Mr. WELLS. A third in number?

Mr. STEAGALL. Something like that, so they say; and we would like not alone to find out why nonmember banks do not join. But we had in plan in mind a prime purpose of extending the uses of the Federal reserve system, which involved the question of the use of the system by national banks.

Mr. WELLS. You surprise me by saying that there is any rumor to the effect that one-third in number, even in stress and storm, did not avail themselves of the use of the system. That is not true in our section of the country.

Mr. WINGO. The statistics say that one-third in number of the member banks during the stringent period of 1921 did not avail themselves of the rediscount privileges.

Mr. WELLS. But were rediscounting at other places?

Mr. WINGO. Were not availing themselves of the rediscount privilege of the Federal reserve system.

Mr. WELLS. And were rediscounting at other places, I presume?

Mr. WINGO. I do not know.

Mr. WELLS. I do not think it is anything against the system that a member bank does not need to borrow money and does not avail itself just because times are hard. It might be very menacing if you tried to bring about some sort of plan to induce the use of the discount privileges of the Federal reserve system whether needed or not by the member bank in the conduct of its business.

Mr. WINGO. That was in answer to what one gentleman said, that some of these men who were criticizing the Federal reserve system and its refusal to extend credit in that period were at the head of banks which did not take advantage of the privilege.

Mr. WELLS. I think they must be in a great minority.

Mr. WINGO. I do not know now.

Mr. WELLS. I think the average member bank that needed to rediscount its paper went to the Federal reserve bank. We have apparently little money loaned in proportion to what happened in 1912, 1913, and 1914. In seasons now we loan apparently little money to our corresponding banks. They generally go to the Federal reserve bank.

The CHAIRMAN. We are now ready to hear next the presidents of the various State bankers' associations throughout New England. I understand a committee is here.

STATEMENT OF MR. E. A. ONTHANK, FITCHBURGH, MASS.

Mr. ONTHANK. Mr. Chairman and gentlemen of the committee, my name is E. A. Onthank, of Fitchburgh, Mass.

Mr. STRONG. Are you the president or representing some organization?

The CHAIRMAN. Will you kindly give the stenographer a list of the committee who are present with you and their positions?

Mr. ONTHANK. I will be very glad to do that.

Mr. WINGO. And their bank affiliations.

The CHAIRMAN. And those who they represent, so we will have it complete in the record.

Mr. ONTHANK. I will read the names: Henry W. Cushman, Bangor, Me.; Arthur M. Heard, New Hampshire; Clarence L. Stockney, Vermont, Peoples National Bank; Irving W. Cook, First National Bank, Massachusetts; E. A. Onthank, Massachusetts. We have one other member of our committee, H. T. Holt, vice president of the Hartford (Conn.) National Bank, of Hartford, Conn., who, unfortunately, is not able to be present with us to-day. He expected to be here, and he is in full sympathy with what we have to say. So, we will speak for him.

The CHAIRMAN. Is this a self-appointed committee, or do they represent bankers' associations or the view of individual bankers?

Mr. ONTHANK. It practically represents the bankers' associations of those several New England States. Different members of this committee were appointed by the presidents of those associations. We have had some meetings and have considered some suggestions, two in number, which we would like to present to your committee in the form in which we have made them up. We have prepared just a brief statement which we would like to make, and then we have three or four of our members who have prepared their arguments to support some of the points that we have tried to bring out in our brief, and they will follow with those arguments, the idea being to simply present this as a constructive suggestion to your committee; and with your permission I will proceed with my statement and then we will follow with the other members of the committee.

The CHAIRMAN. We will be very glad to have you proceed.

Mr. ONTHANK. Mr. Chairman and gentlemen of the committee, we appear before you to-day as representatives of the member banks of the first Federal reserve district, having been appointed by the presidents of the bankers' associations in the New England States. We appreciate the benefits which have accrued from the operation of the Federal reserve system to the agricultural, industrial, commercial, and financial interests of the country, and sincerely hope that as a result of the committee's research it will be able to report to Congress some plan which will bring about a more cordial feeling toward the system on the part of the disaffected

member banks, and will induce eligible nonmember banks to apply for membership.

As the Federal reserve banks do not deal directly with the public and can rediscount paper only for member banks, we believe it is essential that there may be a wider distribution for member banks, we believe it is essential in order that there may be a wider distribution of the benefit of the system, that there should be a substantial increase in the number of its member banks. It is argued by many of the nonmember banks, and by some of the member banks as well, that membership is of greater advantage to banks located in Federal reserve cities and cities which have branches of Federal reserve banks, than it is to the greater number of banks commonly called country banks, which are located in towns and cities which do not possess those facilities.

Many eligible State banks have not applied for membership in the system because the Federal reserve banks do not pay interest on their member banks' reserve deposits. This objection is often raised by member banks, and there are many member and nonmember banks which never rediscount, or rarely have occasion to do so, which have a feeling that membership would be of no value to them unless they have more or less frequent rediscount transactions with their Federal reserve banks.

It is true that the required reserves which under the law must be carried in the form of an actual net, or collected balance, with the Federal reserve bank are substantially less than the reserves required by the national banking law before the Federal reserve act was enacted; and it is also true that in many States there has been legislation which permits member banks operating under State charters to carry reserves identical with those required of national banks. Yet even in those States there is a general feeling on the part of country banks that the operation of the system is not as favorable to them as it is to banks which are located in Federal reserve or branch bank cities. The Federal Reserve Board evidently recognized the force of this sentiment when for several years it authorized the Federal reserve bank to pay the costs of transportation of currency to and from their member banks, but even this concession, expensive as it is to the Federal reserve banks, does not entirely rectify the inequality for the city banks which have easy access to the vaults of the Federal reserve banks or the Federal reserve branch banks can safely reduce their actual holdings of vault cash to a very small amount because of their ability to replenish their supply of cash on a few minutes notice by presenting their check to the Federal reserve bank or branch country banks on the other hand not being so favorably situated are obliged to carry substantial amounts of cash in their own vaults to be ready to meet promptly current or unexpected demands. As vault cash does not count as a part of a member bank's legal reserve, it is clear that the reduced reserve requirements are not as advantageous to a country bank as might appear at first glance.

The Federal reserve bank act as originally enacted provided that a bank not in a reserve or central reserve city should, after a period of 36 months after the passage of the act, carry four-twelfths (or one-third) of its required reserve in its own vaults, five-twelfths with its Federal reserve bank, and the remaining three-twelfths (or

one-quarter) in its own vaults or with the Federal reserve bank, or in both, at the option of the member bank. The act of June 21, 1917, reduced the percentage of reserves required of country banks from 12 per cent of the aggregate amount of their demand deposits and 5 per cent of their time deposits to 7 per cent of the aggregate amount of their demand deposits and 3 per cent of their time deposits, but required them to maintain the entire amount of the reserves required as an actual net balance with the Federal reserve banks of their respective districts.

We would not look with favor on any amendment to the act which would further reduce the required reserves, but would suggest that your committee consider the advisability of amending section 19 of the Federal reserve act so as to provide that member banks which are located in towns and cities other than cities in which there is a Federal reserve bank or a Federal reserve branch bank may, at their discretion, carry an amount not to exceed one-third of their required reserve in their own vaults in the shape of Federal reserve notes issued through their own Federal reserve bank. We do not believe that the strength or efficiency of the Federal reserve bank would be appreciably affected by this change, as both reserve deposits and Federal reserve notes are liabilities of a Federal reserve bank. There may, of course, be objections, based upon scientific reasons to the use of Federal reserve notes as reserve notes, but the same objections seem to apply with equal force to the counting of a deposit in a Federal reserve bank as reserve, and there is certainly no gainsaying the fact that Federal reserve notes in hand are effective in meeting depositors' demands. After all, the chief object in requiring banks to maintain reserves is to insure their ability to meet the demands of their depositors. Should this change be made in the law the country banks would be placed more nearly on an equality with respect to the use of reserves as immediately available cash with the city banks and the volume of currency shipments to and from member banks would be materially reduced, with a corresponding decrease in the cost of transportation.

We desire also to call the committee's attention to the point which is frequently made both by member and nonmember banks that Federal reserve banks pay no interest on member banks' reserve deposits. We do not advocate the payment of interest by Federal reserve banks, and in fact we would be opposed to such action, but there is nevertheless a very general feeling among the member banks in our section, which we believe is shared in by banks throughout the country, that there should be some contingent return to member banks out of the earnings of Federal reserve banks in addition to the cumulative 6 per cent dividends for which the act provides. We respectfully request, therefore, that the committee consider the propriety of amending section 7 of the Federal reserve act, which relates to the distribution of earnings of the Federal reserve banks. Believing that the 6 per cent dividend on the capital stock is, all the circumstances considered, a fair return, we do not advocate an increase in dividend rate or extra dividends; we do not ask that the Federal reserve banks be exempted from taxation by the Government, nor do we believe that the suggestion which we are now about to make will affect the revenue received by the Government which

grows out of the payment to the Treasury by the Federal reserve banks as a franchise act of 90 per cent of their annual net earnings after the payment of dividends. What we propose is merely in our opinion a more scientific and equitable adjustment of the tax.

Section 7, as it now stands, exempts Federal reserve banks from all taxes by the Government until they have accumulated a surplus equal to 100 per cent of their subscribed capital, and after a Federal reserve bank has accumulated such a surplus, which it is permitted to retain as a further additional surplus, 10 per cent of its annual net earnings after dividends. The stock of the Federal reserve banks is held entirely by the member banks. By far the greater part of their deposits are maintained with them by the member banks, and the value of the fluctuating deposits carried by the Treasury is more than offset by the services the banks render the Government as fiscal agents of the Treasury.

Some of the member banks which have no occasion to borrow feel that they derive no direct benefits from the Federal reserve system, but are merely carrying dead balances for the benefit of borrowing banks. The payment of franchise taxes by the Federal reserve banks has not been uniform, and the tax instead of being definite and fixed, and a first charge, is merely contingent. In fact, one of the Federal reserve banks which has not yet accumulated its full surplus has never paid the Treasury one dollar of taxes. Then again, as the law now stands, any losses which any of the Federal reserve banks may incur sufficiently large to reduce its surplus below the full amount provided for in the act, are in effect borne by the Treasury, for in such a case the reserve bank would not pay any franchise taxes to the Treasury until its surplus again amounted to 100 per cent of its subscribed capital. We, therefore, respectfully request that the committee consider the advisability of amending section 7 of the act so as to provide that Federal reserve banks shall pay a uniform tax to the Government; that is, the tax be made a first charge, taking precedence of the cumulative dividends, and that it be levied upon that portion of the Federal reserve note issues outstanding which is not specifically covered by gold reserve. We would suggest that this tax be fixed at 2 per cent, and that it be paid into the Treasury in monthly or quarterly installments; that after providing reasonable contingent reserves Federal reserve banks be required to pay into the Treasury the amount in which their surplus now exceeds 100 per cent of their subscribed capital, and that no further addition to surplus be made except in cases where the surplus became impaired.

We would suggest further that following the analogy of section 7 of the bill which passed the House of Representatives on September 18, 1913, any surplus earnings which may remain at the end of each calendar year after the payment of the tax on Federal reserve notes, and the regular dividends to stockholders, be distributed by the Federal reserve banks among the member banks pro rata according to the average reserve balance carried by each with the Federal reserve bank during the year.

We respectfully request that the committee hear arguments from different members of our delegation in support of the recommendations above made. We believe that the amendments proposed are desirable and if adopted will bring about a greater unity of senti-

ment among member and nonmember banks in favor of the Federal reserve system, and to insure a general and enthusiastic support by the banks of the country.

The CHAIRMAN. Do you desire to add anything further to your statement?

Mr. ONTHANK. No; nothing further, Mr. Chairman. As I say, there are two or three of our committee who would like to emphasize some of the points mentioned in the brief, and I would like to call upon Mr. Heard, of New Hampshire.

STATEMENT OF MR. ARTHUR M. HEARD, MANCHESTER, N. H.

Mr. HEARD. Mr. Chairman and members of the committee, my name is Arthur M. Heard and I reside at Manchester, N. H. I was appointed a member of this committee by the President of the New Hampshire Bankers' Association. I have come from a large and representative gathering of New Hampshire bankers, and the bankers from northern Vermont, held in the White Mountains last Saturday. The morning session of the convention was devoted entirely to a discussion of the suggestions outlined by Mr. Onthank in his brief.

At the end of the session resolutions were adopted by the convention, and with your permission I would like to read those resolutions. I will assure you they are not as long as the brief which Mr. Onthank has presented.

The CHAIRMAN. We will be very glad to have you do that.

Mr. HEARD (reading):

Whereas the New Hampshire Bankers' Association and the Northern Bankers' Association, assembled in joint session at the Mountain View House at Whitefield, N. H., having learned of the objects in view by the committee representatives of the Federal reserve member banks of New England recently appointed by the presidents of the respective bankers' associations of the several New England States, being in thorough accord with the objects for which this committee was formed, do hereby resolve that this convention approve the appointment of this committee and cordially indorse the objects which it has in view.

All the stock in the Federal reserve banks is owned by the member banks, and the balances carried by the member banks form the basis of the strength of the Federal reserve system. We believe it should be added that the Federal reserve banks are not governmental institutions, but are essentially private corporations, chartered by the Government and owned by the member banks, being wisely subjected, however, to a strict governmental supervision and control.

As the Federal reserve banks are not permitted to deal directly with the public, they can serve the public only through the member banks and, that the system may be unified and perpetuated, it is essential that the Federal reserve banks should have the cordial cooperation and support of their member banks. In order to effect this, there should be a more equitable division of the earnings of the Federal reserve banks, the advantages of membership should be more uniform.

Many member banks have complained that they did not receive interest on their reserve deposits, which they were compelled by law to carry with the Federal Reserve Banks, and many nonmember banks have given this as a controlling reason for declining to apply for membership.

This convention is not unmindful of the objections to the payment of interest on deposits by Federal reserve banks, for in order to pay interest it must first be earned. This would put the Federal reserve banks in competition with their member banks and would require them to keep their assets actively employed at all times, thus impairing their ability to serve as true reserve banks in times of emergency. We believe, however, that the Government should levy a

definite tax upon the Federal Reserve banks, based upon the amount of their Federal reserve notes outstanding, not covered by a gold reserve; that this tax should be a first charge taking precedence of the dividends. After this tax is paid, however, the earnings remaining should be determined among the member banks—first, as a dividend of 6 per cent per annum upon the capital stock, and second after taxes and dividends the earnings remaining should be distributed annually among the member banks pro rata—according to their average reserve balances carried during the year with the Federal reserve banks. This principle was recognized in the original Federal reserve bill which passed the House of Representatives in September, 1913.

Under the present law, the country banks can not enjoy the same facilities as are obtained by the banks which are located in cities which have Federal reserve banks, or branches of Federal reserve banks.

The Federal Reserve Board has recognized this, and has for many years permitted the Federal reserve banks to defray the cost of transportation of currency to and from any member bank. This service is appreciated by the country banks, but does not entirely counterbalance the disadvantages to which the country banks are subjected. The entire legal reserve of member banks must, under the law as it now stands, be carried as an actual net balance with the Federal reserve bank.

City banks—that is, banks in cities having Federal reserve banks or branches, having easy access to the Federal reserve banks—can reduce their vault cash to a negligible amount, while country banks, on the other hand, can not safely do this, but must continue to carry a considerable cash balance which does not count as reserve. We therefore heartily indorse the suggestion which has been made by the committee above referred to, that the law be amended so as to require banks, which are not located in the Federal reserve cities or branch cities, to carry not more than two-thirds of their required reserve with the Federal reserve bank, and to carry the remaining one-third, or any part thereof, at their option in their vaults in the form of Federal reserve notes issued by their own Federal reserve banks.

Having been informed that it is the purpose of the New England Stockholders' Committee to appear at an early date before a congressional joint committee in Washington, which has been created to investigate the causes of dissatisfaction with the Federal reserve system: Be it

Resolved, That the stockholders' committee be authorized and requested to inform the congressional committee that the member banks represented in this convention are heartily in favor of the proposed changes in the Federal reserve act as outlined by the stockholders' committee, and that they believe, if said changes are made, there will remain no just cause for dissatisfaction with the system on the part of the member banks, and that many nonmember banks will apply for membership.

I hereby certify that the foregoing is a copy of the resolutions adopted by the New Hampshire Bankers' Association and the Northern Bankers' Association at the joint meeting held at the Mountain View House at Whitefield, N. H. on Saturday, October 6, 1923.

The subject of Federal reserve notes as reserve was assigned to me. All I have to say is that the arguments have been pretty well covered by Mr. Onthank, and anything I could say would simply be a repetition.

The CHAIRMAN. This query arises in my mind: You made a suggestion, and I think it is the first time that suggestion has been made to the committee, and I was just wondering if these Federal reserve notes should be an elastic currency to serve the purposes of commerce and industry, what effect would the tying up as reserve in these country would have on the elasticity of this currency, and whether or not they have figured out the total amount that would be required of these notes in case the country banks, who are not located in cities where the reserve bank is located or branch banks——

Mr. HEARD. I have no figures on that subject.

The CHAIRMAN. It was a question which arose in my mind as very pertinent to this subject.

Mr. HEARD. There would undoubtedly be some increase in volume of Federal reserve notes outstanding; there would also be as an offset probably some increase in the balances standing to the credit of the member bank. That goes without saying, does it not?

The CHAIRMAN. Has your committee taken into consideration the effect that that would have on their whole economic situation?

Mr. HEARD. We do not think it would have any appreciable effect on our whole economic situation.

The CHAIRMAN. You do not think the fact that the issuance of Federal reserve notes is based on the deposits, first, of eligible paper and gold, that a large increased amount of these notes outstanding would affect the prices of the commodities?

Mr. HEARD. No. I am not sure that there would be a tremendously large increase. This would apply only to country banks and would not apply to banks located in Federal reserve cities or where there are branches of the Federal reserve banks. But you can see the great advantage it would be to the country bank, and also the advantage it would be to the Federal reserve bank in the way of cost of transportation. The question might be raised as to whether a Federal reserve note is good reserve. It is just as good reserve as a deposit in the Federal reserve bank, is it not? Either one is simply an obligation of the Federal reserve bank. If anything the Federal reserve note would be better reserve than deposit in Federal reserve bank.

Mr. WINGO. Do you say that a Federal reserve note could be made legal reserve?

Mr. HEARD. I think it could be made a legal reserve.

Mr. WINGO. Do you think it would be wise?

Mr. HEARD. Yes; I think it would be a wise thing to make it a legal reserve so that the member country bank could be permitted to carry a portion of its reserve in its own vault, in the way of obligation of the Federal reserve bank of the district to which it belonged.

Mr. WINGO. Your suggestion would permit the country banks to carry one-third of its reserve in its own vault and to permit him to count as part of that reserve Federal reserve notes of his own district?

Mr. HEARD. And no other bills.

Mr. WINGO. Why make that distinction?

Mr. HEARD. Because you would reduce his deposits. Under the law as it is at the present time we are required to carry with our Federal reserve bank a reserve of 7 per cent in collected funds. Our suggestion is that one-third of that 7 per cent be carried in our own tills.

Mr. WINGO. I am talking about legal reserves supposed to be carried.

Mr. HEARD. That is all the legal reserve we have now—7 per cent. Our till money, no matter what it is, it may be gold.

Mr. WINGO. A country banker would be a fool if he did not avail himself of that privilege both as to keeping one-third at home and to taking it out of reserves?

Mr. HEARD. That is the way it looks to me.

Mr. WINGO. Now, on the theory that the country banker would exercise ordinary intelligence; that would mean that you would im-

pound in the Federal reserve districts of the country one-third of the requirements of the country bankers, would you not?

Mr. HEARD. Yes, sir; pretty generally. Just state that again.

Mr. WINGO. Naturally, if the country banker did what you say he is supposed to do—keep one-third of these reserves in his own vault——

Mr. HEARD. Congressman, you are getting me into deep water there.

Mr. WINGO. No; you are the man who got yourself into deep water. You are the man advocating it. I know the voice, because it has never been advocated by one other man I have heard of. Do you think it is sound? It is certainly contrary to the Federal reserve system to do that.

Mr. HEARD. I would not say that.

Mr. WINGO. The theory of the Federal reserve system is to provide automatic currency which will swell and contract to beat the ebb and flow of business. It would remain stationary, would it not?

Mr. HEARD. I get your point.

Mr. WINGO. Your net result of your proposal is to reduce the reserve requirement one-third.

Mr. HEARD. I do not say that.

Mr. WINGO. Assuming the Federal reserve act is wise, and that you had to take reserves and impound them in this independent reservoir over here——

Mr. HEARD (interposing). I do not quite get that.

Mr. WINGO. The theory of the Federal reserve act is that we had to reenact the old Federal reserve act, where reserves were permitted and to put them in a place where they could not get them when needed. So we are going to impound over here in the reservoir, so it will be sure to be there when needed. With that theory in mind, you reduce that reserve to that extent—one-third.

Mr. HEARD. I do not know whether I am prepared to admit that.

Mr. WINGO. You do not know whether you are prepared to admit it, even though it be a mathematical certainty. Do you favor reducing the reserve requirements?

Mr. HEARD. No.

Mr. WINGO. You favor changing the character of the reserve and the status?

Mr. HEARD. Yes.

Mr. WINGO. Another suggestion has been made that you be permitted to count till money as reserves?

Mr. HEARD. It would be counted till money as reserves if we count reserves.

Mr. WINGO. You count till money as reserve?

Mr. HEARD. All we have at the present time; all the reserve we have is till money in our banks.

Mr. WINGO. In practice are reserves used as till money?

Mr. HEARD. Under the Federal reserve act our legal reserve is carried with the Federal reserve bank in the safe of 7 per cent of any collected balances. We carry as till money the money we want to use for the transaction of our business.

Mr. WINGO. I thought that was true. But you do not count till money as reserves?

Mr. HEARD. No, sir.

Mr. WINGO. You can not do it?

Mr. HEARD. No, sir.

Mr. WINGO. You are not permitted to do it under the law?

Mr. HEARD. No, sir.

Mr. WINGO. Is that other proposal as to reserve more conservative or more radical than your scheme?

Mr. HEARD. I do not think it makes any difference.

Mr. WINGO. In other words, the net result is that you have just reduced the reserve requirement one-third by permitting the bank that is supposed to put up the reserve keep in its vaults till money——

Mr. HEARD (interposing). That is, you would say we are reducing our reserve one-third?

Mr. WINGO. Is not the effect of it, say, from the standpoint of the theory of the reserve? Just what is your conception of reserves?

Mr. HEARD. Let me get back——

Mr. WINGO (interposing). I want to get you right in the record.

Mr. HEARD. Our reserve is fixed by law at 7 per cent. What we shall carry in our till is dependent on daily demands, and if we have not enough money we go to the phone or wire to the Federal reserve bank to give us more currency and charge it to our account.

Mr. WINGO. You can carry as much or little till money as you like?

Mr. HEARD. We can carry as much till money as we like. The money we carry in our till is not reserve at all.

Mr. WINGO. I want to get your viewpoint and your opinion as an experienced banker. What is your conception of reserve money and the purpose for which it is set aside?

Mr. HEARD. Reserve money, as we have always understood it, is to meet any emergency.

Mr. WINGO. Deposit withdrawal emergency and subject to restrictions of that impaired reserve, we have got to replace it or cease operations.

The CHAIRMAN. To get down to your point, what you are suggesting is that the Federal Reserve Board create a reserve with the member banks by sending up one-third of the reserves which the member banks have impounded in the Federal reserve system in the form of Federal reserve notes?

Mr. HEARD. That, as the gentleman says, would, in a way, enable us to carry till money in different form instead of having it on deposit with the Federal reserve bank.

Mr. WINGO. You are confusing till money with reserves. If you carried reserve in a different form, that would not affect till money—or did you intend keeping that reserve in your vault as till money?

Mr. HEARD. Our till money, if it were made up of reserve notes under this proposal, would be counted as reserve.

Mr. WINGO. Say your reserve you would be required to keep at home amounted to $10,000.

Mr. HEARD. Yes.

Mr. WINGO. And you found you had in your till money $10,000, and which $10,000 you would feel would be applied——

The CHAIRMAN (interposing). You do not see any difference between Federal reserve notes and deposit in the banks—Federal banks?

Mr. HEARD. Either one is an obligation to the Federal reserve bank in a different form.

The CHAIRMAN. You think they are both in the same class as far as reserves are concerned?

Mr. HEARD. Yes; one is just as good as the other so far as our purposes are concerned.

Mr. WINGO. One other question: Do you think it wise to have the law so that the railroads could change the membership of the Interstate Commerce Commission?

Mr. HEARD. I do not think so; no, sir.

Mr. WINGO. What is the difference between that proposal and the proposal that the banks should select the members of the Federal Reserve Board?

Mr. HEARD. I have not made that proposal.

Mr. WINGO. You have not. I thought you did.

Mr. HEARD. No, sir.

Mr. WINGO. What was your proposal with reference to the Federal Reserve Board?

Mr. HEARD. I made no proposal.

Mr. WINGO. I thought your committee said somthing about the banks being permitted to name the members of the Federal Reserve Board.

The CHAIRMAN. In one of the memorandums you have just filed here the question was raised of interest on balances, and that some banks can not see any reason, inasmuch as they are not borrowers from the Federal reserve system, why they should keep balances on deposit with the Federal reserve system. Do you not think they are overlooking the main thing in the whole Federal reserve system when they take that attitude? That is to say, the safety which is accorded to the mobilization of reserves is an obligation really on all banks to help provide and maintain?

Mr. HEARD. Yes.

The CHAIRMAN. Do you think that that criticism deals with the fundamentals of the system?

Mr. HEARD. I do not know, sir. That question will be touched on by one of the other speakers.

The CHAIRMAN. One other question came up on the reading of that that came to my mind. That is the question of the practices of city banks as contrasted with country banks as regards their actual vault cash.

Mr. HEARD. I will be very glad to explain that end and to cite the instance of our institution.

The CHAIRMAN. Is it a fact that city banks carry a less percentage of reserves than do country banks?

Mr. HEARD. Till money do you mean?

The CHAIRMAN. Till money.

Mr. HEARD. It is undoubtedly true, and the country bank is obliged to carry more from necessity. Take our own case. We are located in an industrial city. Our pay-roll requirements are quite large. If we desire currency for use to-morrow, we are obliged to telephone or get in communication with our Federal reserve bank at Boston and order shipment of $50,000 or $100,000. The same is charged to our account, although we will not use it until to-morrow

morning. A bank in Boston, a member of the Federal reserve system, which needs currency for its daily use to-morrow would simply go across the street and get the currency when it was needed. So it puts us at a disadvantage. Do you get the point?

The CHAIRMAN. One objection you make is that it is charged to your account, which depletes your reserve?

Mr. HEARD. Yes, sir.

The CHAIRMAN. It is the practice of some Federal reserve banks not to make charge until the arrival in the town where the bank is located.

Mr. HEARD. It is charged to us on the date of shipment.

STATEMENT OF MR. ALFRED L. AIKEN, CHAIRMAN FOR NATIONAL SHAWMUT BANK; FIRST GOVERNOR OF THE FIRST FEDERAL RESERVE BANK, BOSTON, MASS.

Mr. AIKEN. Mr. Chairman and gentlemen of the committee, I made a memorandum primarily in support of the division of earnings as outlined in that brief that Mr. Onthank presented, only two pages, and perhaps it expresses briefly what we want to bring to your attention. [Reading:]

> In support of the brief submitted by Mr. Onthank I would like to call the committee's attention particularly to the proposal that section 7 of the Federal reserve act be amended, that it be provided that a tax of 2 per cent be levied upon the uncovered circulation of the Federal reserve banks, and that net earnings thereafter and after the payment of dividends to the banks be divided pro rata among the stockholding banks upon their average balances for the year.

We claim no originality for the suggestion of giving member banks a larger participation in the reserve-bank earnings, but we believe that such participation would do as much as anything could to secure the renewed interest and loyality of the member banks to the system.

As a matter of fact, in the so-called Glass bill, which was passed by the House of Representatives September 18, 1913, section 7 provided that—

First, banks should be entitled to a 5 per cent cumulative dividend, and second, that one-half of the net earnings after dividends should be paid into surplus account until it should equal 20 per cent of the paid-in capital of the bank, and that of the remaining one-half of the net earnings 60 per cent should be paid over to the United States and 40 per cent paid to the member banks pro rata upon their balances for the preceding year.

The adoption of this provision of the Glass bill by the House is the best evidence that the House of Representatives at that time recognized the right of the member banks to share in the earnings over and above the fixed dividend rate.

While recognizing fully the right of the Government to some sort of a tax upon the operations of the reserve banks it seems but fair that in view of the fact that practically all of the earning assets of the reserve banks are provided from resources of member banks themselves there should be some reasonable participation in the earnings upon these assets.

Congress in the Federal farm loan act fully recognized the right to such participation in bank profits by those who were the real proprietors of the bank, and in support of our claim for such further distribution of earnings to the members of the Federal reserve system I would remind you of the fact that under the farm loan act Congress has recognized the fairness of liberal treatment.

The associations which are the stockholding groups of the land banks are first entitled to receive dividends upon their stock, and after the accumulation of the required surplus whatever net profits remain are by statute required to be used as a rebate upon the interest paid the farmers upon the money they borrow from the joint associations. As these farmers are themselves the stockholders of the joint associations the distribution of these excess profits is obviously in effect the equivalent of an additional dividend over and above the statutory limitations upon land banks, and such additional distribution is only limited by the amount of the earnings of the banks themselves—the Government retaining no part of it either as a franchise or other tax.

In view of this recognition in the past by Congress of the reasonableness of a distribution of earnings in excess of the fixed rate of dividend on the stock, we can not feel that such a proposal would receive fair and favorable consideration at the present time.

It is the belief of this committee that while such a distribution as outlined above to the stockholding banks of the Federal reserve system would be small in amount, the recognition of the principle and the occasional small distributions that might be made in excess of the 6 per cent regular dividend would do more than anything that has been proposed to maintain the interest and loyalty of the present stock-holding banks and bring others into the system because of their realization that it would insure a fair and equitable distribution of earnings on the assets which they themselves perforce provide.

Because I was governor of the reserve bank in Boston in its beginings, I had attended the meetings of the members of the Reserve Board and members of the governors' council, and I have taken a good deal of interest in this, and I know that the purpose of this committee is to find what is to satisfy the existing burdens as well as to interest those who are not now members but eligible. I do not know of any two things that would do as much to further the interests of the present member banks than these two suggestions of a further distribution of the earnings and of the permission to count a part of their reserves in their till the Federal reserve notes of their districts.

The CHAIRMAN. You can see nothing unsound in that?

Mr AIKEN. I think there is not.

The CHAIRMAN. You think there would be still sufficient reserve remaining in the Federal reserve system to still take care of the situation during an emergency?

Mr. AIKEN. I think there is, Mr. Chairman. I have not made the calculation, however. My impression is that in Boston, for instance, one-third to a half of the reserves are provided by the large Boston banks.

The CHAIRMAN. This morning you raised a new question when you related your experience in the Federal reserve bank in Boston

that was entirely new to me, and that was the practice evidently prevailing in some of the banks taking cash into the Federal reserve bank at night and withdrawing it in the morning.

Mr. AIKN. I am one of the guilty ones.

The CHAIRMAN. That no longer prevails there, or does it?

Mr. AIKEN. It did yesterday, I think. Mr. Heard was speaking of the amount of till money he had to carry. Our deposits run from $130,000,000 to $140,000,000, and we do not mean to have more than $100,000,000 in the till at night, and we have that because we want to be sure to have enough to start with in the morning. We send over the bulk of our money, counted and sealed, to the reserve bank at night. It is a good reserve. We send over and get it again in the morning. We can legally and morally make such deposits in the reserve bank and such withdrawals. That is what it is there for. It does make a very distinct advantage with the Boston bank as compared with a bank located like Mr. Heard. He has one pay roll of $300,000 or $400,000.

Mr. WINGO. Mr. Aiken, would you not please illustrate why it would not be all right for us to have two or three hundred thousand dollars and have it counted as reserve, if you can go over and get it the next morning?

(No response.)

The CHAIRMAN. Is not that the exact situation, Mr. Aiken, that while in that transaction your legal reserve in the Federal reserve bank is good from 3 o'clock in the afternoon until 10 o'clock in the morning, and at 10 o'clock in the morning until 3 o'clock you have a depleted reserve?

Mr. AIKEN. No; that is not true, Mr. McFadden, because before 10 o'clock in the morning we send over for the clearing, and the clearing in Boston is done through the reserve bank. Our clearings which we send over will vary from $10,000,000 to $20,000,000. A lot of those checks are Boston checks, probably half of them, and the rest country bank collections.

The CHAIRMAN. What time in the day does the Federal reserve bank get returns from those clearing-house checks?

Mr. AIKEN. At once. It is just washed right out, though at 10 o'clock there may be an interval of 10 or 15 minutes in the morning between the time our truck brings that money until the clearing-house settlements are made when the reserve is lower.

The CHAIRMAN. I can see clearly the advantage he has over a bank not located in Boston.

Mr. HEARD. And that applies to all country banks equally or more so.

Mr. WINGO. The principal is just the same, although the element of time may be different. Is it safe for you to do it that way?

Mr. AIKEN. It would be both wise and safe if we could do it.

The CHAIRMAN. You think the deposit these resolutions suggest of Federal reserve notes with those banks would answer the same purpose and accomplish the same results, so far as the country bank is concerned? In other words, it would put the country bank on the same basis you are on by holding a part of their reserves as Federal reserve notes?

Mr. AIKEN. As a matter of fact, I think there is no discontent that I know of in the large city banks in the operation of the Federal

reserve system. We believe it comes from the country banks, and anything that can be safely and prudently done to meet their suggestion I think I will advocate. I think this is a safe and prudent system to that extent, and will alleviate their situation, sir.

Mr. WINGO. What you do is in effect reducing your reserve requirement, is it not?

Mr. AIKEN. No; that is not it. I do not quite agree with that.

Mr. WINGO. Just what is the advantage?

Mr. AIKEN. He has to carry now one practical matter——

Mr. WINGO (interposing). I am talking about the operation awhile ago, where you said you were the "guilty party."—in fact, taking the money over there sealed, leaving it over night, and then withdrawing it in the morning?

Mr. AIKEN. We do not reduce our reserve at all.

Mr. WINGO. I mean the effect of it is the same as if the reserve was reduced.

Mr. AIKEN. No; I do not see that.

The CHAIRMAN. You say you take your money over there to the Federal reserve bank sealed. Does the Federal reserve bank see that as deposit and is it entered on the books of the bank and is it charged to you and withdrawn in the morning when you take the money, or do you draw back the same money in the morning that you put in the night before?

Mr. AIKEN. I can not say as to that.

Mr. WINGO. When you take it over there, is that your reserve money?

Mr. AIKEN. That is our reserve money.

Mr. WINGO. Then, when you withdraw it the next morning you have to reduce your reserve that you have with the Federal reserve bank, and during the working hours of the day you have practically your reserve reduced?

Mr. AIKEN. No; I beg your pardon, because I have sent over $10,000,000 or $15,000,000 of checks, a large part of which are washed out in the clearings of 10 o'clock.

Mr. WINGO. During the nighttime you have deposited reserve money?

Mr. AIKEN. Yes.

Mr. WINGO. And when you withdraw it you maintain your book reserve by substituting for the withdrawn reserve money the checks that come in for which you are credited?

Mr. AIKEN. The money balance is struck by 10 o'clock, and there is no time when it is under what we reserve, except at times when we find we are short, and then we discount.

The CHAIRMAN. Mr. Aiken, the reason your deposit is such as you suggest at night at the time of closing your bank indicates that shortage of your reserve in the Federal reserve bank, and that deposit is intended to cover any possible shortage; is that right?

Mr. AIKEN. Perhaps so; but it does not necessarily follow.

The CHAIRMAN. I understood you to say that you did this money up in packages and took it over, and then took it out in the morning. Was I correct in that?

Mr. AIKEN. It is done up in packages; but I do not know that we get the same packages back at all.

The CHAIRMAN. In practice, you do not know how that works out?

Mr. AIKEN. I think it is taken in packages to the reserve bank.

The CHAIRMAN. This was a new thought to me, and I presume as well to other members of the committee. Is that generally practiced by other members of the Federal reserve bank?

Mr. AIKEN. I do not know as to that. Our reserve is never short.

Mr. NEWCOMER. I also believe it is commonly practiced. I have heard other bankers make the same statement; that is, they clean out their cash and deposit it, and it goes to their credit in the morning.

Mr. AIKEN. You were asking, Mr. McFadden, if our reserves were short at times during the day?

The CHAIRMAN. Yes.

Mr. AIKEN. Undoubtedly it happens many times there, because our transactions run into a great many million dollars. We may have to transfer $5,000,000 or $10,000,000 by wire to New York, and we can not tell until we make up the day's settlement just exactly what our reserve position is, because there have been hundreds and hundreds of transactions going through. Then we adjust that position either by the cash that we deposit or, if there is not enough, by rediscount and get a credit in the reserve account.

The CHAIRMAN. So that settlement is made each day with the Federal reserve bank when you determine finally your situation of reserves with the bank. You either deposit cash or put in paper for rediscount?

Mr. AIKEN. Yes.

The CHAIRMAN. And in the morning you take another accounting and withdraw such money as you deposit the night before or as you may require for the day's business?

Mr. AIKEN. Yes, sir.

The CHAIRMAN. It is not a matter of taking the money over for safety purposes?

Mr. AIKEN. Oh, no.

The CHAIRMAN. But it is a question of reserves?

Mr. AIKEN. Yes.

Mr. WINGO. I am not predicating my thought upon any suspicion that it is not safe. I thought you said a while ago that the only balances you made up, either cash or rediscount, were the balances that were due when you struck a balance after you had deposited your items that you had?

Mr. AIKEN. I do not quite catch that.

Mr. WINGO. In other words, after you deposit so much in checks and other items and it shows that you are short on your reserves, do you then make up that reserve, that is to say, by either cash deposits or discount?

Mr. AIKEN. Yes. Let me see if I am perfectly clear as to what you mean. We have hundreds of transactions going through the reserve bank.

Mr. WINGO. So that there will not be any misunderstanding, suppose you just repeat the transaction, so as to get it in the record, how you handled that situation.

Mr. AIKEN. We deposit that night the surplus cash we have in our till; about what is necessary for the transaction of our early

morning's business. In the morning the cash is turned over to the reserve bank for such an amount of cash as we believe necessary for the day's operation. We do not make up our position with the reserve bank until the close of the day, because we have hundreds of transactions going through. At the close of the day he makes up his cash position, and he finds out whether we are "long" or "short" at the reserve bank. He takes into account the money he is going to send over a surplus.

Mr. ONTHANK. If there is nothing more, Mr. Chairman, we simply want to submit those particular suggestions and the arguments following them.

STATEMENT OF MR. R. S. McNALLY, REPRESENTING THE ASSOCIATION OF RESERVE CITY BANKERS, ST. LOUIS, MO.

Mr. MCNALLY. Mr. Chairman, I would like to explain first what our association is for, if I might.

The CHAIRMAN. Yes.

Mr. MCNALLY. Our association consists of 400 members from approximately 300 banks, in 56 cities of this country. As the name implies, these cities are practically all reserve cities. In this membership are comprised nearly all of the large banks that have accounts from larger banks that do a country banking business. The association was organized 10 years ago for the purpose of holding conferences to determine on the best method of handling this country bank business, especially what is known as the transit department, the routing of checks and collecting them. The members are all technical men and the deliberations of the convention are all along technical lines. It is not in any way affiliated with the A. B. A. or other bankers' associations.

The CHAIRMAN. Did I understand, Mr. McNally. in that connection that a large part of development of the present par collection system has depended on the activities of the transit men in the reserve city banks?

Mr. MCNALLY. That is right. For the past two years the main aspect that was discussed at our annual conventions was the Federal reserve system. It was asked this morning, that is, Mr. Newcomer was asked, Are the member banks themselves "sold" on the Federal reserve system? This association has unanimously and enthusiastically gone on record in favor of the Federal reserve system. It believes that fundamentally it is sound, and if there are any changes to be made they are largely matters of administration on the principle that any human system from time to time as experience develops can show possibilities of change for the better.

Furthermore, this association is firmly convinced that if the people at large were educated to the benefits of the system that they would feel more kindly disposed to it, and this applies to banks all over the country as well as merchantile interests and the people generally. They believe that there is too much prominence given to the criticisms and not enough attention paid to the actual benefits that the system is in a position to give the people of this country through its operations.

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I will give one illustration to bring out what I mean. In St. Louis recently, the Federal Reserve Bank of St. Louis changed the time schedules. They give credit, you know, for certain territory. They have zones one day, two day, three day, and so on. They changed Missouri from three day to a two-day zone; Illinois the same. That will mean a saving in interest charges to the mercantile interests of St. Louis of thousands of dollars a year, because we pass that benefit on to our customers. We charge no exchange in St. Louis at all under the clearing-house rules. We merely charge interest at the rate of 19 cents per thousand for each day outstanding, as computed by the Federal reserve schedules.

The CHAIRMAN. What rate of interest would that be?

Mr. MCNALLY. That is a little less than 6 per cent, figuring 200 business days to the year. We did have 20 cents a day, but it was a little bit high, so in order to meet any objections we lowered it to 19 cents.

The CHAIRMAN. I understand also, in connection with that, that there are about how many clearing houses in your State?

Mr. MCNALLY. I think something between 300 and 400.

The CHAIRMAN. Each one of those clearing houses have their own rules and regulations?

Mr. MCNALLY. Oh, yes.

The CHAIRMAN. And that charge for interest on time consumed in the collection of checks varies in the different clearing houses?

Mr. MCNALLY. Yes; some cities have rules covering it very thoroughly, as, for example, St. Louis, while other cities have no rules at all on the subject.

The CHAIRMAN. As I understand it, it has been somewhat variable. Take Atlanta, for instance. Atlanta charges for time very much higher than any other clearing house association, does it not?

Mr. MCNALLY. I am not familiar with the different schedules in the different cities, nor the charges, but I do know that St. Louis has gotten it down to a fine point, where I think they are giving every bank of Missouri just as reasonable services as is given any place in the country.

The CHAIRMAN. So this so-called collection charge that is made by banks and clearing houses in cities where they have clearing houses is really an interest charge.

Mr. MCNALLY. Exactly.

The CHAIRMAN. On the time it takes to collect the checks?

Mr. MCNALLY. The Federal reserve bank gives the collecting bank credit for that.

The CHAIRMAN. Based on this zoning proposition you have just referred to?

Mr. MCNALLY. Yes, sir.

The CHAIRMAN. For instance, take a deposit in a New York bank which is payable in St. Louis. The clearing house sends the New York bank deferred credits for the period of two days?

Mr. MCNALLY. Exactly.

The CHAIRMAN. If it is in San Francisco, the period of time is four days?

Mr. MCNALLY. I believe so; it is a Federal reserve city.

The CHAIRMAN. So that the collection charge which the banks in clearing house cities have to comply with is a rule and regulation in the clearing house association covering interests?

Mr. MCNALLY. That is a fact; at least, it is the case with us. The point I am bringing out is that although that was a matter of great interest to the merchantile interests in St. Louis, I have never seen a single item in the press to-day. Of course, I suppose those particular concerns that have a great many out-of-town checks are in position to observe it, but at the same time the Federal reserve bank of St. Louis did not get any credit for it. That is just bringing out the point that while lots of things are said adversely to the system, there are lots of things done beneficially that proper heed is not given to them.

The CHAIRMAN. Just one point before you leave that: Do you think that some relief could be given if some of these clearing houses which are making excessive charges in the way of interest in the collection of checks would modify their rules and regulations?

Mr. MCNALLY. I think it would be an excellent idea.

The CHAIRMAN. It would be a great step forward in still protecting the par collection system, would it not?

Mr. MCNALLY. That is one reason why these reserve-city bankers are so loyal to the Federal reserve system. There is no question but what the operation of collecting checks, the time out, the float, as it is called, has been very much reduced.

The CHAIRMAN. These banks that are located in these reserve cities, where they have these rules and regulations of the clearing house do not find themselves in any pecuniary loss through that operation?

Mr. MCNALLY. No.

The CHAIRMAN. In other words, they defer credits?

Mr. MCNALLY. They give immediate credit and charge interest. The customer has the option, however, if he wishes to leave his item for collection, and the receiving bank handles it through the system and gives credit when the system advises the item has been settled, and no charge is made whatever.

The CHAIRMAN. So that the contention that is principally made by the little banks throughout the country that there is expense attached to the collection on these checks because of the fact that these clearing house associations exact a charge, really is not any profit to the banks themselves; it is just simply a deferring of credit?

Mr. MCNALLY. It is putting into actual cash items but it takes a day or several days, as the case may be, to collect, and the customer, if he does not wish to pay that, has the option of leaving collection and having it collected has nothing in the way of expense if he is willing to wait until the item is collected.

The CHAIRMAN. It is pretty clear in the adoption and collecting of this par collection system that the profits which the so-called small country bank used to get in the way of exchange was the difference between what it cost them to collect their checks and what they charged on their checks; that was the basis.

Mr. MCNALLY. That was the way they figured it.

The CHAIRMAN. So that under the present plan they, if they went back to the collection of their checks through reserve city banks,

in all probabilities now the city correspondents would not be willing on compensating balances to continue the collection of checks?

Mr. McNALLY. That question was taken up at the convention at Atlantic City, and it was after all those in attendance pressed it that we reached a decision; in other words, if there is a charge rate at the other end that would be charged at the place of origination.

The CHAIRMAN. So it is the theory of the reserve city bankers association that if the country banks went back to the collection of their checks through reserve city banks that the only way they would make a profit would be to get a large amount from exchange on his own checks that you had to pay?

Mr. McNALLY. That is it exactly.

The CHAIRMAN. So that when the country bank went back to that situation he would find a very different condition of things from anything that prevails under the old system?

Mr. McNALLY. He would find checks sent in to the city correspondent if they were used at par would now have a charge if the city correspondent had to pay it.

The CHAIRMAN. Under the old plan it was the fact that the country banks did make a real profit in the transaction?

Mr. McNALLY. Oh, yes; some of them did.

The CHAIRMAN. And under the operation of this system he is relieved from those profits that were gained in that manner, and the whole transaction has been transferred so that any expense there is attached to the proposition is borne by the Federal reserve system in the actual handling of checks in transit?

Mr. McNALLY. That is right.

Mr. WINGO. Do you mean to say that no St. Louis bank permits a country bank in Arkansas to make immediate credit against his correspondent checks sent in?

Mr. McNALLY. Not for interest purposes, no; unless for a check collectible in St. Louis that same day that it arrives.

Mr. WINGO. Just when did you stop that?

Mr. McNALLY. That has been the case for several years.

Mr. WINGO. You speak for your own bank?

Mr. McNALLY. Yes.

Mr. WINGO. Let us say that during the month of August there was not any bank in St. Louis that had an arrangement with the St. Louis bank whereby it sent in items and immediately took credit for the full face of those items in return for certain privileges—and this is one of them—it also took items from that St. Louis bank in its accounting through some of its smaller banks it was clearing through, do you mean to tell me that that is not done at all?

Mr. McNALLY. The bank I am connected with has about 1,100 country bank correspondents. We have a great many in your State of Arkansas, Judge, and any account with them is carefully analyzed. If a bank sends us in items and checks against them before those items are actually honored that shows up in our analysis, and at the end of the month we charge him interest at the going rate for checking against uncollected funds, which we consider the same thing as making loans, but we have very few cases of that kind.

Mr. WINGO. The point I am getting at is this: In the month of August there was not any Arkansas bank you know of that had an

arrangement with St. Louis by which the Arkansas bank at 4 o'clock mailed in $5,000 worth of items to that St. Louis bank and immediately charged that St. Louis bank at par, and the St. Louis bank immediately credited at par when those items came in?

Mr. McNALLY. It may have credited it the next day for checking purposes, but if those items the Arkansas bank sent in required several days to be collected, then it made a reduction for interest purposes of the time taken out.

Mr. WINGO. So I say it includes a check given by some one in the city of Washington on an Arkansas bank; is that item given credit?

Mr. McNALLY. For two days; not for interest purposes.

Mr. WINGO. A bank that makes that contention, then, is in error?

Mr. McNALLY. That would be my opinion of it, based on our relations with the country correspondents.

The CHAIRMAN. I think there is a little bit of difference between the question and answer. As I understand it, the St. Louis bank would credit the full amount of the remittance later?

Mr. McNALLY. Yes; and let them check against it.

The CHAIRMAN. But if the item were drawn on Washington and the Arkansas bank would check against that before sufficient time elapsed to collect it, that the St. Louis bank would charge them current rates of interest on that item.

Mr. WINGO. Take the bank I had in mind. Every night it sends items to three different cities with correspondents it has arrangements with. It immediately on its books—I am not talking about hearsay; I have seen the books during the month of August—they immediately charge up against each one of those three correspondent banks the full amount of those items.

Mr. McNALLY. That is the way they do it.

Mr. WINGO. And in their balance they count that as par; that bank of St. Louis credits him with the full amount and that is sent in.

Mr. McNALLY. For checking purposes it gives credit the next day, but that particular remittance letter is analyses when it comes in and for interest purposes deductions are made based on the length of time it will take the St. Louis bank to collect those items?

Mr. WINGO. In every case they make interest deductions at stated periods when they analyze it?

Mr. McNALLY. At the end of the month.

Mr. WINGO. Suppose that they sent those items to the Federal reserve bank; they would not be permitted to take immediate credit?

Mr. McNALLY. No; they would not be allowed to check against them.

Mr. WINGO. Then that is the difference between the two?

Mr. McNALLY. Yes. I would like to explain also that before I went to St. Louis, 8 years ago, I was 14 years the cashier of the Citizens' National Bank in Chillicothe, a town of 8,000 people. I have had considerable experience dealing with farmers; in fact nearly our whole clientele was farmers. I have talked to country bankers every day; I have discussed with dozens of them, and they all advised that they are joining the system. I have had them come in and ask, and it has always resolved itself into a question of whether they can make any money out of it. I have known a few who have joined the system. I have made it a point to ask them why they did

so, and in very nearly every case I have found out, as for example take St. Louis. We have had a number of outlying banks from St. Louis which have increased their capital to $200,000 and have joined the system. I say, "Why did you do it?" And they replied, "Our customers came in and asked us if we were members of the system, and said if we were not they did not believe they wanted to put their money in a bank that was not a member of the Federal reserve system. The country bank has abundant pointed reasons for objecting to coercion, but there is one person who can coerce it to his heart's content and that is the bank customer. He is the one who has influence. I have known it to happen outside of my State where banks have joined, where a competitive bank in the same town was a member of the system, and advertised in the State "We are members of the Federal reserve system," and they would talk it around among our friends, "We are a member of the system; we are an ally of the Government;" and the other bank in the town, a State bank, in self-defense, would have to join the system. I just point out that there is a great deal in the moral effect of membership in the system.

I have noticed it was said to-day it is a question of whether it is a good thing to try to get in all of these nonmember banks. I believe it is estimated there are 12,000 eligible nonmember banks. My personal opinion is that it is a good thing to get in as many as possible. In the first place, they make additional links in the collection system. Each bank that comes in is a natural link. Secondly, it spreads out the system in such a way and brings home the importance of it to that many more people who would study the proposition. There is an amazing amount of inference about the Federal reserve system, even among the members of the banking fraternity. A good many of them do not belong, and they make up their minds the reason is it would not do them any good to belong, and they talk slightingly about it to set themselves right in the minds of their customers; and I think for that reason an effort should be made. I do not say we should make any concessions, and do not believe in paying interest on reserves, which is one of the main hurdles you have to jump over. The president of the little bank that had a capital and surplus of $150,000 told me, "I do not want to join the system, because I am not looking for a 6 per cent investment." I am just showing the shortmindedness of those men, and yet if the moral effect is sufficient to bring them in that is one thing that will be a more conclusive way of getting them in than any other.

Another thing, at the Atlantic City convention, Mr. Carter, of Newark, N. J., who alleged he was a country banker for some reason or other, was very fearful that the big banks in the large countries were putting out a lot of propaganda that would diminish the collection facilities of the Federal reserve system so that the old days would return when the banks in country towns like Newark and similar cities would have to open up collection accounts in these various large cities so they could get their items collected more cheaply, by reason of the fact that the Federal reserve system could not collect for them. I have never heard that agitated at all. It certainly is not the policy of the banks of St. Louis. I have never heard it brought out at any meeting of the association of the Federal reserve city bankers, and I confess I did not see any reason

for fear on the part of Mr. Carter or anybody else that such is going to be the case. I think the more bankers can go after customers the stronger the system will be.

There is another feature; the country banker to-day is scared to death on the question of branch banks; he feels that the branch banking in the large cities, if it is permitted, is just the entering wedge.

It has already been explained to-day the attitude of the A. B. A. and national bankers generally about branch banks in large cities. It looks as though national banks ought to have the same rights as State institutions have, but I think when you get out of the city in which the bank is chartered that it would be one of the best strokes of policy, and I think it would be good banking as well not to have branch banks.

I read Mr. Dawes's remarks the other day, and I certainly indorse most heartily if they could lay down the policy that they could not have branches outside of their parent city. I think that would have very conclusive effect on the minds of the small banks over the country. Finally, I have one more suggestion I am going to make. It is a very radical suggestion, when you think of the conservative tone of most of the remarks made here to-day, at least; and that is, I believe if a law were passed that, say, 50 per cent of the profits of the Federal reserve banks that are turned over to the Government by way of franchise tax be set aside each year until a round sum is reached of, say, $100,000,000, that this sum be placed with the members of the Federal Reserve Board as trustees, to be held by them and loaned to the Government without interest, so the Government would not be out anything on the deal, really, and when times of stress arise that the Federal Reserve Board can declare an emergency exists and they can use this $100,000,000 as a revolving fund and lend it to good, well-managed banks who have been waterlogged with good loans that they are unable to collect.

What makes a bank go under as a general rule is not the expansion of its loans but the decrease of its deposits. It has happened in the last three years to my personal knowledge in a number of cases where sound banks, with collectible loans, if they had had the opportunity to wait until the loans could be collected, they would have pulled through. But their customers have had bad crop years and were unable to pay them; that these banks have had to suspend operations and be reorganized. If, instead of having the War Finance Corporation, we come to the aid of these distressed institutions; if we had had this special emergency fund, subject to call of the Federal Reserve Board, they might never have had to use it. There would be a tremendous moral effect of security to the smaller banks over the country. I do not think the larger banks would ever have to use it at all, for the reason that they carry in their portfolios a large amount of discountable paper.

In the small communities the bank loans the farmer on a six months' note. That does not mean that the farmer expects to pay or that the bank expects to get the money in six months, and it may run much longer than that. I have heard a Texas banker speak of paying off notes which he had in his portfolio three years, which

had been steadily going on because of crop failure, but now they had had a good year and they are going to pay off. If this fund could be used to advance these distressed banks with these customers' notes as collateral, I would not—I would not say to use them as a basis of circulation—on a year's time, say, on the principle of the War Finance Corporation, it would have a wonderful effect.

I am an opponent of guaranteed bank deposits. I do not think it is feasible or sensible, but this would come pretty close to it.

The CHAIRMAN. This is not a new suggestion to the Committee on Banking and Currency of the House. It has not been presented, however, just in this form. Mr. Strong, a member of the committee, put it in a bill and has very actively urged its passage, creating a fund in the Federal reserve system that could be loaned for the relief of the farmers in emergency cases on certain classes of paper.

Mr. WINGO. But not permitting the issuance of currency against it?

The CHAIRMAN. But your suggestion differs from that in that you would make it available to the bank.

Mr. MCNALLY. To lend the bank who is loaning the farmer. To give you an idea of how safe is the country-bank loan supported by collateral these figures may be of interest to the committee. As I said, my bank has about 1,100 country banks carrying accounts with us. I suppose during the past year we have loaned during one time or another 65 per cent of those banks. Just how many million dollars we loaned them I do not know, but it was a tremendous sum, yet our total losses on those millions of dollars we loaned those country banks in the last six years have been less than $500.

Mr. WINGO. The losses come where banks are permitted to go under, do they not?

Mr. MCNALLY. We have had 15 or 20 banks go under, and we got our money every time.

Mr. WINGO. So the thing to do is to try to keep their heads above water.

Mr. MCNALLY. Yes. I have in mind an instance where the Dallas bank went out of its way to help a bank in distress, which saved a disastrous situation in Dallas. It was the use of horse sense, and I think that is something we can afford to use at all times.

The CHAIRMAN. In that connection, that brings up a question before this committee. When the Federal reserve act was passed it had to provide the basis of the whole organization in the mobilization of reserves. The argument was made here that there should be a central reservoir in which all legal reserves should be deposited.

It has been pointed out here also in connection with membership of country banks in the system that they were being so efficiently served by the reserve city banks, such as your bank——

Mr. MCNALLY. Yes.

The CHAIRMAN. You just pointed out the fact that you have counted some 1,100 banks?

Mr. MCNALLY. Yes.

The CHAIRMAN. It has been argued here in that connection that the reserve city banks act to retard membership in the system by rendering this very fine service which you do render the country bank, and that perhaps that is unwise, because it creates a secondary reserve which was not contemplated as necessary in the Federal reserve act, and that the reserve city banks are doing everything

they can to retain customers and in so doing are having a tendency to keep these small State banks and trust companies out of the system.

Mr. McNALLY. Of course, the small bank says the city bank will lend us when we are hard up, and that is as much as the Federal reserve bank can do. It pays interest on reserves, which they do not get at the Federal reserve bank. That is the way he figures.

The CHAIRMAN. You also make loans on a class of collateral which is not eligible?

Mr. McNALLY. That is also true. The effect of our borrowing from the Federal reserve system was that in 1920 we had $16,000,000 borrowed in St. Louis. About 60 per cent of that amount we had loaned to nonmember banks to tide them over.

Mr. WINGO. So that indirectly the Federal reserve system was furnishing a relief for these country banks?

Mr. McNALLY. Yes.

Mr. WINGO. So that when the statement is made that some 9,000 State banks and trust companies in these agricultural areas were not members of the Federal reserve system, and therefore were deprived of the relief which was to be afforded through the Federal reserve system is not quite correct, is it?

Mr. McNALLY. No.

Mr. WINGO. Your statement in regard to your operations is quite usual, is it not, throughout that part of the country?

Mr. McNALLY. There are not many banks that have as much of that business as do banks in St. Louis, Chicago, and Kansas City.

Mr. WINGO. Proportionately, it is true of the country banks?

Mr. McNALLY. Exactly. We have had member banks come and borrow from us in preference to going to the Federal reserve system. They said it is easier, does not cost us much more, and we would sooner borrow from you than from the Federal reserve system.

The CHAIRMAN. Is it your observation that those country banks, nonmember banks of the Federal reserve system, would have been better served if they had been members of the Federal reserve system than through the method of rediscounting through the reserve city banks?

Mr. McNALLY. I think that by reason of the facilities that the city banks had to borrow and rediscount in the Federal reserve system they were able to take care of those country banks in good shape. But I do not think it is the scientific way to do it. It is placing a tremendous burden on the city bank which, fortunately, the average city bank was able to carry during the recent hard times. But at the same time, my main contention is that the only way you are going to get any large number of eligible nonmember banks in the system is by so convincing the people at large of what an asset it is for the bank to hold membership in the system that the united force of public sentiment will just sway those eligible nonmember banks and force them into the system to hold their trade.

Mr. WINGO. In other words, you think the system ought to be sold both to the public and to these eligible banks?

Mr. McNALLY. There is no question about it that the reserve city banks ought to be sold to the public.

The CHAIRMAN. Of the $16,000,000 which your bank borrowed of the Federal reserve system, you say 60 per cent was loaned to these

State banks and trust companies outside of the Federal reserve system?

Mr. McNALLY. Yes.

The CHAIRMAN. In proportion to your other deposits was that a fair percentage of what you had a right to expect or were you depriving the other 40 per cent of the right which properly belonged to them of rediscounting through your bank?

Mr. McNALLY. No; I do not think a single customer of ours suffered by an inability on our part to take care of them. I think that the percentage of loans to nonmember banks compared to our total deposits, while it was not 60 per cent, at the same time it was a reasonable amount, and I do not think we did anything but what was fair and reasonable to all concerned.

The CHAIRMAN. Then, in proportion to the service you are rendering the other depositors, those country banks were getting more than their share?

Mr. McNALLY. Yes; they were. Just one more suggestion in closing: As a concession, I do not know but what it would be a good idea to amend the law so that banks could come in with a capital of $20,000 and paid-up surplus of $5,000.

The CHAIRMAN. We passed in the last session of Congress agricultural credits permitting banks to enter with $15,000, providing they would arrange to increase it as soon as possible, yet under that broad authority which we have given them I understand not one bank has applied for membership.

Mr. McNALLY. I am not surprised at that, but I think it is a good concession to make. It shows they are willing to let the little fellow in where formerly he would say, "I could not get in if I wanted to."

Mr. WINGO. Do you think the main thing is to remove misapprehension and to sell the member as well as the nonmember bank and the public on the idea that it is good for them; that they can advertise and get the benefit of the Federal reserve system, and that that is of some practical value to them as a business proposition?

Mr. McNALLY. That is exactly the point that was emphasized most strongly at our last meeting of the Reserve city bankers, that one reason we did not have more members was that the community at large was not sold on it, for the simple reason that the public was not educated up to it.

The CHAIRMAN. Who, in your judgment, should sell that to the public?

Mr. McNALLY. I think that the bankers themselves should do it.

The CHAIRMAN. That is, the member banks?

Mr. McNALLY. The member banks themselves, I think, should do it. I would like to go back to the start of the system. I was cashier of a country bank, as I have already mentioned, at the time. The cashier of a country bank is the one who has to make the report and dig out all these rulings and figure out the law itself. He has not anybody to go to in a small town because the lawyers, as a rule, do not know any more than he does about it. In the early days the member banks were told to send in capital stock in gold, no notice; and to send in one-half of their reserve funds in

legal reserve notes, no notice; and then he had to go through an elaborate computation of figuring the reserve each day and segregating the various kinds of money he had and it meant a good deal more work, and the average country banker was so confused and never knew what to expect, and if he would go to the representatives of the Federal reserve banks he would discover they were a little hazy as to what was coming next.

So the average country banker when a competitor would say anything to him about the system would reply: "You better stay out. It is getting you into a lot of trouble. So far as we can see, we have not had much benefit from it."

And then again the operations of the Federal reserve bank, the reason of it being a semigovernment agency and largely mechanical, the letters we got were very frequently formally abrupt. The country banker who in the past had been addressed by the city correspondent in affectionate terms and had known the man writing the letter for years and all that, began to get very curt letters from his Federal reserve bank, and the personal equation was lost. You read a letter this morning saying that we need more human nature in the system, and I think that is a part that can not be too strongly emphasized; that and the operations of the system by officers show deal with members to a large measure sugar coat the pill and try to make the customers realize they were dealing with human beings instead of mere automatons, hedged about by cut-and-dried rules, because I think the average country banker in having rules quoted on him concludes that he is a mere cog in the machine.

Mr. WINGO. To-day the country bank is treated with a great deal of deference by the city correspondent.

Mr. MCNALLY. Yes.

Mr. WINGO. He is made to feel he is not a mere cog in some machine, but is treated with some consideration; and if the Federal reserve banks would use a little bit more of human nature they would get along better with the country banks.

Mr. MCNALLY. You will find the districts where human nature has been used have very much less trouble than the larger districts where arbitrary methods have been put into effect.

Governor CRISSINGER. What would be the result on your 1,100 correspondents if they went into the system?

Mr. MCNALLY. It would affect us a good deal as it is. Since the Federal reserve system was started we have lost a great many accounts in districts other than our own. We find in our Federal reserve district the accounts are retained pretty much the same as they were before.

Governor CRISSINGER. If they went into the system, these 1,100 banks, would it affect your deposits?

Mr. MCNALLY. Yes; it would affect our deposits 30 per cent.

The CHAIRMAN. Decrease them that much?

Mr. MCNALLY. About that.

Mr. WINGO. This is true, is it not, that where a country bank comes into the Federal reserve system he does not depend on the Federal reserve; he still maintains relations with his correspondent and uses his correspondent a great deal?

Mr. MCNALLY. In practically every case; yes.

The CHAIRMAN. Referring again to the deposits of country banks, of course those are demand deposits with the reserve city bankers?

Mr. MCNALLY. Yes.

The CHAIRMAN. And, of course, you had to expect any moment those balances might be withdrawn?

Mr. MCNALLY. Oh, yes.

The CHAIRMAN. Therefore the class of investments which you seek to meet that demand have to be pretty liquid, do they not?

Mr. MCNALLY. They are; and we have to keep them that way.

The CHAIRMAN. Take a city like New York, which has such a large amount of country-bank balances, that is of considerable moment to those reserve city bankers?

Mr. MCNALLY. Oh, decidedly.

The CHAIRMAN. In other words, they have to keep that where they can get it on a day's notice?

Mr. MCNALLY. That is true.

The CHAIRMAN. They must buy in the open market paper which is readily salable?

Mr. MCNALLY. Readily convertible.

The CHAIRMAN. Or else they must avail themselves of the Federal reserve system in the way of rediscounting?

Mr. MCNALLY. True.

The CHAIRMAN. Of course, the aggregate amount of those balances must necessarily have to have special attention by the officers of the Federal Reserve Bank of New York.

Mr. MCNALLY. Yes; they must.

Mr. WINGO. What effect does the open market of the Federal reserve bank have on your operations?

Mr. MCNALLY. In St. Louis we do not feel it at all.

The CHAIRMAN. That is mostly in New York, is it not?

Mr. MCNALLY. Yes.

The CHAIRMAN. They have developed a practice, have they not, of handling practically all of the open-market transactions in New York?

Mr. MCNALLY. Yes.

The CHAIRMAN. For the other banks?

Mr. MCNALLY. If the local bank does it, we do not know anything about it. It is handled by the New York bank and does not affect local conditions; in other words, if the local merchant says I am paying four and a quarter, I am paying four and a quarter here; do you want to charge me five and a quarter?

Mr. WINGO. Suppose your local bank out there should go into the open market, and competing with you, you would be compelled to meet the competition?

Mr. MCNALLY. Oh, yes.

Mr. WINGO. It would affect the rate?

The CHAIRMAN. As I understand, their operations are pooled so there will not be any competition?

Mr. MCNALLY. Yes; so far as we can see, the operations of the open market are nil.

Mr. WINGO. Suppose that factor should change?

Mr. MCNALLY. What we call the open market in St. Louis—it would mean they would go to a note broker and buy commercial paper.

Mr. WINGO. Buy the paper they were authorized to buy in the open market?

Mr. MCNALLY. Yes.

Mr. WINGO. Suppose you wanted to keep your assets liquid to meet this constant demand that might arise from your 1,100 banks you refer to, you would feel like the open-market operation was a very wise place for you. Then, if the Federal reserve bank did enter into active competition, if they should change their present method of pooling and each individual bank should go into the open market, it would affect you considerably?

Mr. MCNALLY. Yes: it would; it would reduce rates.

The CHAIRMAN. Mr. McNally, suppose there was an accumulation of paper that is eligible in the open market that the banks of St. Louis could not handle. How would that be handled?

Mr. MCNALLY. The local market of St. Louis is limited, you understand. The big concerns that put out commercial paper do it through New York houses and Chicago houses. These big commercial concerns have bankers all over the country. So I imagine the greater part of our commercial paper which originates in St. Louis is offered in New York and Chicago first.

The CHAIRMAN. The open-market transactions are entirely centered in New York; that is the reason the New York bank is authorized to conduct those transactions and the pool committee is functioning.

Mr. MCNALLY. The rates are made in New York; that is a certainty.

Mr. WINGO. So the practical working of the open-market operation is that the New York rate controls everything on that particular operation.

Mr. MCNALLY. That is true. Of course in some places the local demand for noneligible paper may be such as to keep the rate above the open-market rate.

Mr. WINGO. A few years ago a good deal of packing-house paper was distributed through the Southwest. That is not handled through New York?

Mr. MCNALLY. That depends on what packer. One big packer was in the habit of making loans direct through banks without going through brokers at all, and they would pay whatever local rates required. They would pay 6 per cent in Texas, 5 per cent in Illinois, and whatever they had to pay. That kept money distributed, and they felt it was worth their while to do it that way. But the other packers put out paper through note brokers who had one rate.

Mr. WINGO. A few years ago there was considerable packing-house paper distributed through banks in the center, who in turn recommended and passed it on to the country banker for investment funds?

Mr. MCNALLY. Yes. In that case the country bank generally writes in to the city bank, and as we have a great many correspondents: Select $25,000. Have no note more than $5,000. We go over the broker's list and buy the same kind of paper that we would purchase for our own portfolio if we were in the market, the kind of paper that we would purchase for our own portfolio if we were in the market; or the bank might send the brokers' list and might check

off certain names he would recommend. The bank, of course, does that without compensation.

Mr. WINGO. I understood that in the fall of 1920 there was some of that packing-house paper distributed through the banks.

Mr. MCNALLY. If there was, I do not know of it.

Mr. WINGO. It may have been through brokers. I know they were furnished a list, and a good many of them selected packing-house paper because there was a pretty high rate offered on certain issues of packing-house paper at that time.

Mr. MCNALLY. That is right. I would like to have it understood in closing that my suggestion about this big corporation was purely my own idea. I do not blame it on the reserve city bankers.

(Thereupon, at 4.30 o'clock p. m., the joint committee adjourned to meet to-morrow, Wednesday, October 10, 1923, at 10.30 o'clock a. m.)

INQUIRY ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM

WEDNESDAY, OCTOBER 10, 1923

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON INQUIRY ON MEMBERSHIP
IN FEDERAL RESERVE SYSTEM,
Washington, D. C.

The joint committee met at 10.30 o'clock a. m., Hon Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee will resume its sessions.

Mr. WINGO. I want to make a motion of record, just to keep the record straight. I want to move to ask the Treasury to file the clarifying statement referred to in the editorial of the Washington Post of this morning, entitled "National bank powers," and that statement to go into the record following the Attorney General's opinion [reading]:

> The tempest that manifested itself in certain quarters on the Attorney General's recent ruling as to branch operations to national banks is reduced to teapot size by clarifying statement just issued from the Treasury. This statement makes it plain that the ruling does not change the construction of banking laws as hitherto in effect. It could not change the law itself and does not purport to do so. It simply reaffirms interpretative rulings that have been followed for the past 12 years.

That is the first paragraph; there is no use to read the rest of it.

The reason for that is twofold. The first is there is a good deal of misconception among the bankers as to the law, not only the national bank law but the Federal reserve act. It may be that the Treasury has been able to clarify the legal meaning of the Attorney General's opinion by a statement that it has issued. Of course, that is new to me as a lawyer, but I am learning, and I want that in the record if it does clarify it. The next is that this editor says that it reaffirms interpretive rulings that have been followed for the part 12 years. I do not want that misinformation to go out among the banks; I want them to have the facts and to have their lawyers tell them what it means.

And in that connection I want to follow it up with the opinion of Attorney General Wickersham, showing that national banks have no authority to establish branch banks.

Mr. STRONG. Why have a reaffirmation?

Mr. WINGO. I read extracts from the Wickersham opinion which contradicts that of the present Attorney General.

The CHAIRMAN. You want the Treasury to put what into the record?

Mr. WINGO. This clarifying statement that it issued yesterday, which this paper says clarifies the Attorney General's ruling.

The CHAIRMAN. Is there anything else you want from the Treasury?

Mr. WINGO. No; that is all. Let the Treasury put that in, and then I want the Attorney General's opinion and Mr. Wickersham's opinion to go in, and I want all these following the opinion of Attorney General Daugherty. In other words, the record will show the opinion of Attorney General Daugherty, then it will show the elucidation and clarification thereof by the Treasury; and then it will show Attorney General Wickersham's opinion.

Mr. STRONG. We all appreciate the keen sarcasm of my friend Wingo in this matter, but ought we to encumber the record with a lot of newspaper editorials or what the Treasury Department may attempt to describe? If you want to put in the opinions of the Attorney Generals, that is all right. You are not serious about the matter?

Mr. WINGO. Yes; I am serious about the matter. I do not care about the editorial going in, but I referred to the editorial for the very purpose that it has already served in this committee.

The CHAIRMAN. But the new interpretation will be the statement of the Treasury, and then will follow the Attorney General's opinion, with Attorney General Wickersham's opinion following it, which is the opinion delivered in 1911?

Mr. WINGO. Yes; and referred to in Attorney General's opinion.

The CHAIRMAN. This morning we have first on the program Mr. Frederick A. Delano.

Mr. WESTERN STAR. I beg your pardon. May I offer a question?

The CHAIRMAN. Yes.

Mr. WESTERN STAR. I am wondering whether in the program you have provided it would be possible for the statement to be made on behalf of the Farmer-Labor Party of the country.

The CHAIRMAN. That pertains to this inquiry?

Mr. WESTERN STAR. To your inquiry that is before the committee.

The CHAIRMAN. Is it pertinent to the subject under discussion?

Mr. WESTERN STAR. We have certain ideas with reference to the question at issue which we would like to present, if it is permissible.

The CHAIRMAN. It is a brief statement, is it?

Mr. WESTERN STAR. A brief statement. I would not ask for more than 25 minutes.

The CHAIRMAN. I think perhaps we can hear you sometime during the day, if it is agreeable to the members of the committee.

Mr. Frederick A. Delano, of the Federal Reserve Bank of Richmond and former member of the Federal Reserve Board, is here, and we will be very glad to hear Mr. Delano at the present time. Proceed in your own manner.

STATEMENT OF MR FREDERICK A. DELANO, FEDERAL RESERVE BANK, RICHMOND, AND FORMER MEMBER OF THE RESERVE BOARD

Mr. DELANO. In coming here I wanted really to answer questions rather than to make any statement. I think I ought to say to the members of the committee—perhaps they do not all know—I am not a banker by profession. When I went on the Reserve Board at the time it was first formed, I went on as a business man. I had been

an engineer by profession and a railroad man for 30 years, and I resigned from the board in 1918. The last 3 years I have been a director of the Richmond Reserve Bank.

My knowledge of banking and my view of banking has been entirely that of a customer of the bank, a depositor and borrower for myself or corporations that I have been associated with.

I understand that the question that this commitee is directing itself to particularly is why State banks do not join the system. If I were to make a brief answer to that I would say that it is not due to anything wrong with the system. I am a great believer in it—the Federal reserve system. I think it is not only a tremendous credit to the men who worked it out, and while I will not say that it is perfect, that it is not possible to improve it in some respects, I have no general criticism of it. Therefore the answer to the question, "Why eligible State banks do not join?" is briefly that the big one will join, the large banks that need the insurance and need the facilities will joint, but there are a host of moderate sized banks and small banks that can get practically all the benefits of the reserve system without joining; and so long as that is true they will not join.

The CHAIRMAN. Right there, Mr. Delano, if I may interrupt?

Mr. DELANO. Yes.

The CHAIRMAN. What effect does that nonmembership have on the agricultural sections of the country where this large percentage of State banks occur?

Mr. DELANO. I think it has this effect, that in the first place in that very section there are a great many banks that are not eligible; they are not eligible because they have not got the requisite capital or they are not eligible because the character of business they do does not make them eligible, and banks in those sections because they are small, because they cater to a particular clientele, have not got the security that they should have.

Mr. STRONG. Why not?

Mr. DELANO. I mean by that, that they have not the diversity. What makes a bank safe, after all, is a highly diversified business. For instance, if a bank is catering, let us say, wholly to the wheat farmer, if the wheat industry is depressed for any reason the bank suffers very much.

Mr. STRONG. Are there more banks in the West catering to wheat farmers than there are banks in the East catering to speculators?

Mr. DELANO. Are there more?

Mr. STRONG. Yes.

Mr. DELANO. I do not say there are. But I do not know just what is meant by "speculator," but if you mean "speculating" in the stock-exchange business, I do not suppose there is any bank that is safe which caters only to stock-exchange speculators——

Mr. STRONG (interposing). I resent the idea that the securities of the western banks are not safe because they cater to the wheat farmer, and I just wonder if there are any banks in the East dealing in wheat, warehouse receipts, etc.

Mr. DELANO. I hope I did not create that impression. I am a western man; lived 30 years in Chicago.

Mr. STRONG. That is what I thought you said.

Mr. DELANO. I think I did not explain myself.

Mr. WINGO. I think you better explain your statement, because, to be frank with you, I think you said there were two reasons why these nonmember banks did not come in. One was smallness of capital stock, another one was the character of business they did.

Mr. STRONG. The character of securities they handled.

Mr. WINGO. When you took for illustration that a bank that was dependent entirely upon wheat or one crop did not have a diversity of business. The impression would come from reading your statement that you would oppose a bank of that kind coming in, and it was not legible. I do not think you meant that, and I suggest that you do elaborate on your statement.

Mr. DELANO. Mr. Congressman, my original statement was that the reason banks that were eligible did not come in—banks not eligible can not come in, for that is covered by your law—if it can get all of the benefits of the act without coming in. That is the gist of it.

Now, the remarks that you refer to were in answer to the chairman's request as to how this affected the situation in the agricultural regions.

I formerly lived in the farming regions, and I am exceedingly familiar with it, because I spent many years of my life in that country. There are a great many good banks in the farming region. Whether members or not of the system, many are not borrowers directly or indirectly from the Federal reserve system. They are so strong that they do not have to borrow. They are well managed and conservatively managed banks.

But I say that a bank, just the same as an individual, that is entirely dependent on any one business is apt to suffer in the long run. In the last three or four years I have been out in Oklahoma and Texas. There a great many of the banks are closely related to the oil industry. The result is that at some periods they have been very prosperous and at other periods they have been greatly depressed, and there have been a great many bank failures down in that country. The same is true in the wheat-raising sections. The same is true in the cattle-raising country.

Mr. STRONG. Would not the same be also true in manufacturing districts?

Mr. DELANO. To a lesser extent. In the manufacturing districts there usually is a greater diversity. Of course, to take a cotton-mill town, where the banks are loaded up with cotton-mill paper and nothing else, they would be much affected by a depression of the cotton-mill business.

Mr. STRONG. In a steel town when the steel mills shut down the same proposition would exist?

Mr. DELANO. I am afraid I do not make myself clear.

Mr. STRONG. In coal-mining towns when the mines were shut down that condition would exist also there?

Mr. DELANO. Very true. But in the older parts of the country there is an opportunity for greater diversity than there is in the farmer regions.

Mr. WINGO. I gather your theory, then, is that one reason why these banks do not come in is that the character of their paper is such that it is not eligible at the Federal reserve bank, and therefore they would not get any benefit; is that the theory?

Mr. DELANO. No, sir. I think I will have to repeat my first statement. I said in the first place, in answer to the question as to why State banks do not come into the system to a greater extent than they now do, was, first, that they are not eligible. There are many reasons why a bank may not be eligible. It may not have the requisite capital; it may be a bank that is doing largely a savings business; it may be a bank that is doing largely a real-estate mortgage business; or it may be a bank that has not sufficient eligible paper to make it desirable. Those questions of eligibility are matters provided in the act, and there can not be any difference of opinion if a bank is ineligible that it can not come into the system.

Next, I say, of the banks that do not come in, even though eligible, many of them can enjoy, let us say, 90 per cent or even 95 per cent of the benefits without coming in, simply by indirection. For example, a bank may have its main account and may keep its reserve with a larger bank in a reserve city; through that larger bank it may get all its collections made; it may have its checks cleared; it may get its eligible paper rediscounted; it practically secures all of the benefits which the reserve system was created for without paying a cent for it.

Mr. WINGO. You think that is the answer to Mr. McFadden's suggestion that these eligible banks, say, in the wheat belt do not come in, a great many of them, for the latter reason you have given?

Mr. DELANO. Then, the chairman asked just how that applied, as I understand it, to the farming region.

The CHAIRMAN. In other words, do they get as much relief through their indirect entry into the system as they would by going directly?

Mr. DELANO. My thought on that would be—your question is directed that way—that they would in ordinary times; I think in critical times they might not.

Mr. WINGO. But they think they would?

Mr. DELANO. They think they would——

Mr. WINGO. Your viewpoint is you think they ought to come in because there might be critical times when they could not get this relief elsewhere; is that true or not?

Mr. DELANO. I think this: My notion about the remedy of the banking system in this country is not to suggest any considerable change in the Federal reserve act. I think it so good that I have no general criticism to make of it. But I do think that the national banking law and the State banking laws ought to be studied; that there ought to be cooperation between the Federal Government and the State governments; and I also think that a great many banks are too small; that they do not have enough diversity of interest to give the security that is needed. I think that if you could look up the records, you would find that there are at least a dozen States in which in the last three years there have been a hundred or more bank failures. The larger proportion of those have been State banks, but there have also been many national bank failures among them.

That is a very serious matter, a very serious burden to a lot of poor people. Men I have been associated with down in southern Oklahoma and Texas have lost the savings of a lifetime in that way; they have come to me and talked about it, and it seems to me an awfully serious thing. I would like to see something done that would prevent that; that would be some check on it.

I think the reserve act has gone just as far as it can go. The remedy now lies in a careful revision of the national banking act in a cooperative way between the States and the Federal Government.

Mr. WINGO. Just what revision would you make in the national bank act, Mr. Delano?

Mr. DELANO. I am not prepared to go into that in detail. I think that a national banking act, which was the creation of the Civil War period, is in some respects obsolete and cumbersome. Originally the inducement for the national banks to join the system was the money to be made by buying Government bonds at a discount and issuing currency against them. But that inducement is all gone to-day and the consequence is that the States, many of them with more liberal laws—sometimes too liberal—with more easy-going methods of examination, sometimes too easy-going, offer greater inducements.

The CHAIRMAN. It has been suggested that perhaps the Federal reserve system could take over the national bank currency now, inasmuch as it is no particular source of profit to the national banks. Would you care to express yourself on that?

Mr. WINGO. Is that the fault of the board? At the moment I do not recall the particular features of the law that would answer to my mind just where the reasons for it might lie.

Senator GLASS. It is permissible.

Mr. WINGO. I say it is permissible and it is not the fault of the board, is it?

Senator GLASS. Oh, no.

Mr. WINGO. It is largely left upon the initiative of the banks, as I recall it, Senator.

Senator GLASS. The Federal reserve banks were authorized by law to take over $25,000,000 a year—not over $25,000,000 of preferred bonds.

Mr. WINGO. I say, if the banks do not proffer their bonds, I do not recall at the moment any power in the board that could compel the change in the Federal reserve act. It all depends on the voluntary action of the National Banking Association, as I recall it.

The CHAIRMAN. If the offer is made.

Mr. WINGO. They have to make the offer, and the Federal Reserve Board is limited to the amount in any one year they might make on this proffer.

Mr. DELANO. My impression is that most of the bonds with the circulation privilege will begin to fall due in 1930, and that the thing will terminate if Congress does not reissue those bonds.

Mr. WINGO. You think it might be wise, then, to let the law settle that?

Mr. DELANO. It might be. I was on the board when we had started this other method of retiring a certain number every year, but the change in the interest rates has made that impossible.

The CHAIRMAN. So that is the reason that that provision has not been carried out?

Mr. WINGO. The abnormal conditions that existed.

The CHAIRMAN. That was the determining factor on the part of the banks in offering these securities to bring them out of retirement with speculating notes.

Mr. WINGO. Getting back to the original proposition with reference to the national bank law, what features of it do you think are obsolete?

Mr. DELANO. I think the currency feature, for instance, is very obsolete and objectionable, in view of the reserve-bank system. Of course, with that the requirement that they shall hold a certain percentage of Government bonds which are inelastic, and I do not think it is desirable except for savings banks to be loaded up with Government bonds.

Mr. WINGO. You say, from the standpoint of the national bank, it is not desirable to hold these bonds and have circulation out against it; is that the theory?

Mr. DELANO. Yes.

Mr. WINGO. Then why do they not relieve themselves?

Mr. DELANO. I think that the advertising value of currency is considered of some value. The bigger banks in the cities do not consider it of value, but many small banks do.

I think perhaps the greatest benefit that might be considered by your committee would be an amendment of the national banking act that would give them the privilege of creating branch banks within the same county where the State laws permit their banks that privilege, because what is happening in New York at the present time is that you are driving banks out of the national system.

Mr. WINGO. What other liberalizing features would you put in; what other inducements would you offer by way of amendment?

Mr. DELANO. My answer to that would be that you had better take the best State banking laws and try to work out with the States what might be classed as a standard code.

Mr. WINGO. How far would you go?

Mr. DELANO. For instance, the New York bankers think that the State banking law of New York is far better than the national banking law. I am not sufficiently a student in detail to say that that is true. It might be that the New York law was too easy-going, too liberal; but the point is that I would like to see the States and Federal Government get together on something.

Mr. WINGO. On what theory do you think the New York State bank law was made more easy; was it on the theory of giving the State banks a privilege?

Mr. DELANO. I should say so.

Mr. WINGO. Do you think there is any danger that if we match their privileges without the charge desirability the temptation might arise again to amend the law and meet the action of Congress by extending further privileges that would restore the preferential features of the State charters?

Mr. DELANO. I am in hopes that it could be done by intelligent cooperation.

Mr. WINGO. Your idea is for the bankers themselves to recognize the necessity for having some standard of banking?

Mr. DELANO. Exactly; and not have the State and Federal Government competing with each other in seeing who can be most easy-going and most lax.

Mr. WINGO. Your idea, then, would be to try to get the bankers themselves to agree on standard features?

Mr. DELANO. Not only the bankers, but the supervisors.

Mr. WINGO. You would try to get the supervisors who know and are competent to pass upon those things to have a standard that both State and National Government would try to conform its laws to that so as to have the banking business more uniform?

Mr. DELANO. That is it.

Mr. WINGO. With less than expanding feature.

Mr. DELANO. That is my idea.

The CHAIRMAN. In other words, you recognize that there is a keen competition between State banks and the national system, and that because of that competition it is not working for the general good. That is the general thought?

Mr. DELANO. That is my idea.

The CHAIRMAN. If it is possible to make some changes in the national bank act, you think in cooperation with the State superintendents of banks or the authorities of the State who are managing those that great good would result?

Mr. DELANO. I think that would be highly desirable. Of course, many of the States have tried to provide for the security of their banks through bank guaranty. I have always thought that that was a wrong way to proceed, and recent events seem to bear me out.

Mr. WINGO. Have you any other suggestions as to changes fundamental in character of the national bank law to enable them to meet the competition of the State banking laws?

Mr. DELANO. As to the capital of banks, I think that that question ought to be considered very carefully. In order to make it attractive for banks to come into the system, the limit was put as low as $15,000. I believe that that was a mistake. When the national bank law was first created $50,000 was the minimum fixed. It was later reduced to $25,000, and yet we will all agree that judged by the purchasing power of money to-day or what was at the Civil War period $25,000 would be measured by at least $100,000 to-day.

Mr. WINGO. That inducement was offered in the last bank act and nobody has taken advantage of it.

Mr. DELANO. True, nobody has taken advantage of it. The fault seems to be with the theory that we serve the public better by letting a lot of weak banks be created. My conviction is that the public is seriously injured by these weak banks.

I will not mention the name of a place, but in a town in southern Oklahoma I have come in close contact with three banks, a national bank with $50,000 capital and two State banks. There has been very serious competition. One of the results was that one of the State banks failed, and since then the national bank. A good many of my friends were injured in that national bank failure. When it came to be investigated it was found that the president of the bank, an honest and well-meaning man, but not a banker, owned 60 per

cent of the stock of the bank. · Because he was "broke" when the bank was "broke," the double liability did not do any good as to his holdings in the bank, and most of the other holders of the stock could not pay any assessment, so the consequence is that the depositors will not get any of their money back.

That is not an isolated case. I am sure I could find you in a dozen Central Western States plenty of cases just like that.

This indicates that there is something wrong. I am not the doctor to tell you just what the remedy should be, but there is something wrong that permits the creation in small units of a lot of weak banks that can not serve that community.

Mr. WINGO. I understand then your theory is that it would be the part of wisdom to increase the minimum for national banks as well as for membership of State banks in the Federal reserve system instead of lowering it.

Mr. DELANO. Either do that or else permit banks to form branches in the same county and get a little added strength through diversity of business. After all, it seems to me, a bank that does business simply with borrowers can not prosper. A bank that does business simply with one kind of merchants or with one kind of farmers is at the mercy of that business. It is just as badly off in a way as if a bank had its only deposit from some one railroad or some one steel manufacturer or some one coal operator, and then when that concern was in trouble or is affected the bank would be left high and dry.

Mr. WINGO. As I understand, you say you would not amend the Federal reserve law at all?

Mr. DELANO. Not in any important degree.

Mr. WINGO. I mean on any important proposition. What amendments, if any, do you think are proper that could be made that would induce any State bank to come in? Do you know of any? I mean a bank that according to your judgment that would be wise both from the public standpoint and from the bank standpoint to become a member of the system.

Mr. DELANO. I think there are many things that could be done. I mean Congress has the power to do many things, but I would not recommend any strong-arm methods.

Mr. WINGO. You misunderstand my question. I am not talking about power; I am talking about what changes in either the law or the regulations of the Federal reserve system you think that would be wise that could be made that would induce nonmember banks to come in, that you think desirable to have in the system?

Mr. DELANO. I am not sure that I would recommend it, but I think it is worth considering—the criticism that I hear made oftener than any other is that before this act went into effect banks could keep the large part of their reserve in reserve cities and receive interest on deposits, and now they have to keep all their reserves in a Federal reserve bank and not get interest on it.

I do not think that is an ingenuous statement, and I do not think it is quite fair. Of course, the reserves are much less now than they were formerly required to be. It does not take into account that a considerable part of the reserve which formerly had to be kept in the bank's own vault.

Senator GLASS. It does not take into account that the reserve was very radically reduced, either.

Mr. DELANO. I started out by saying that the president of one of the biggest banks in this town said to me, "Well, what they ought to do is to allow interest on reserve deposits."

Mr. WINGO. Do you thing that wise?

Mr. DELANO. I said, "Mr. ———, I can not agree with you in that suggestion for a moment. It never would do at all. Your reserves would soon cease to be reserves, and it does not take a great deal of calculation to show that the reserve banking system could not afford it." But I do think there is something to be said in favor of giving the member bank an interest in the profits of the Federal reserve banks above the bare 6 per cent, and some advantages would flow from that. For example, I would like to see the member banks take a more active interest in the actual management of the reserve banks.

The CHAIRMAN. How can that be done, Mr. Delano?

Mr. STEAGALL. Do you think they would take more interest if they got more profit?

Mr. DELANO. That is what I mean.

Mr. STEAGALL. Does not that also carry with it the possibility from the standpoint of the Federal reserve control, a suggestion of objectional features as well as desirable? Would it not also tend to provoke further controversy and possibly criticism of which we have had more or less?

Senator GLASS. Mr. Delano, right on that point, what would be the objection from prohibiting member banks from paying interest on bank deposits? I do not mean individual deposits; I mean bank deposits. Would not that bring in a vast number of State banks?

Mr. DELANO. I think that would drive banks out of the system.

Senator GLASS. Would it drive more member banks out than it would bring other banks in?

Mr. DELANO. I do not know. I am very dubious about any strong-arm methods, Senator.

Senator GLASS. One of the primary considerations of the Federal reserve system was to break off this process of concentrating all of the reserve funds of this country. And when I say "reserve funds," I do not mean literally bank reserves.

Mr. DELANO. You mean credits?

Senator GLASS. I mean all the assets—credits—in a few money centers, there to be used for commodity and security circulation.

Mr. STEAGALL. I want to ask you a question right there, Senator. It has occurred to me somewhat in the past not just exactly as you have stated it. Your suggestion is rather new, but what about this idea: What do you think of banks being allowed to pay interest on deposits? Why should not deposits find their place without such inducements and why should not banks who want to borrow money go borrow it directly instead of borrowing in the guise of deposits?

Senator GLASS. I think you are vastly more radical than I am, because that opens up a broad question. I do not say you are wrong.

Mr. STEAGALL. I am not stating any position. I am merely asking you.

Senator GLASS. While it would in large measure circumscribe the competition of banks, and so on. But, to get back to this thing, I say one of the primary purposes of the Federal reserve system was to break up this concentration of the reserve resources or banking resources of the country in great money centers, and we went to the extent originally of taking the technical bank reserves and decentralizing them, but we hoped that would free the country banks from any sort of subserviency to their correspondent banks. But it has not done it to any very great extent, and they still continue to pile off all of their reserve assets to their correspondent banks, and it seems to me if we were to amend the act so as to provide that no member bank of the system should be permitted to pay interest on bank balances then we would stop this concentration of the banking resources, and instead of loaning their funds to correspondent banks at a nominal 2 per cent to be used for speculative purposes, they would give the industries and the commercial interests of the community the advantage of the plethora of funds and credits.

The CHAIRMAN. Would not that have a tendency, however, Senator, to transfer the balances that are now held in the member banks in these reserve cities to other State banks who are not members of the Federal reserve system?

Senator GLASS. It would unquestionably drive some national banks out of the reserve system, but my belief is that it would bring vastly more State banks into the system.

The CHAIRMAN. I was not suggesting the possibility of their leaving the system, but the fact that those national banks, inasmuch as they are not required to keep their deposits with national banks or members of the Federal reserve system, these balances which they keep in the cities would be transferred to banks that would pay them interest.

Senator GLASS. A great many of those banks are now members of the system—that is, State banks and trust companies—1,600 of them.

Mr. WINGO. Mr. Delano, the Senator has put his finger on what I regard as the crux of the whole situation. Frankly, I am not thinking so much about the benefits directly to these nonmember banks. I am careful at all times to predicate whatever proposed change might be made that it shall be one that is consistent with the original philosophy of the act and will carry out its original purpose. I am genuinely alarmed by the fact that I recognize, which has been very clearly stated by the Senator, that one of the prime purposes of the act is not being carried out so far as these nonmember banks are concerned.

The point I wanted to get at in my question was not to be in a spirit of controversy with you, but to get your judgment. What changes can we make that not only are consistent with the original philosophy and purpose of the act but which will aid in carrying it out by bringing these member banks in, that are sound and safe—I mean these State banks that ought to be in the system—and will help to carry out the original purpose? What suggestion based on your experience as a member of the board and as a practical business man from your observation can you offer to the committee?

Mr. DELANO. I think that membership in the system would be more attractive if you could see your way clelar to allow a bank, in addition to the 6 per cent on a stock, some share of the profits.

Mr. WINGO. About how much?

Mr. DELANO. It had occurred to me that instead of the Government taking all of the profits over 6 per cent that there might be a provision 50–50 or something like that. Of course, there are some objections to that. One of the things that there are people in this country that think that the reserve banks are making too much money.

In point of fact, I think that it will be found that in normal times the reserve banks barely make enough money to pay expenses and the 6 per cent.

Mr. WINGO. I was going to come to that——

Mr. DELANO (interposing). But in abnormal times, when there is a great demand for money—the reserve banks are a good deal in the position of a water company that is dispensing water from a reservoir; when there is a famine they are being paid for all the water that is taken, but there follow long periods of normal weather when no water is used, to speak of.

Mr. WINGO. Mr. Delano, the suggestion you have made with reference to a division of 50–50 has been made before, and as a practical man I would like to have it done and see if that is really an inducement that would appeal to these nonmember banks. Suppose, for the sake of argument, that you amend the law and absolutely gave the nonmember banks all their earnings. You have stated that in candid judgment the abnormal profits that have been made by reason of the abnormal conditions of the past year or two will not accrue in the future?

Mr. DELANO. Yes, sir.

Mr. WINGO. The probabilities are that this current year, in fact, almost a certainty at least one bank will not earn 6 per cent?

Mr. DELANO. Yes.

Mr. WINGO. A country banker knows that. Suppose that we amended the law and said all the profits should go to the stockholder and the Government gets none. Then your country banker, who is a nonmember bank now and who is an eligible bank and it is desirable to get him in and you have also suggested to him, "We have met your suggestion, and you come in." So it is a bank with $50,000 capital and surplus and you sit down and figure with him, and he says that "Under the old law I could get 6 per cent on my subscription." His subscription to the Federal reserve bank of $50,000 would be only $1,500, would it not? Suppose you tell him that "I think next year they are going to do better and you will get 2 per cent additional." Your judgment tells you they would never earn over 8 per cent over a long period of years. In other words, the average earning of the system, if carried out according to its original philosophy, is not going to give abnormal earnings, is it?

Mr. DELANO. I would like to answer that——

Mr. WINGO (interposing). We will assume, then, we will make it 2 per cent additional—2 per cent on $1,500 is what?

The CHAIRMAN. $30.

Mr. WINGO. Do you think a sane, sensible banker you would like to get into the system could be prevailed upon to change his status that he might get $30 additional? As a practical matter, do you think that is going to get practical men to come in?

Mr. DELANO. This is what I say, men like to own stock in something where they think they are going to get the profits. I find from my experience with the reserve banks and talking with bankers, that there is a disposition on the part of the directors representing the bank stockholders to say, "Well, why economize in this little thing or in that little thing? The Government takes everything after 6 per cent. There is no particular object in economy"; and my thought is that I would like to have them so interested in the enterprise that they would be interested at least equally with the Government in seeing that banks are economically managed, and that the banks are not asked or required to do things which no sane business man would do for nothing.

The CHAIRMAN. In other words, Mr. Delano, if I understand you correctly, the facts that the balance of these earnings over 6 per cent go back to the Government. There is a tendency on the part of the management of the 12 reserve banks to extravagance.

Mr. DELANO. I think there is. I do not say that unkindly. I think that it is natural; it is inevitable.

Mr. WINGO. I appreciate your suggestion there with reference to using economy in the Federal reserve administration; that is a very good suggestion. But the point I was asking about was the inducement to these nonmember banks, practical bankers, to come in. Do you think that the possibility of an additional 2 per cent is going to be the sole controlling factor?

Mr. DELANO. Oh, I do not think it is the sole controlling factor. I think the greatest factor is the one I have already mentioned, that so long as the bank can get most of the advantages, as they think, without joining they are not going to join.

The CHAIRMAN. You do not consider it essential to the successful operation of the system that those banks should come in?

Mr. DELANO. No; I do not.

The CHAIRMAN. It is more as a matter of direct protection for them?

Mr. DELANO. That is all. It is just like a great many men do business without carrying adequate insurance, and nobody has ever suggested a law that men should all be compelled to carry insurance.

Mr. WINGO. I should like to get back to my original proposition, and I gather, then, that you do not think that this proposition of additional earnings is the controlling factor and that it will not induce these banks to come in, assuming they would be desirable.

Mr. DELANO. I do not think it is the controlling factor; I think it would be advantageous.

Mr. WINGO. Did I understand you to say you thought the suggestion of Senator Glass that a prohibition of any member banks paying interest on bank deposits would have a tendency to add to or decrease the number of member banks?

Mr. DELANO. I will say that I am in entire harmony with the Senator's purpose. I would like to go as far as the gentleman on my right suggests, that all interest on bank deposits stop. It is a great evil. In country districts it is not uncommon to find 6 per cent paid on deposits. This bank I told you of in Oklahoma that failed was paying 6 per cent on deposits just before it went up the flume.

Senator GLASS. That means every man who borrows money for legitimate business purposes has to pay excessive rate of discount?

Mr. DELANO. Yes; but I do not see how it can be prevented. It crtainly could not be done unless there was harmony between your State control and Federal control.

The CHAIRMAN. Do I understand you to mean, then, that you think it would be a better banking proposition that the country borrowers would be better served if no interest was paid by national banks and State banks and trust companies?

Mr. DELANO. Yes; or if you could not do that all at once that you at least stipulate a low rate of interest permissible for certain kinds of deposits, and so on.

Senator GLASS. First, abolish interest on current balances, and let them pay a specified interest on savings accounts?

Mr. DELANO. That would be the way to approach it, I think; but if you leave the State banks free to do just what they like and you impose this burden on the national banks you will do yourself more harm than good.

Mr. WINGO. I am somewhat interested in getting the suggestions that has a possibility of being put into effect by legislative action. Can you suggest anything to the committee that would be wise and sound in your judgment that with your knowledge of American politics could be put through Congress and which we could get the State legislatures to fall in line and back it up?

Mr. DELANO. I think this: We are apt to be impatient in this country; we expect results too soon. What the Federal reserve system has done since 1896 is marvelous, and looking at it from that standpoint I do not think it is necessary to lose a great deal of sleep about it. I do think that the inquiry that this committee is making is of the utmost importance. You may not be able to translate it into a great piece of legislation, but I think it is educative and very valuable.

Now, a step I would like to see you take would be to try to get some Federal action that would bring together all bank supervisors, or the bank authorities, of the different States with this committee or a proper representative of this committee, and see how far you can progress in framing up proposals looking to a standard banking law. I think that this great country ought to be ashamed of itself that in a year's time 500 banks have failed. I do not urge the Canadian central bank system, but at least it has the merit that the little fellow in Alberta can put his money in the bank and know that it is just as safe as if he would put it in the Bank of Montreal. In other words, a branch of the Bank of Montreal is absolutely just as safe as the parent bank.

Mr. WINGO. They found out last winter that that was not true with reference to one bank in Canada, did they not?

Mr. DELANO. I understand that one of those central banks was going to fail and the other banks took it over. I do not think it did fail. did it, sir?

Mr. WINGO. I think there was one that failed.

The CHAIRMAN. There was one bank in Canada in trouble and some eight or nine officers of the bank have been arrested for violation of their banking law.

Senator GLASS. That is a very exceptional incident, however, is it not?

Mr. DELANO. It is very exceptional, and, of course, Canada has been going through even a more grueling experience, when you take the size of the country and population into consideration, than we have.

Mr. WINGO. Your idea, as I gather it, is that the Federal reserve system will take care of itself, and that there is room for some of the men who have come before us suggesting the selling of the system to the country and getting the bankers and those who control banking legislation to come to a sane viewpoint looking to sounder banking and banking practice, both State and Nation?

Mr. DELANO. That is what I had in mind, exactly, sir.

The CHAIRMAN. Now, Mr. Delano, coming back to these reserve balances kept by members of the Federal reserve system and nonmembers of the Federal reserve system in these reserve cities, and particularly in New York. The mobilization of those reserves by the banks of the country in a center like New York places the great responsibility on the Federal reserve bank ingenuity, does it not?

Mr. DELANO. Yes.

The CHAIRMAN. Because of this fact, that the Federal reserve bank, for instance, has to take cognizance of the fact that those balances are piled up there. They are payable on demand; they are surplus funds which may be called back to the country at any moment. So that the reserve system has the burden and the responsibility on their shoulders of taking care of the necessary support of those country institutions at all times, whether those balances be in the Federal reserve system or whether they are in the member banks?

Mr. DELANO. That is true; in other words, the Federal reserve system, as I regard it, has to take the brunt of the shock for a hundred per cent of the banking credits of the country, but it only has the reserve of, say, 66 per cent.

The CHAIRMAN. The Federal reserve system, particularly in New York, has the responsibility, in addition to those reserve depositors, of keeping an eye on the amount of money that is loaned in the open market in New York, or loans made by stock-exchange collaterals or otherwise. It is practically the same as the deposits in the banks, is it not?

Mr. DELANO. Yes.

The CHAIRMAN. The amount of money country banks have loaned through the different channels in a big market like New York?

Mr. DELANO. Yes, sir.

The CHAIRMAN. There are really no reserve kept against that situation?

Mr. DELANO. None at all.

The CHAIRMAN. Do you think that is fair to the members of the Federal reserve system; in other words, is it incumbent on the members of the Federal reserve system to carry all that additional work and responsibility for these nonmember banks? Should not there be some system worked out for sharing the responsibility and the expense?

Mr. DELANO. It is not fair, and yet I have not got a solution, because that is a privilege under the act. We will take the case of a bank at X, in Virginia or North Carolina, it does not matter where. The banker who runs that bank in all probability keeps a reserve account in Richmond, because that is the central reserve city. He keeps it in Richmond because he does not want to keep a cent more in the Reserve Bank of Richmond than his reserve requirements are. So he keeps his balance in some bank at Richmond that will pay him interest on his deposits, and from day to day he telegraphs that bank how much to pay in to make his reserve deposit good. But he is not content with that; he wants the service which, we will say, a New York bank will give him, and he keeps a secondary reserve account up there with some bank.

Mr. WINGO. And probably the president of that bank borrows some money up there. A member of the Federal Reserve Board told me that he had found that to be the fact in innumerable cases, that these State banks which carried all the balances with New York and central reserve cities usually had their offices personally accommodated with loans.

Mr. DELANO. Now, if a member bank in, we will say, a country district finds it to its advantage to have a reserve deposit in the reserve city of its district, and another in New York, how much more certain is a bank that is not a member of the reserve system, when, we will say, a bank in New York offers, perhaps, not in a printed circular, but orally, "You need not belong to the Federal reserve system. You send us your eligible paper. We will give you all the accommodations you need."

The CHAIRMAN. They go a step further than that; they will take the noneligible paper or bonds or stocks.

Mr. WINGO. On that point I will call your attention to the fact—I may be in error—but I think the correct figures are that of the bank loans of the country a little over $7,000,000,000 are composed of commercial paper and a little over $8,000,000,000 are stock loans.

Mr. DELANO. That is true. But my answer to that is that even that is an enormous improvement over what existed in 1914.

Mr. WINGO. In other words, you think we are really making progress?

Mr. DELANO. I think you are making progress, and there is no reason to be discouraged.

Mr. WINGO. You think ultimately the Federal reserve system will justify itself and work out these things?

Mr. DELANO. I am sure of it.

The CHAIRMAN. Have you some other point you wish to make?

Mr. DELANO. I have here an address to college boys in St. Louis, made in April, 1922, and as it expresses my views on the reserve system, perhaps members of your committee would like to have it.

The CHAIRMAN. Yes; if you will leave it here. We will be glad to have it.

Mr. WINGO. Most of those in favor of branch banking have presented the argument that because most of the States are permitted to have branch banks offer such strong competition to national banks by being permitted to have branch banks, that they feel the bars should be raised. But I understand one argument you presented——

Mr. DELANO (interposing). I think that is an argument, but I think there is a better one.

Mr. WINGO. The one you presented was a matter of safety?

Mr. DELANO. Yes.

Mr. WINGO. You feel that if a branch bank or bank having branches throught the country engages in different resources it will strengthen the bank.

Mr. DELANO. That is exactly it.

Mr. WINGO. Well, would you advocate a bank being situated, say, in the eastern part of the country where the large reserves are and having its branches out in our country?

Mr. DELANO. No, sir. I confined my suggestion to counties. I am not ready and I do not believe that any Congress could succeed in putting through legislation of that kind, but I do think that you would widen your base a good deal if you allowed a bank to operate in the county with branches.

Mr. WINGO. Your idea is to have, say, the central bank located at the county seat?

Mr. DELANO. Yes.

Mr. WINGO. And the little towns have branch banks?

Mr. DELANO. That is it.

Mr. WINGO. In my county the big banks, of course, naturally are in the county seats, and throughout all the little towns there is from one to two and three banks. They are all in the agricultural districts; they are all doing business with farmers.

Mr. DELANO. Is the country a one-crop country entirely?

Mr. WINGO. Oh, no: very few agricultural districts are one crop.

Mr. DELANO. I think that is true, especially of the older States; especially in the older States that is certainly true.

Mr. WINGO. But if we had that system of the central bank in the county seat and 10 or 15 little banks as branches located in the little towns and something should happen to the central bank it would break the whole system, would it not?

Mr. DELANO. Sure.

Mr. WINGO. Would it not be better to have the individual banker and would it not lessen the question of bad loans or bad management by having little banks in the little towns to have branches controlled by one central bank?

Mr. DELANO. I suppose you could argue that up one side and down the other. You would never get through. But we in this country have gone the limit in individual banks. We have got over 30,000 banks in the country. The great trouble is we have got, as I think, many very weak banks, and we do it on the theory that we are serving the public better. Our neighbor to the north, Canada, has got, we will say, 10 or 11 central banks with branches all over—that goes clear to the other extreme.

Mr. WINGO. They have 14 central banks, have they not?

Mr. DELANO. I think they have reduced that two or three lately. I have usually found the proper solution somewhere in between the extremes.

Mr. WINGO. Our banks are opposed to branch banks, upon the idea that it tears down the individual banks and centralizes the power

of money in the hands of a few great banks of the Nation, which they feel to be unsafe.

Mr. DELANO. There is a great deal of branch banking going on "under the rose" in this country, I suppose you know.

Mr. WINGO. The bankers who desire it are getting their system started very decidedly.

Mr. DELANO. I know in one Southern State there is one man who owns about 80 banks.

Mr. WINGO. Four systems out in California own nearly 500 banks.

Mr. DELANO. I would rather see that thing recognized and done under the law than to have it done subrosa.

Mr. WINGO. Of course, the thing we ought to determine is whether or not it is policy and the best thing for the country. If it is a good thing let it go; and if it is a bad thing, curb it.

Mr. DELANO. That is the idea.

The CHAIRMAN. Mr. Western Starr, will you please give the stenographer your full name and state the organization you represent?

STATEMENT OF MR. WESTERN STARR, REPRESENTING NATIONAL COMMITTEE OF THE FARMER-LABOR PARTY, WASHINGTON, D. C.

Mr. STARR. Mr. Chairman, my name is Western Starr. I live in the city of Washington. I am a retired farmer. I represent the national committee of the Farmer-Labor Party. I have had the privilege of making a statement before the Banking and Currency Committee of the House last January in the same capacity.

I do not know that I could start what I want to say better than by referring to a remark which Mr. Delano recently made—the fact that there were over 500 banks in this country failed in the last year, and that it was a shame that such a thing could happen in this country. I merely want to remind the committee that wherever one bank failed in this country there were over a thousand farmers failed in this country; and if it is a shame that so many banks should fail, there is that much more a shame that so many farmers should fail, particularly when their failure is the direct consequence of the conduct of the system which Mr. Delano is connected with.

The CHAIRMAN. You do not attribute the failure of the banks to the failure of the farmers, but rather the failure of the farmers to the failure of the banks?

Mr. STARR. I attribute the failure of the farmers to the action of the banks. I do not attribute the failure of the banks to the failure of the farmers.

The CHAIRMAN. What is the concrete solution of that, Mr. Starr.

Mr. STARR. The concrete solution of that is this: That there should never be permitted to exist in any group of men the arbitrary, irresponsible power that exists in the Federal Reserve Board.

I can put it concretely; I can put it in a very simple way. Whatever the purpose may have been originally, the effect has been to establish in the money business exactly the same conditions that the packers have established in the meat business.

The CHAIRMAN. The history—if I may just inject this—of this period over which you are inquiring into, I suppose for the past two or three years——

Mr. STARR. Since 1920.

The CHAIRMAN. The amount of rediscounts by the banks in these agricultural sections were larger than they were in any other section of the country, indicating that the Federal reserve system did put a large amount of excess of what was placed in other territories in the farming sections.

Mr. STARR. That is not in accordance with my recollection of the report, Mr. Chairman. My understanding is that there was loaned in the city of New York more than was loaned to State after State among States where agricultural paper was the basis of loans.

The CHAIRMAN. Those loans in New York, for instance, the record shows, were rediscounts made to country banks to a large extent; for instance, the representative of the Bank of Commerce of St. Louis was here yesterday and stated that they borrowed some $16,000,000,000 during that stress period, and that in excess of 60 per cent of it was loaned to country banks during that period.

Mr. STARR. I think perhaps it would be well if we can get those facts, so far as they are facts, pretty well circulated and understood among the people who are more affected by that condition.

I did not intend to start my suggestion in just that way, except as the result of Mr. Delano's comparison.

The CHAIRMAN. Just a moment before we leave that. Just what change in banking or credit machinery would you suggest to correct that situation, if that situation is substantiated by the facts?

Mr. STARR. The position of the people I represent is this: That the Government itself should take over the banking business; that the banking business is the exercise of the sovereign power on the part of the Government itself; and that no individual, or group of individuals, should be permitted to use the sovereign arm of the Government for the purposes of private profit.

Mr. WINGO. Would you have the Government take over these different banking agencies?

Mr. STARR. Absolutely. I expect the time is coming when every national post office will be a national bank in this country.

Mr. WINGO. Therefore, the postmaster would then have authority to make loans. I am trying to get at the practical operation of it.

Mr. STARR. That is a matter of detail, Mr. Wingo.

Mr. WINGO. Suppose your plan was carried out and the Government either used the bank or used the postmaster as the banker, just how would he handle the needs of the farmer of credit?

Mr. STARR. He would handle them by precisely the same mechanism, but not with the same motives that they are handled now.

Mr. WINGO. Say a farmer wanted to borrow $300 to make a crop. You would have him go to the postmaster and borrow money on the same kind of credit that he goes to the bank now and gets it on; is that the idea?

Mr. STARR. Precisely. There is no reason why the Government can not operate the banking business with equal success that it operates the Post Office Department. But what I was going to start out saying was that this is not a new question at all——

Senator GLASS (interposing). Before you leave that point, let me ask you this: You undertook to say awhile ago that the Federal reserve system loaned more money in New York than in several States. Is it not a fact that the banking capital and the banking resources of New York City alone largely exceed the banking capital and the banking resources of four or five given States?

Mr. STARR. There is no doubt of that, sir, at all.

Senator GLASS. Then, it is extraordinary that a bank with $50,000,000 capital and nearly a billion dollars of deposits should have eligible paper for rediscount in excess of the total eligible paper of a State or two States?

Mr. STARR. There is no question about that.

Senator GLASS. Then, why should not the law be made where the business is transacted?

Mr. STARR. Loans are made where business is transacted.

Senator GLASS. What is the objection to it?

Mr. STARR. The objection is that they are not made proportionately.

Senator GLASS. The record shows that they are. The record shows that the Federal Reserve Bank of Kansas City loaned in 1920 to the single State of Nebraska approximately as much, less $12,000,000, and all of the national banks combined were rediscounting just prior to the panic of 1907.

Mr. STARR. I am not questioning those figures. They are not familiar to me. I have not been in a position where I could have access to them.

Mr. WINGO. As a practical proposition, in answer to the Senator's question, you charged there was favoritism that a proper proportion was not contributed. Do you think under the system that you propose that there would be no favoritism?

Mr. STARR. I suppose that the system would be subject to all the weaknesses of democracy; I have not a doubt of that.

Mr. WINGO. The net result would be that you would have one loaning agency in each community?

Mr. STARR. I would have a loaning agency wherever it was required.

Mr. WINGO. How would you avoid favoritism that is based on politics?

Mr. STARR. I would avoid that by trying to reach it through the same measures we tried to avoid favoritism with the Supreme Court.

Mr. WINGO. To give you an illustration: I have people in my community now complaining that their wishes are absolutely ignored with reference to the character of service and the character of men that are designated as postmasters. One man absolutely dominates the Federal activities in my State. Suppose that he absolutely had control of the credit in the State. Do you think he would not show a favor to his political henchmen?

Mr. STARR. Since 1845 or 1850 the people of this country have been trying to secure the establishment of an effective civil-service system. Of course, it has not been accomplished; they have not got even a Federal civil service. They have got a lot of regulations which are waived by the administration at its will where the requirement arises. There will be no difficulty about meeting that proposition.

Mr. WINGO. We have got that difficulty in the civil service. The civil service is a joke in the selection of civil-service employees in my State. Men are designated for places who fail on the civil-service examination, and others have their grades brought up so as to make them eligible. In other words, it is contended by a great many people that belong to both parties that the civil service is prostituted. For the purpose of this argument, I do not want to bring any partisanship in. Have you any assurance that if the desire to hold little positions is so strong as to cause the civil service to be prostituted, would not the desire to control the credit make that all the more aggravated if you allotted the control of credit to a political organization?

Mr. STARR. I realize the strain that that influence would bring to bear upon our political organizations.

Mr. WINGO. I would like to see how you would avoid that.

Mr. STARR. I would avoid that by such a development on the part of the people as would force and compel, as popular government always will when defending its prerogatives, the administration of the system in accordance with the purpose and spirit of it. I am not worrying about that part of it. That part of it will take care of itself once the people understand that their institutions are being operated for the benefit of the public, and the public at large, rather than for the benefit of special groups which happened to secure power temporarily and advantageously hold it.

Mr. WINGO. That is the point I am getting at. Your complaint is that the credit of this country is controlled by a group?

Mr. STARR. Yes.

Mr. WINGO. Is not the evil effect just the same if that group is operating through a political machine as it is when it is operating through banking machinery?

Mr. STARR. There is no doubt about it; wherever the system is abused there will be suffering.

Mr. WINGO. Just what would be your theory as to how we could prevent abuse of that power, say, by the postmaster?

Mr. STARR. It is to some extent abused by the postmaster to-day. There is no doubt about it.

Mr. WINGO. Would not the incentive be greater if he had control of all the credits of his county or community?

Mr. STARR. It might be, undoubtedly, if it were operated as under the present dispensation; but we are looking for a new dispensation. We expect to create a new dispensation; and that is the purpose of our existence.

I realize that this is one of the oldest and unsettled questions that has been presented to civil society from the time we have any knowledge of it.

Mr. STEAGALL. Do you think the Federal reserve system effects any centralization of power with reference to the control of money?

Mr. STARR. There is not any doubt about it, in my judgment.

Mr. STEAGALL. Do you thing that 12 banks scattered throughout the country, with their facilities for rediscount and credits, and as shown by the vast increase of credits extended during the war, has resulted in contraction of credit?

Mr. STARR. It results in simply this: That it expanded and contracted at the will of a group of men who have a purpose of profit to secure by both processes.

Mr. WINGO. They did that, did they not, through this governmental agency?

Mr. STARR. Absolutely.

Mr. WINGO. If they can do that with one class of governmental agency, I am wondering if the incentive would be greater and more easily exercised through devised governmental agencies like postmasters. Would you not still have the same ability to combat that you are complaining of now?

Mr. STARR. Mr. Congressman, as I stated before, there is not an organization among men, from the church down to a lodge, in which that purpose does not find expression in some way.

Mr. WINGO. How are you going to combat that by governmental action? That is the point I want to get your views upon.

Mr. STARR. By legislation.

Mr. WINGO. By legislation or governmental administration?

Mr. STARR. As the result of changes in the present law.

Mr. WINGO. Or changes in administration, or just how would you combat that natural tendency of human nature that exercises itself in churches, lodges, and every organization?

Mr. STARR. Simply by the automatic processes of an intelligent public opinion. That is the only safeguard there is for any institution.

Mr. WINGO. You would have to remove that tendency and that human weakness in both the minds and hearts of the citizenship.

Mr. STARR. That tendency and that human weakness can always be removed by all those who come under its influence knowing that no one has a special advantage.

Mr. WINGO. That is the point I am getting at. How can you prevent that special advantage by governmental agency?

Mr. STARR. By the establishment of economic freedom. You think that does not apply. But this is in answer to your question. I can, I think, demonstrate conclusively the full detail of this theory which I am trying to express and which I expect to be limited to 20 minutes to state conclusions rather than processes.

The CHAIRMAN. Just before you resume your statement, let me see if I understood you correctly. Your position is that designing men or combinations of men have so controlled our present financial system that it works hardships on certain classes of our people?

Mr. STARR. Yes, sir.

The CHAIRMAN. Which classes of people are those—the farmers, of course, are one and the laboring man is the other? It works a hardship upon the economically impotent always. Just how, in your judgment, has that control been brought about?

Mr. STARR. Well, take the case of 1920. It is a matter of record—at least I have been so informed—that the great difficulties of the banks and the farmers and people in the Northwest generally, came about through the order of a Federal reserve magnate in St. Paul. I heard W. P. G. Harding state before the Agricultural Commission that the 1920 panic was not at all the result in any way of anything that the Federal Reserve Board had done; that they were not re-

sponsible for it; that they had not done it. Then I heard Mr. Strong next day, the head of the New York City reserve, come up and say that they had done it; that they had done it absolutely, without any authority or warrant of law; that they had done it because it was necessary to save the banks, and they dreaded to think what would have happened if they had not done it.

In another instance Mr. Harding is reported to have said it was done simply because it was necessary to save the banks.

From the beginning of recorded history, practically, you can go back into the 5th century, B. C., and come on down through every century since, and it is deliberately shown that the practice of milking industry by alternate inflation and contraction has been a steady and universal practice.

The CHAIRMAN. So that you claim that this group, whoever they may be, did this thing deliberately through the control exercised by the Federal Reserve Board?

Mr. STARR. They have been doing it deliberately by the influences now operating through the Federal Reserve Board; have been doing it deliberately for 3,000 years, and it is the one cause of the decay of civilization in every country where it has decayed, that one thing; and if anyone has any doubt about it who wants to know what the facts are, I just recommend a little book by Brooks Adams, on the "Law of Civilization and Decay," which traces it down. It is as demonstrable as any theory in Euclid or any theory that there is any possible demonstration of.

The CHAIRMAN. I wanted to get your idea about that situation. Just proceed now in your own way.

Mr. STARR. I can sum it up in a nutshell. The whole theory that we proceed upon is that there should be no private profit obtainable by the operation of any governmental function. You might as well charge people for the use of the town pump as to charge them for the use of public service by a public utility or a bank, which rests and has its being solely on the power of States, on the power of society, or the power government exercising a sovereign function. And that is all there is to it. That is the essence of it. I do not suppose the committee cares to hear it further.

In 1811 John C. Calhoun was elected to Congress, in 1816 he was the chairman of this Committee on Banking and Currency of the House, and for 25 years he was a student of public finance, and he says deliberately in one of his speeches—I can find it here and read it if you want me to—that you can take the veriest beggar off the street and give him the power to issue his notes of hand as the money of the people; to say who shall have it and how much and on what terms, and there is absolutely no limit to the political power he can acquire or to the wealth he can accumulate. That is John C. Calhoun as long ago as 1834. That was the basis of the Jackson fight on the Biddle Bank. Jackson told Biddle, when he said he had the power to elect Congressman, and he might have the power to elect a President, and he wanted certain things done and said if he did not do them, he would

create a panic. Jackson said: "If you do, damn you, I will hang you."

That is the economic difficulty; concentrating the wealth of the people within their own hands through the milking process of expansion and deflation of the currency—whatever constitutes money. We are only using money for about 3 per cent of our transactions. It is all done with credit; and the men who control credit control every avenue of industry. I do not care who owns the farms of the country if I can control the railroads; I do not care who owns the farms and railroads and terminals, provided I can control the credit wealth of the country; that is, if I can simply control the flow of credit, because I will be the dominant factor in every industry carried on in the community. That is the position of the Federal Reserve Board, and the men who are behind it. That is the situation of the predominant power of the Federal Reserve Board: To issue the money of the people, and say how much there shall be and say who shall use it and on what terms. They are the lords of economic and industrial creation in America.

That is not the only point. I do not know who was the real author of the proposition to have this committee appointed, but it goes a long ways further than merely American finance.

The attempt to establish a completely efficient and flexible instrument through the Federal reserve system is incomplete unless all the banks of the country are brought in. As long as there are twice as many out of the system as there are in the system, there can be no such complete monopoly as is necessary for the purpose. The purpose goes further than that and embraces a similar system for the entire English-speaking world. The agencies are at work here to-day to bring the Federal reserve system and American finance under the control of the British system of finance and establish an English-speaking reserve system comparable to the Federal reserve system of America, and the sole purpose of that is to be able to do as the Federal reserve system has done here, to discriminate between classes, industries, and sections in a way as to control the future development of world history.

The CHAIRMAN. Mr. Starr, right there in that connection, what proof have you for that statement that there is a movement on to establish an English-speaking Federal reserve system?

Mr. STARR. I have this, that when one of the reputed authors of the Federal reserve act spent three months in Europe—England and France, and particularly England—starting in two or three weeks after the armistice was signed on the 11th day of November, 1918; and the same man has been over there once or twice since.

The action with reference to the composition of an English debt in the United States is a feature of it; the present action in the Ruhr is another feature being handled by English bankers, French bankers, American and German bankers, for the purpose of dividing the spoils, that is, casting lots for the garments of a crucified Christ. It was the bankers that determined the treaty of Versailles and the League of Nations.

The situation here—I do not suppose it can be permanently met; I do not suppose any American really believes so, until after it has quit effervescing in Europe.

The CHAIRMAN. Your contention, then, is that in all those negotiations in which our bankers participated and directed that our bankers here participate——

Mr. STARR. Our bankers were represented.

The CHAIRMAN. When you speak of our "bankers" you mean the Federal reserve system?

Mr. STARR. I mean the forces which secured the adoption of the Federal reserve system; I mean the interests which procured it. It was tried years before it was finally accomplished, and it required a good many years of educational and moral suasion to induce consent on the part of the smaller bankers of America to permit it to become established. When I say "bankers" I realize that there are bankers and bankers. I know that the smaller bankers of the country have got chains on their legs—a ball and chain—and are permitted to go along just so far. I have seen banking experiences in Chicago where they deliberately held up and slaughtered bank after bank in order to divide the spoils between the remaining and surviving bankers. It is done everywhere and every time they get a chance—concentration, getting under the control of a small number of minds representing a single economic interest.

There is a lot of confusion abroad among the American people with reference to what is the one greatest dominant question. In one section of the country you will find people talking about nothing but railroads. They can not see anything but the railroads. In other sections they can not see anything but the natural resource issue; in other sections they can not see anything but the tariff issue; in other sections they can not see anything but the money issue. But they are all believers in the fact of monopoly, and that monopoly is the monopoly that underlies all the others, that is, the monopoly of credits, and there should be no such thing as monopoly of credit.

The CHAIRMAN. Just how do you construe this monopoly of credit which is the basis of your contention here now? It is not quite clear in my mind where it is centered.

Mr. STARR. It is centered in the hands of the men who control the Federal reserve system here in America to-day.

The CHAIRMAN. You mean the Federal Reserve Board?

Mr. STARR. I mean the influences that are behind the board. The board was established and the system inaugurated by those influences.

The CHAIRMAN. In other words, you are assuming that the membership of the Federal Reserve Board are "dummy" directors?

Mr. STARR. Practically.

The CHAIRMAN. Being directed by forces outside of the Federal Reserve Board?

Mr. STARR. I think so.

The CHAIRMAN. That their policies are determined outside of the board?

Mr. STARR. That their policies are determined outside of the board itself. I know the policies of most banks are controlled by the stockholders and not by the directors. The stockholders control the di-

rectors. The directors simply represent the stockholders in every big corporation—ought to and do, as a natural result and a natural condition.

The CHAIRMAN. Do you think, following that same thought, that it would be better if the Federal Reserve Board were elected; that the stockholders had complete control the same as a national bank is controlled by its stockholders, by election directly of its management or the board?

Mr. STARR. I feel that the control of the Federal reserve system should be very much widened out. I feel that it should be the representative of the business interests of the country, comparable with the way that Congress represents the people of the country; not that Congress always represents the people of the country, but that it theoretically does; that the sovereignty of the country is vested in the Congress, that the sovereignty that inheres in the people is delegated to Congressmen and Senators. In the same light the business interests of this country should control the policy of the fiscal system of the country in the interest of all the people, rather than in the interest of a few.

When we were talking about the Federal reserve system various things were suggested that occupied a good deal of time by Mr. Delano in reference to the economical operation of the Federal reserve system. I imagine the buildings that are going up in Chicago, New York, Cleveland, and elsewhere are magnificent examples of economy on the part of the Federal reserve system. I do not know what the building in New York is going to cost. I have been told it will cost $25,000,000 or $30,000,000, for a bank building. Something has been said about salaries; something has been said about a bank building in Chicago; all built out of money that belongs to the United States. It does not belong to those men at all. Then, when the question is suggested to them, they tell you to "take a walk down street; this belongs to us. It is our business; it is not yours. You have only a contingent interest; if there is anything left over 6 per cent, you will get a whack of it." That is a fair illustration of the policy they are operating under.

The CHAIRMAN. Of course, it is fair to say, is it not, that those buildings, when the final liquidation of the Federal reserve system is had, would either belong to the United States Government or be liquidated and the funds turned over to the Government?

Mr. STARR. That is a very encouraging prospect, I must say. You ask why it is that so many of these smaller banks do not come into the system. Let me ask why it is that so many national banks have gone out of the system. There have been plenty of them gone out; and you have heard scores even basketfuls of reasons which are mere pretexts. There is only one reason; just one. It is because these banks want to exercise a little self-determination; that is all. They do not propose to put their necks into a noose.

Let me give you a little experience of a bank I know of in northern Ohio. This was in the spring or summer of 1918. I was stopping overnight at the house of a gentleman who was a director in a bank in a town on the borders of Lake Erie. He was talking about some of his experiences in the bank. He said, "We have a little bank here

of $100,000 capital. We have been doing a comfortable little business. We have $30,000 surplus and undivided profits." The bank was located in a little country town of 3,000 or 4,000 people. The Federal loan came along, and they had an assignment of $150,000 bonds which they were asked to dispose of and take care of. They threw up their hands and said, "Good heavens, we can not handle that. All we can do is to take care of current business. We have no surplus which will enable us to do that." They were told, "You can do this. It is up to you." They were a national bank.

The CHAIRMAN. Who "came along"?

Mr. STARR. The Treasurer of the United States sent word down, "Sell these war bonds." There was some correspondence about it, and the word came back that they were expected to take care of that allotment. They were told, "You have depositors and you have customers and borrowers, and you have money of your own. We expect you to take care of that allotment."

Well, they grinned and undertook it, and in the course of a good many months they managed to work off those bonds.

The next issue came along of $150,000. They simply threw up their hands and gave up their national-bank charter and went back under the old State bank law.

And that is the same reason that keeps State banks out of the system.

There are many bankers who have had their own troubles with this, that, and the other thing, not entirely from a desire to keep debits and credits going on a straight issue but scrutinizing loans and discriminations.

When the Wash bank failed in Chicago, which was a forced failure, which the members of this committee know about better than I, he was doing exactly what every other bank in the city was doing. When the Illinois National Bank failed it was made to close in the same way; and it was doing nothing more than every other bank in the city was doing, and those banks tore down a chain of banks with suicides and all the rest that followed. That is an expression of that desire to acquire that affects politicians and men who have appointments to make, and that is the condition that will always prevail where men are permitted for personal profit to use a public right.

I have given you in answer to your questions concretely what would have taken a good while to have said in another way. I think you get my point of view.

The CHAIRMAN. I think we do.

Mr. STARR. That is the point of view of the men who constitute the farmer-labor party. They propose to see to it that before their work is done the slavery of the people of America to men who exercise the sovereign power of Government for private profit shall come to an end.

I am very much obliged to you.

(Thereupon at 12.50 o'clock p. m. the committee took a recess until 2 o'clock this afternoon.)

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AFTER RECESS

The committee reconvened at the expiration of the recess.

The CHAIRMAN. Mr. Bennett, you may proceed.

STATEMENT OF MR. FRANK P. BENNETT, JR., "UNITED STATES INVESTOR," BOSTON, MASS.

Mr. BENNETT. Mr. Chairman, I am going to speak very briefly, because much of the story I can tell has been covered by men whose judgment would be worth more to you, while what I am going to bring is simply some reports from the "listening posts," so to speak.

I represent no organization. I publish a financial paper, which has about 3,000 banks which subscribe for it, and my work is somewhat different from that of the man who publishes the daily paper in that I have to have a beaten path to the State of Ohio, the State of Michigan, to parts of the State of New York, and to many parts of New England, to attend conventions of bankers, and to call at the individual banking institutions in those districts.

For something like 10 years it has been the part of my work to keep as well informed as I can on the Federal reserve act and to discuss it with bankers when I see them in order to keep in touch with their opinions on the matter.

Needless to say, my attitude on that act has been very similar to what your own would be. Our paper has been opposed to exchange upon checks, it has been opposed to interest upon balances, and has combated the notion that the country bank does not have a considerable quantity of eligible paper, because we find in the main that the country banker who alleges he has very little eligible paper does not know what eligible paper is. He really believes that some paper is not eligible which certainly is lawful for the Federal reserve bank to rediscount.

It has been my duty in the past few years to speak at a number of bankers' conventions on different subjects, and then to talk with the bankers afterwards, and I have found this to be the fact, that the bank men who attend those conventions and the bankers whom I have seen individually, are fairly divided into three classes in their attitude toward the Federal reserve system. First, there is the large bank, of the type that Mr. Newcomer represents. It is unqualifiedly in favor of the Federal reserve act, whether it be of state charter or national charter. The reasons which they give for their friendship are, briefly, the three Mr. Newcomer gave, namely, his bank does not have to carry as large reserves as it used to carry before there was a Federal reserve act; that he can get much larger accommodation than he was able to get from his correspondent in New York; and, thirdly, he very much favors the expediting of collections. That type of bank is unquestionably very well satisfied, indeed, and except a State bank of large size, engages largely in trust functions, or something of the sort, it is generally favorable, too, to the Federal reserve act and is inclined publicly to state that it hopes that more banks will join the system.

There is a second class of banks of medium size, represented by men like those who were here yesterday from New England: Mr. Heard, of Manchester, N. H.; Mr. Cook, of New Bedford, Mass.;

and Mr. Outbank, of Fitchburg, Mass. Those bankers also are very much in favor of the Federal reserve system. I find it is equally true in the larger centers in Ohio and Michigan, which I have visited in my work, and they would remain as members of the Federal reserve system in almost any event. There is very little likelihood of their being drawn out.

Then there is the third class. I suppose I have visited in the last three years several hundred of the smaller banks, and by "smaller" I mean those having a capital of $25,000 to $75,000, both of national charter and of State charter.

Among them there is not any difference of opinion. They are indifferent to the Federal reserve act, whether they are of national charter or State charter. I have argued with a great many State bank officers at our New England bankers' conventions and Ohio conventions which I have attended. I have asked them why they do not join the system. They offer a set of staple arguments, the same as you got, in answer to your questionnaire. Few of them are unhappy, because they do not get their little exchange fees on remittances for checks. So far as that district is concerned with which I am familiar—and I know nothing about the district Mr. Jones represents, namely, the South—but in Ohio and Michigan and New York and New England I think the number of banks that care a particle about exchange on checks is diminishing. In fact, it is almost impossible to find any in New England, except a few in Burlington, Vt., who have green memories of the time of exchange charges in New England before the Boston clearing house brought things to a standstill. So that that is not any longer a strong argument for keeping banks of this section out of the system.

Of course, the fact that they do not get interest on balances is a very potent argument, and that argument acquires a good deal of additional strength from the frequent visits of the representatives of banks in the big reserve cities. I am not going to be at all violent on the subject of what is said by representatives from the bank in the city to the country bank which has some thought of joining and does not join. This is certainly true, that the practice of the big bank, in what we used to call the reserve city, which may or may not be a Federal reserve city, is to employ men to travel around among the country banks, attending bankers' conventions, calling at individual banks, and building up a very close social relationship that expresses itself in golf contests, attendance at parties, or what not. Every one of those men realizes that if there be a large body of withdrawals of country banks from his bank, or if he fails from time to time to add some new accounts from country banks, that he has failed to justify his employment, and while I do not believe he has ever had express instructions from home to say to country banks, "You do not want to join the Federal reserve system," there is not a particle of doubt in my mind that such advice is a common practice among them.

Another factor that works in the same direction is the attitude of the State bank supervisor. He either condemns the Federal reserve system with faint praise or with no praise at all, and is very proud of the fact, in most States, when he succeeds in luring a national bank out from a national charter into taking out a State

charter, and I find that state supervisors, at annual conventions, take a great deal of glee from the fact that state banks are outstripping the national banks in some sections, and are building up a huge volume of deposits in state banks, which are under state domination and control, rather than under some national authority.

Those are two reasons which country banks give for not joining the system: One is they would like exchange on checks; and certainly there is a very large number who would like to get interest on their balances, and who say that that is the thing that keeps them out.

But I think the strongest factor in keeping State banks out, is one that has not been emphasized here, and I would like to say a word about that. It is the fact they do not find national banks contented who are already inside. I talked, for instance, with some trust company officers in Connecticut recently. Of course, their State law is the main factor in keeping them out, because under it, they can not count funds in the Federal reserve bank as reserve under State law.

A great many say, in the final analyses, when you have argued with them until the end, and when you think you may have made some disposition of their claim that they do not have eligible paper: "The national bank across the street belongs, and it says to us, if it could get out and not give up its national charter, it would very gladly do it." I was rather surprised when Mr. Newcomer, who knows national banks about as thoroughly as any man I know, said he did not believe national banks would withdraw from the system, if you repealed the compulsory provision. I believe they would withdraw, because many of them have said to me that if it were not for the fact that the word "national" in their charter was worth something, that they have built up a good will under that name, they would leave the system in a minute, because they think they can get equal results, less expensively, through the big city banks. That condition, as I find it in New England, New York, Ohio, and Michigan, where I have to travel, is to me one of the most distressing things I can imagine, because if the men who are already in the system have not yet been convinced of its virtue, it is going to be extremely difficult for your committee to convince them of its worth.

Those smaller national banks have been in the system now nearly 10 years. They have seen the system go through every kind of stress, to which it can be subjected, and they have seen the time when they would be called upon to make the largest use of the facilities. They have had all of that behind them, and yet they are not sold on the system and are not convinced they ought to remain.

I was interested in Mr. Meyer's testimony of the other day to the effect that what the Federal reserve system needs is salesmanship. I was not very much impressed with the experience of his own on which he based his view, because it is a very different thing to sell a system, that is going to lend some money to a prospective borrower, from selling a system that is going to call on the member to put up some portions of its own capital.

But I was interested primarily because the idea he advocates has been tried and tried most enthusiastically and most loyally by the

Federal Reserve Bank of Cleveland, with whose activities I am rather familiar. There you have a bank whose chairman is probably the most popular chairman of any Federal reserve bank in this country, a man with a most lovable personality, and a man whom other banks have tried very hard indeed to hire away, even offering him a much more substantial salary. In fact, it has been a matter of much concern among the officers and directors of the Federal Reserve Bank of Cleveland as to how long they should be able to keep him, and I think I do not violate any confidence when I say it has been generally understood that some time ago the governor of the Federal Reserve Bank of Cleveland exacted a promise from Mr. Wills that he would stay with them at least until they moved into the new building, as they now have done. I do not know whether that means he will stay indefinitely, but I do know he is the type of man any bank would be glad to get, and the sort of man who can develop intimate relations between banks and their country correspondents.

He is a man who attends conventions and gets around among the country bankers, and he does everything possible to create a good personal atmosphere for the Federal reserve banks. Under him he has a department of bank relations. I meet two or three of his men at conventions, and I know they are active and I know they have been very eager indeed to sell the system. But as to tangible results, in the addition of State bank members to the Federal Reserve Bank of Cleveland, I do not believe the results are much more tangible than in the other Federal reserve banks. So that I think the selling of the system, through the visits of the officer of the reserve banks, and through the visits of the bank relations department, to the country banks, is not going to be the cure of the difficulty.

I suppose there are three ways in which you might go about this task of getting State banks to join the Federal reserve banks. The first is familiar to you, and I have heard the question asked by a great many national banks, why this plan is not applied, namely, the plan of coercing the State banks into the system, exactly as you have compelled the national bank to come in. They say that this is the way the national banking system started back in 1860. You said to every State bank, "we are going to tax your bank note. If you persist in operating under a State charter we are going to put a punitive tax on your note," and as a result you drove many State banks over to national charter. They say, "that is the way you got the national banks into the Federal reserve system," that is, you applied compulsion to them, by threatening them with liquidation, by saying that they must liquidate unless they come into the system. Therefore you have two excellent precedents for doing something like that to the State banks, namely, applying a tax upon checks drawn on State banks whenever they circulate across the State line. There are a great many country banks who say, "why do you not do that? Why do you not put coercion into effect there, just as you have done in these other two instances I have cited?" I do not attempt to argue that at all, but simply state that as one thing that has been suggested.

The second plan, the one you are following on this committee, and the plan that the Federal Reserve Board has followed from the be-

ginning, is of trying to make the system attractive to the country banks of State charter and win them in that fashion. I do not believe anything which your committee can do will make that method successful. I do not believe there is a blessed attraction to offer the country bank with State charter, that will draw it in as against the competition of the big city bank. In the first place, the service of the big city bank is not limited to 2 per cent interest paid upon balances, or to crediting float as reserve, but it includes innumerable other personal attachments that can not possibly be carried over to the Federal reserve system.

To illustrate, let me tell you this little story. I sat in the new business department of one of the big banks of New York waiting for an opportunity to see the man at the head of it. The traveling man of the bank came in. Presently there was a call for that man to come to the telephone. I heard only his side of the conversation, which I am going to give you verbatim, with the names expunged: "Yes. This is Mr. Jones, of the X National Bank. Yes, sir. Your bank is the First National of such and such a place in Pennsylvania? Yes. We are very glad to hear from you. What it is we can do for you? Get 10 tickets for the Carpentier-Dempsey fight? We are very glad to do it. You know the price? Yes, sir; the price is $50 apiece for 10 ringside seats or $10 apiece for seats 20 rows back. Yes, sir; yes, sir. They will be ready for you to-morrow—10 seats at the ringside at $50. They will be all ready for you." And when they came down to town, the 10 seats at the ringside at $50 apiece for Carpentier-Dempsey fight had all been arranged for, and the New York bank also provided an automobile to give these men a joy ride around New York City.

I do not believe for one minute the Federal reserve bank is going into that undignified sort of thing or that it ought to, and yet that is one of the things that creates the spirit of attachment to city banks. Again, many of the traveling men for the reserve city banks are much more famous for their knowledge of golf than of banking, and that, too, is one of the things the Federal reserve bank can not duplicate, and probably ought not to try to duplicate.

I know that a great many banks in New England and New York and Ohio, when they need commercial paper, when they have an abundance of deposits, or a shortage of loans, regularly call upon their correspondent bank in the big city to get them some commercial paper. I do not believe the Federal reserve bank can go into that business, that of passing on pieces of paper as though they vouched for them. I know that the Federal Reserve Bank of Boston is often asked, "Will you recommend such and such paper to us," and they say, "We are not going to pass on that unless it comes in and is offered us for rediscount." In brief, you have a situation where you can not compete, namely, in trying to do for the country bank what the big bank has done for them a great many years, and that big bank will always have an advantage over you, no matter how long this is carried on.

There is one tangible, constructive suggestion I would like to make. It is a suggestion that I have heard, that I have discussed with a number of country banks. I have discussed it with at least one governor of a Federal reserve bank and discussed it by inference with still another, and I think they view it with favor. That is

that it may be possible to apply to the Federal reserve system the new England town-meeting idea. You have to-day a group of banks who are told regularly that they own the Federal reserve system, but who have no sense of ownership at all, no feeling of loyalty, and no corporate attitude. They don't think for a minute that the Federal Reserve Bank of Boston or the Federal Reserve Bank of Cleveland is their bank. I remember Mr. Parker Willis once said to me that when you can get the country banker to feel toward the Federal reserve bank as the part owner of a grocery store feels toward that store, so that his family will trade regularly with that store, then we will have accomplished the business; we will have won the country bank to an ardent loyal membership.

As a matter of fact, I do not believe there is one banker in a thousand that I visit—perhaps I ought to say one banker in a hundred—that has any sense of proprietorship in the Federal reserve bank at all, or any feeling that it is his bank. He thinks of the governor and directors as individuals more or less remote. He has a chance to vote for two directors, one of whom must not be a banker in any event, and that is about the only sort of contact he has. His policy is therefore, "I will keep just as small a reserve with the Federal reserve bank as I can and satisfy the law."

I think that it is entirely possible to consider very seriously the question of whether or not there could be annual stockholders' meetings of the Federal reserve banks. I realize there is objection to it. There might be an almighty lot of foolish discussion there. But there are three things you could have them do at the meetings that would draw attendance: In the first place, you could get the governor and chairman to give an account of their stewardship, to tell what had been done at the bank, and why, and explain to the Federal reserve bank stockholders the policies and the regulations, rules, and practices of the local Federal reserve bank.

One of the unfortunate things you find among country banks I visit is the tall lying that has gained credence among them. They believe all sorts of things about the Federal reserve system, and they know absolutely nothing about it. When the country banker tells you he can not loan you any more money, because the Federal reserve bank does not want him to, sometimes it is because of his ignorance, but sometimes it for the purpose of waiving his responsibilities. He would find it mighty difficult to do this if banks were in attendance once a year at meetings where reserve board policy is explained. So that, first, you could have reports of the governor and the chairman.

Second, I am not so sure but what the election of directors could occur at the same time. I know there is objection to that. The objection that some make is that the big banks, being in attendance at that meeting, would be rather inclined to dictate the results of the meeting. Their traveling men might get around the stockholders who are present, and convince them that they would better vote for this or that candidate. Mr. Chairman, the big banks could not have a larger voice, in the selection of directors in that meeting, than they have to-day. The attitude of the average bank to-day is one of almost indifference as to who shall be a director of a Federal reserve bank, and large banks can influence results very materially.

The CHAIRMAN. Right there, I think there is serious objection to that suggestion—the fact that these bankers would not attend these meetings unless it was made somewhat a social affair and perhaps a dinner given by the Federal reserve bank and tickets to the theaters and prize fights and other entertainment.

Mr. BENNETT. I am going to come to that in a short time. As I said, it is not a matter of wild enthusiasm among them as to who shall be directors of the reserve bank. As a matter of fact, it is no secret at all that frequently the chairman of the board of directors in the Federal reserve bank has had to get down on his knees to persuade some man of consequence to serve as director. I remember some time ago they had an election in our Boston bank, and it was suggested that the best man in the world for the vacancy was a certain textile manufacturer, a man of very large business ability and a man of vision. He was a successful business man, a public-spirited man, who gave much of his time to public affairs. To persuade that man to become a member of the board would be an achievement. Everybody said there was not a chance in the world to get him, and eventually they did get him by simply begging him to do his share of the work of giving New England a good, sound banking system.

There is not any excitement; there is no desire to get on the board among business men generally; and I am inclined to think there is not any danger that your big bank will dominate the meeting, any more than it dominates the election to-day.

Thirdly, I think there is real room for something that shall correspond in the districts to the Federal advisory council for the entire system. New England happens to be a very snug little district, with only six States, and it has been possible, by judicious distribution of directorships, those representing industry and those representing banking, to give every State one director. In some of the larger districts that is not possible, and it is also very difficult to represent the different interests of different sections, because the district is so tremendously large. If there should be a district council, one elected from each State, you would gain two things: First, you would gain a liaison officer between the Federal reserve bank and the member banks of that State. You would have a man who understood the Federal reserve policies thoroughly, and who would be charged with the duty of understanding them, and who therefore would be in position to explain them to his State.

On the other hand, he would think it was more or less his duty to add to the corporate feeling among member banks in the State, where to-day nobody is charged with that responsibility. My impression is that the type of man who would be elected would be one popular among his fellow bankers, active in the State bankers' conventions, and a man who moves around throughout the district during the year, and he would add the personal element that to-day is lacking.

The chairman has said you would have some difficulty getting them together. I think that is more likely to be true in a district like San Francisco than in some of our eastern districts. I know we have had for some years in New England a New England bankers' convention that is held in addition to the separate conventions of the different States. The attendance has in most years been exceedingly

good, and it has not been at all uncommon to find a banker from Connecticut and one from Vermont hobnobbing together there at their own expense or possibly at the expense of their bank, which cheerfully pays their fare, just as it pays the fare of the bank clerks to the convention of the American Institute of Banking each year, and pays the fare of other clerks to a meeting of the Robert Morris associations, when its officers feel some good can be obtained by attending the meeting.

I think that every consideration that draws a man out for a State bankers' convention would tend to draw him out to this meeting, and I am very much inclined to believe that it would tend to create more important meetings, more solid membership than you have now. I think that the thing that is doing more to keep the State banks out of the system than any other one factor is the fact that the national bank in the same community is not sold on the proposition, and I believe if it were possible to get those national banks together and make them understand that they are contributing to give the country a system that it needs, that the effect might be helpful to the whole system.

Thank you, indeed, for the time you have extended to me.

The CHAIRMAN. The Country Bankers' Association of Georgia is represented here by Mr. Jones, and we will be glad to hear him.

STATEMENT OF MR. F. R. JONES, ASSISTANT SECRETARY COUNTRY BANKERS' ASSOCIATION OF GEORGIA AND ASSISTANT GENERAL SECRETARY OF THE NATIONAL AND STATE BANKERS' PROTECTIVE ASSOCIATION, ATLANTA, GA.

Mr. JONES. I represent, as assistant general secretary, the National and State Bankers' Protective Association, which is to a great extent a nation-wide organization with members in something over 40 States, which has had practical charge of this antipar clearance fight, which you have heard something about probably before. Also assistant secretary of the Country Bankers' Association of Georgia.

I want to say in the beginning that I am here simply as a substitute for certain members of the Country Bankers' Association who had been invited to appear before the committee and whose business at this time was such that they could not come. The president of the association is Mr. Hardy, of Rome, whose local banking business is such at this particular season of the year that he could not get away.

The secretary, Mr. L. R. Adams, has been up here three times in the past two months upon invitations in an effort to effect an agreement or settlement of the par-clearance controversy and get a change in regulations which will accord, in our opinion, with the Federal reserve act as construed by the Supreme Court. Business has piled up on his desk and he could not leave at this particular time, and the chairman will tell you he requested a continuance for some little time so the members of the committee could come. But later we suggested if that continuance could not be granted we would send a substitute, and Mr. McFadden wired to send a substitute, and maybe we could get a later date assigned for the regular committee. That was the effect of the telegram.

The other member of the committee was the former president, Mr. J. S. Peters, engaged on the tax commission in the State of Georgia with the governor and others, who felt that was so important he could not very well leave.

But in spite of the fact that we could not have the services of the real bankers—and I am not connected with any bank myself at this time; in fact never have been except in a clerical capacity—I have been in close touch with the situation not only in Georgia, by reason of my position of assistant secretary, but throughout the greater part of the United States, in view of having active charge of the office work of the National and State Bankers' Protective Association and frequently going out to represent the association at bankers' conventions.

The CHAIRMAN. That association is largely composed of nonmembers, State banks, and trust companies?

Mr. JONES. Largely so, but the National and State Bankers' Protective Association has a very large sprinkling of national banks and member State banks.

The CHAIRMAN. What is the total membership of the association?

Mr. JONES. It is very hard to tell, Mr. McFadden.

The CHAIRMAN. Is the membership confined to the South?

Mr. JONES. No, sir. We have members in, I think, 42 States, though very few in some. I do not think there are over three or four in New York, for instance, and, maybe, seven or eight in Pennsylvania, and so on. But those Pennsylvania and New York banks are nearly all national banks.

The CHAIRMAN. The larger membership is in the South and West?

Mr. JONES. In the South and West; yes, sir. The agricultural parts of the country are very largely represented, and almost entirely, of course, confined to the smaller localities, but we have a few large banks, as in New Orleans, where our president comes from, Mr. Claiborne.

The CHAIRMAN. The origin of this association is largely par collection?

Mr. JONES. That was its real source and we have confined our activities to that until we have completed it. Whether it will go any further after that is completed I do not know.

The CHAIRMAN. It will be your purpose to enlighten the committee on the subject of inquiry as to why more banks and trust companies are not members of the system and the effect of the present membership of State banks and trust companies in the Federal reserve system upon financial conditions in the agricultural sections of the United States?

Mr. JONES. That is the purpose of my appearance. I want to say this, that the nonmember bankers, as I gather it, from conversations and correspondence with banks all over the country, largely in my State and sometimes at conventions and other places where I have met them, the nonmember bankers of the country are not particularly interested in membership in the Federal reserve system. Nearly all of them that I have talked to were in the banking business back in 1913 and 1914 when the Federal reserve system was organized. They looked into the proposition at that time of membership in the Federal reserve system. It seemed good to them to continue their independent State banking existence at that time, some of them,

possibly, with the idea that they would see how it affected the national banks who were forced in under the act. Some of them, after a more thorough investigation, probably decided that no matter how the national banks liked it, they did not feel it was to their interest or the interest of their communities to go into the system as it existed then or as it has been amended since.

For that reason the officers of our association have been reluctant to volunteer any reasons or any suggestions as to how the Federal reserve act could be amended to make it attractive to the State banks, though we tendered by resolution, which has been filed with the committee, our services in giving them the information we have gathered, and I am here largely to answer questions of the committee, and I want to be interrupted in anything I may state, and in that way perhaps we can get at some reasons why the nonmember banks are not in the system, and perhaps form some idea of what we think would make it more attractive. Coming as a last-minute substitute, I have not been able to prepare any real connected statement or any statement that could be considered in the nature of a well-balanced presentation to this committee. But I hope whatever is said will lead on to any information that the committee wants to get that I can give, not as an expert in any sense, but as having talked to these bankers and gotten a general idea.

The CHAIRMAN. The committee would be glad to hear what you have to say.

Mr. JONES. This committee can not get that information; the members of the Federal reserve system can not get that information, because the bankers are reluctant to give it; but I have gotten it, because I was working with them on the particular line of protecting their own rights, as they conceived them to be under the Federal reserve act as well as the State laws, and which we think the Supreme Court has now said they had and do have.

In other words, gentlemen, the desire of the small country banks is to let the Federal reserve system alone, and for the Federal reserve system to let them alone. That is the big idea they have got right now. If Congress makes the Federal reserve system so attractive that the nonmember banks see that it is to their interest to come in, maybe then they will come in.

Mr. STRONG. What could be done to make it attractive?

Mr. JONES. We have not been able to ascertain what could be done.

Mr. STRONG. You mean to say they do not know what they want?

Mr. JONES. They are not interested.

Mr. STRONG. Why are they not interested?

Mr. JONES. Because they believe there is no advantage in it for them or for their communities. Here is one of the reasons, and the first and fundamental reason, why they are not interested. It is contrary to the fundamental object of those who advocate a unified banking system in the United States. Of the large number of country bankers I have talked to, some of them do not voice this view, but I have never known one of them to combat it when brought up in discussion. Large numbers of the country bankers in the United States, including quite a number of national bankers, as has been stated by Mr. Bennett, do not believe it would be to the best interest of this country to have a unified banking system. I know that some

of the fathers in Congress of the reserve system and some of our financial economists believe it would be a good thing; but we believe, in the light of experience of 1920, 1921, and 1922, that matters in this country would have been very much worse if we had not had independent banking. I believe that has been pretty thoroughly demonstrated.

Mr. STRONG. Do you think that would be true of the period during the war?

Mr. JONES. Yes, sir.

Mr. STRONG. When we financed the war?

Mr. JONES. Yes, sir. I think that when we financed the war we were better off without a unified banking system than we would have been if we had had it. We had about 60 per cent of the banking resources in the reserve system—was that about correct—or somewhere around there?

Senator GLASS. Do you think we would as readily have financed the war for ourselves and for the Allies if there had been no Federal reserve system?

Mr. JONES. I think we would; yes, sir. I believe this country would have met the emergency under whatever system we were then operating, and I think it would have been done just as readily under such system as it was under the Federal reserve. I believe the Federal reserve system caused the war to cost us from 50 to 100 per cent more than it would have cost us under our old or some other system. I was in the war-loan organization in the sixth district for the third, fourth, and fifth loans, and, of course, took particular pains to watch things. I believe that the Federal reserve system, with its 40-cent dollar under the act of 1917, made the war cost us in bonds and other expenditures something like 50 to 100 per cent more than it would have cost us if we had not had that sort of an arrangement.

Mr. STRONG. What do you mean by "40-cent" dollar?

Mr. JONES. The 40-cent gold reserve authorized by the amendment of June 21, 1917, which got very close to the 40 per cent minimum. I am not an expert; I do not pose as a financial economist; but I believe the war would have cost us very much less if we had continued on a 100 per cent gold basis. With the volume of currency increased to the extent it was, the prices we paid for commodities and services during the war were correspondingly increased, and our Liberty bonds and Victory notes were issued to pay for these things on the inflated basis.

Now that the gold ratio has been raised through the deflation process we are paying for all these things with a more valuable dollar, and as long as the reserve is kept at the present ratio we will continue to pay in more valuable dollars for what be bought and contracted to pay during the war. For this reason I think the war cost us some considerable number of billions of dollars more than it would have cost us if we had been operating under some other than the Federal reserve system.

I am not a financial expert and do not expect the above to be accepted by the committee, but I do not mind making the suggestion as my personal opinion, as you gentlemen invited it.

While I am on the subject of the service of banks in financing the war I hope the committee will pardon me for saying that services rendered by the banks in this connection were beyond all praise,

especially by the little banks out in the country. The bankers not only took the leadership in the Liberty-loan committees, but they advised their depositors to withdraw from their own banks the deposits that were the life of the banks and buy Government bonds in order to help win the war, and these services were rendered in many cases where the exigencies of the war deprived them of their clerical help. I know of at least one case where the cashier of a country bank, the only one in his county, served as chairman of one of the Liberty loans, with absolutely no help in the bank, and carried his county over the top each time.

I say, we do not believe that a unified banking system is good for the country. We believe that the little banks out in the country outside of the Federal reserve system were enabled in 1920, 1921, and 1922 to render service to their constituents that they could not have rendered if they had been in the Federal reserve system; and we think that time will come again. We think that it exists now. We think, for instance, that there are certain classes of agricultural paper that can be handled by the little banks that are not eligible for rediscount in the Federal reserve system. We do not think the Federal reserve system is an agricultural system; there are certain classes of agricultural paper that the new regulations will not permit them to rediscount that are going to be necessary in the agricultural communities out in the wheat belt where they have got to have assistance because of having too much of the one crop, and down in the cotton belt where we are rapidly changing our method of farming we have got to finance some semicapital investments which are not rediscountable under the Federal reserve system, as I understand the regulations.

Senator GLASS. The Federal reserve system does not prevent that sort of business among its member banks.

Mr. JONES. Of course, where we have got the combination of the two systems the Federal reserve banks will do a good many things and the other banks will do a good many things they would not do if all were unified.

Senator GLASS. But a member bank is not compelled to rediscount with a Federal reserve bank; it can discount the description of paper you cited with a correspondent bank, notwithstanding it is a member of the Federal reserve bank.

Mr. JONES. I think when we get all the banks in the Federal reserve system there will be very little discounting with correspondent banks. It would be then a unified system, and the little banks would be practically compelled by circumstances to do business with the reserve banks.

We think that the National and State banking systems have been a great help to each other during the past 60 years since the national system was organized. We think that the fact that a bank could go into one or the other system has made each system, and Congress on the one hand and the State legislatures in the other, careful about making a system that will attract the public, and we think they have operated favorably to each other, and that a unified banking system under complete national control would keep that from being effective, that sort of regulation, one upon the other, or sort of influence one upon the other, and therefore it would not be a good thing.

We know it has been stated by high authority in the Federal reserve system that it is the object—that there has been a hundred-year-old warfare to secure control of the banking systems of the country, and, Mr. Chairman, if you do not mind, I would like to get into the record that statement. It has been denied so often from Federal reserve sources——

Mr. WINGO (interposing). What is it you are reading from?

Mr. JONES. I am reading from the oral argument, a stenographic copy of which was furnished us, in the case of the Farmers & Merchants Bank of Monroe, N. C., et al. *v.* The Federal Reserve Bank of Richmond, and the concluding portion of the argument of Henry W. Anderson, counsel of the Federal Reserve Bank of Richmond in telling the United States Supreme Court why the Supreme Court should affirm that North Carolina decision. I do not know whether you can get it from any other source or not.

Mr. WINGO. We would be very glad to have you read it.

Mr. JONES (reading):

Now, if your honors please, I have not had an opportunity to review, as we have reviewed in our brief in this case, the facts leading up to this legislation. But, as a matter of fact, it must be obvious that this particular controversy is the concluding act, we might say, in a long controversy on the subject of State or national control of the banking system of the United States. It has varied from time to time in this country.

First, there was a period of national control up to 1835; then the period of State control up to the Civil War; then the gradually growing period of national control, until it culminated in the enactment of the Federal reserve act, which was intended to place the reserve organization of the banks of the country in the Federal reserve banks, to concentrate them where they would be most available, and, as an incident of that, to allow these banks to clear at par and relieve the country of the great burden incident to this exchange, charge, so-called, which was no longer necessary, owing to the change in economic and commercial conditions.

That was a part of the general controversy, which has been going on in this country from the formation of the Government, on the question as to whether State or national control should prevail. The Constitution creates a complete commercial system; the control of interstate commerce, and the control of the financial system, both through positive provisions prohibiting the States from issuing bills of credit and things of that kind.

It took the Civil War to establish the control over the political agencies of Government, the separate national control. It has taken 100 years of the decisions of this court to establish control over interstate commerce, and the financial system is an essential element of that controversy; and this controversy is the culmination of the development of that control for more than 100 years.

There may be individual cases of hardship, but the general interest of the country required the establishment of a national control over the important agencies of commerce, of which the banking system constitutes a part, to the end that this country may be equal to the emergencies of the present and may expand to meet the commercial needs of the future.

We have charged, of course, from time to time that the par clearance controversy was part of the effort to get control of the State banking system, and that the whole idea has been based on the idea of force—force all the time. This par clearance controversy, in spite of the representations made by the chairman of the committees that had this Hardwick amendment before them, the chairmen of the committee to which it was referred——

Mr. WINGO (interposing). The conference committee?

Mr. JONES. The conference committee, that is right—in spite of their representations to their respective Houses that it could not directly affect the State banks in any way, shape, or form, as soon as

we got the war over the Federal reserve system, after the little banks helped put over the final loan used in financing the war in 1919, immediately began to coerce the banks, after persuasion failed, to sign up and get on the par list under the threat of methods of collection that they could not withstand, and in those cases where they refused they adopted these methods of collection—which has been amply proven and shown in court.

It was, of course, all on a false basis, for the reason that no such charges would have been made against the Federal Government.

Senator GLASS. You are mistaken about that. I put them in. It was not on a false basis. It was fairly explained to Congress.

Mr. JONES. It was put in on this basis: It was a false basis—I do not mean to say it was a false basis on your part, Senator Glass, but a letter was written by W. P. G. Harding, governor of the Federal Reserve Board. to Chairman Glass, in which he stated that Governor Strong, of the New York bank, had told Mr. Delano that the Government on this first Liberty loan had now outstanding something over a billion dollars of deferred cash payments on that loan, and that if the banks charged one-tenth of 1 per cent it would cost the Government $1,000,000 to collect it; and, of course, the banks are not charging that one-tenth, never have, and never did, and never do intend to charge it on checks given for Government obligations.

Senator GLASS. Do you mean to say that letter had anything to do with the conference report?

Mr. JONES. Yes, sir.

Senator GLASS. The conferees did not know the existence of any such letter.

Mr. JONES. Mr. Harding stated on the bottom of that letter, and it is in the record, which he sent to the chairman of the House conferees, that "this letter will enable you to do what you want to do," and the Congressional Record too shows, gentlemen, that that conference report was held up for three weeks on that proposition, and something like one week on another proposition of the 40 per cent gold reserve, which was the big feature.

Senator GLASS. Mr. Jones, you ought to inform yourself as to legislation on par collection before the Federal Reserve Board was organized, before Governor Harding became a member, much less governor of the board. We deliberately put into the act, and if you will read the Congressional Record on the discussion upon the bill, and if you will read the report of the Banking and Currency Committee of the House you will there see that the whole purpose was to establish a universal par collection system. Governor Harding had not then become a member of the Federal Reserve Board. The Federal Reserve Board had not then been established. The law then had not been enacted, but was up for consideration, and Governor Harding had no more to do with the insertion of those few words in the conference report on the Hardwick amendment than if Governor Harding had never been born into the world.

Mr. JONES. The only thing I read on that subject was in connection with the passage of the Hardwick amendment and the amendment at that time.

Senator GLASS. You do not seem to have read everything that was said on that, because if you will read the Congressional Record you will find there that I was interrogated as chairman of the Bank-

ing and Currency Committee whether or not the addition of those words would have the effect of producing the universal par collection system, and my answer was that I expected it would and very earnestly hoped it would. That was the purpose of it. Why the fight in the House if that was not the purpose of it? Why the tremendous agitation that ensued for the course of three weeks and great combat in the House if that was not the purpose of it?

Mr. JONES. The purpose stated by the chairman of the conferees on the part of the House was that while he earnestly hoped that it would make the thing so attractive—this proposition—that the banks would come in and clear their own paper—he earnestly hoped that would persuade them—at the same time if the banks did not want to come in it would have no direct effect.

Senator GLASS. I would be very glad if you will get any such language and incorporate it in the hearing.

Mr. WINGO. What date was that?

Mr. JONES. June, 1917. I can furnish it to the committee. I can not go out and get it now, but I will be glad if the committee will let me give to them.

The CHAIRMAN. I have a very vivid recollection of it.

Senator GLASS. Certainly, because you and I were fighting on opposite sides. Why were we fighting if it was not because you did not want universal par collection and I did?

The CHAIRMAN. We were fighting because of disagreement.

Mr. JONES. There is no disagreement on that except as the gentleman says, and I have a very vivid recollection from recent reading the past few months. I have a brief on it but I could not find it before coming as I came up here on a few hours' notice.

Senator GLASS. The chairman of the committee knows just exactly what he said. He said Congress could not compel a State bank to join the Federal reserve system or to join the par collection system, and it can not.

Mr. WINGO. I respectfully suggest that the gentlemen agree upon the effect of that, although there may have been a controversy as to the method, and that is the object of the action, was to have universal par clearance.

Senator GLASS. Yes.

Mr. JONES. To persuade the banks to go into it, and the gentleman stated on the floor of the House more than once that they could not force them into it, but the Federal Reserve Board under Governor Harding took a different view of it.

Mr. WINGO. You refer to a letter. Is that letter in the Congressional Record of that date?

Mr. JONES. I do not know whether that letter is or not. My recollection is that that particular letter is in the record of the hearing of the Committee on Rules.

Senator GLASS. The letter said that information furnished me by the Federal Reserve Board last year at my request was to the effect that a minimum charge of one-tenth of one per cent on the total clearings for 1922 would have cost the commerce of the country $200,000,000. You might just as well say information of that sort furnished was the basis of that amendment to the act as to say that a letter written by Governor Harding giving the committee information as to what would be the effect of a certain charge was the basis

of it. The basis of it was that the Banking and Currency Committee of the House, from the very inception of the legislation wanted to establish a universal par collection system.

Mr. WINGO. I have never had any illusions about the causes. The only controversy in my mind was who would pay for it. I am old enough to believe, based upon observation, that somebody pays for every service, and I have not been interested so much in the volume of the cost as I have been in who would bear the burden and who ought to bear it.

Senator GLASS. The people, the consuming public, pays for it, as in the last analysis it pays for every tax and every charge that is made.

Mr. WINGO. I have heard that suggestion before.

Mr. JONES. Gentlemen, as I said before, the country banks want to be let alone and their rights respected. They had no criticism to offer of the Federal reserve system until proponents and officers of the system began this unjust criticism of the little country banks and these unjust and illegal methods to force them to give up their rights.

Out in the country it formerly was the case that the farmers—tenant farmers as well as the landowners—were supplied by the supply merchant, who made anywhere from 50 to 200 per cent on his goods; that is, took as much as the traffic would bear. It probably was necessary at that time. Later on, the little country bank grew up and took that, and his charges ranged from 8 to 20 per cent, and sometimes may be 40 or 50 per cent, and there has a great deal been said in criticism of the little country banker about what he charges. The farmer is going to get just about the rate and credit that he is entitled to, just as the merchant is in the city and the manufacturer. It you are in a community where the business is good and the morale of your farmers is high and they are prompt pay and good pay, your rates are going to be lower than in communities where risks are going to be greater. Somebody has got to furnish credit, and most farmers have to have credit if we are going to have the production that this country needs. We have no system of real rural credits in this country. There was a start made in that direction last year or at the last Congress, but it was a graceful gesture in the right direction. There is nothing that came of it, so far as I can see, so far as the loans to farmers are concerned.

Mr. STRONG. What kind of a rural system would you have?

Mr. JONES. The only kind of a rural system that can be effective, in my opinion. Mr. Strong, is a system to be financed either by the Government or in some way by which credits in times of stress can be secured, and it has got to be a system independent of the commercial banking system of the country. There is no doubt about the fact that we have a very wide diversity of interests in this country, and sometimes where, as a gentleman said this morning—Mr. Delano, I believe—the entire reservoir has been tapped and exhausted you have got to build it up from some source. If the commercial interests of the country are in control of the entire reservoir the commercial interests are going to be taken care of first, and it is the general opinion—whether it is true or not—that that happened in 1920; and very largely the suffering came to the agricul-

tural communities because there was no real agricultural banking system in this country. I do not blame anybody for it. The regulations are such, and the Federal reserve system is essentially a reserve system and has got to base its loans upon short-time notes.

Mr. STRONG. Because it is doing business on the commercial deposits of the country.

Mr. JONES. Because it is doing business upon the commercial deposits of the country, it has got to have a quick turnover, otherwise they are not able to save themselves except by inflation of the currency.

Senator GLASS. Mr. Jones, you are prepared, then, to tell this committee what may be done to bring additional State banks into the system, because you do not think they ought to come in, do you?

Mr. JONES. I think some of them might come in with credit to themselves, perhaps—or, I mean profit to themselves—and to their communities. I do not think in the strictly agricultural communities they can.

Senator GLASS. What may we do to induce them to come in?

Mr. JONES. It is hard to tell. I will tell you one thing that has to take place to get them in: There has got to be a living down of the feeling against the old régime. Not only have you got to have some few changes, in my opinion, in the Federal reserve act itself—Mr. Bennett has stated some of those things, as well as Mr. Delano and others—but the people that have given the country the impression, whether right or wrong, that they have made the mistakes and the enormous mistakes that the man out in the backwoods thinks were made during the past four or five years under the old régime, must give way to others in whom the bankers and people can have more confidence——

Senator GLASS (interposing). What are the "enormous mistakes?"

Mr. JONES. One of them was the inflation and deflation proposition. I do not mind saying that. It is there. I understand that the Senator has undertaken in a very elaborate argument to refute that. But I was not convinced by it. I read it. I did not read it all, Senator. When I got to that point where the Senator, following—I do not mean that he took it from him—but following the same argument made by Mr. Harding in a swing around the country—when I read the part of the Senator's speech in which he followed that—and I am not going to elaborate the Senator's speech, because the Senator elaborated and itemized by reserve districts the same thing, but I am going to tell you what Governor Harding said. Governor Harding went on to show that instead of the Federal reserve system being responsible for deflation—and as I say, the Senator followed it in his argument—that during the time of the largest reduction of prices and almost horizontal falling off—that from February, I believe it was, until July, I think—a period of five months in 1920, the rediscounts of the Federal reserve system had gone up either $600,000,000 or $400,000,000; that is, had increased that much, and the Federal reserve note issues had increased to corresponding amount—either to $400,000,000 or $600,000,000—to make a billion; and he went on to point out to a group of as fine and intelligent bankers as there

are in the United States—the Tennessee Bankers' Association in convention, with I guess 400 or 500 listening to him, Governor Harding went on to tell them that "If you take those two offsetting items and put them together, making a billion dollars of inflation"—and Senator Glass followed him in that speech——

Senator GLASS. Will you present some figures in the record that will controvert anything I said in my speech? Nobody else has done it, and I will be very much obliged if you will.

Mr. JONES. I will take your own figures. If you say $600,000,000 rediscount on one side of a financial statement and $400,000,000 of notes that paid those rediscounts, and add that together to make the total inflation of a billion dollars, then I say your figures are wrong and prove themselves wrong.

Senator GLASS. As a matter of fact, they were authentic figures that nobody has controverted. I stated specifically in figures what was the increase in the rediscount activities of the Federal reserve banks.

Mr. JONES. That is true.

Senator GLASS. And then I stated specifically in figures furnished me by the Comptroller of the Currency what was the expansion in the note issues for the same period, and the expansion in rediscounts for the same period figures up—a certain figure which I have got and which have given—and nobody has ever controverted those figures yet.

Mr. JONES. You said those figures showed the amount of inflation.

Senator GLASS. I said those figures showed the amount of expansion for that particular period, and I said, furthermore, for that particular period that the bottom had dropped out of the commodity prices on cotton, on wool, corn, wheat, and oats, and nobody to this day has ever been able to controvert that figure, I say.

Mr. JONES. There is no difference between us as to the fact. I just say the figures of the gentleman are incorrect when he added together to show expansion; when he added together to show expansion his argument falls, and when the head of the Federal Reserve Board and the reputed father of the Federal reserve system go around the country making statements like that—of course, one made on the floor of the Senate and the other swinging around the country—I know the governor went to Atlanta—I say when they made those statements they are detracting from the confidence in the Federal reserve system and in its officers.

Senator GLASS. You mean your confidence?

Mr. JONES. From the confidence of the bankers who heard it. I heard it during the convention in Nashville.

Senator GLASS. I know nothing in the world about Governor Harding's speech; I never read his speech.

Mr. JONES. I make the reply that the whole thing applies to the whole speech, and to show that the Senator was as much mistaken as Mr. Harding, he itemized by districts, and added them together for each one of them.

Senator GLASS. Yes; certainly I did, and you can not controvert them; nobody ever has.

Mr. JONES. I am not controverting the figures; I am simply controverting the statement that the two combined makes that much expansion, and I defy anybody else to say anything else.

Mr. STRONG. What was the expansion?

Mr. JONES. The expansion was the rediscount at that time, and I do not say that was expansion.

Mr. STRONG. How much was it?

Mr. JONES. I do not know whether the expansion was $600,000,000 or $400,000,000, one or the other.

Senator GLASS. We will accept your statement that the amount of the expansion was the amount of rediscount; that was the expansion, whatever it was.

Mr. JONES. That was the expansion, so far as the Federal reserve system went.

Senator GLASS. That was the matter in controversy, whether or not the Federal reserve banks developed agricultural credits for a given period—that was the controversy, was it not?

Mr. JONES. Yes.

Senator GLASS. And if the credits of the Federal reserve banks—the rediscounts in the Federal reserve banks for that given period were a half billion dollars, $600,000,000, or whatever they were, that was expansion, was it not; it was not deflation, was it?

Mr. JONES. No; that is not deflation in that particular matter. But here is what happened——

Senator GLASS (interposing). We are not getting anywhere with this controversy. Mr. Jones, the fact of the business is that you are here to justify your position about par collection and not to tell us how to bring State banks into the Federal reserve banking system?

Mr. JONES. I am here to answer any questions. I have some reasons why banks are out of the system.

Senator GLASS. Is par collection one reason?

Mr. JONES. One very important reason.

Senator GLASS. Then please account to us for the fact that there are 17,000 eligible State banks voluntarily in the par collection system and only 1,600 in the Federal reserve system.

Mr. JONES. Well, the reason of that is that there are other reasons besides par collection that enter into it and the fact that those banks themselves are opposed to par clearance.

Senator GLASS. But they have got par clearance—they are voluntary members of it.

Mr. JONES. That is where the gentleman is mistaken.

Senator GLASS. Why am I mistaken? Point me to a sentence in the law that compels them to be.

Mr. JONES. It is not in the law.

Senator GLASS. Fifteen thousand are members?

Mr. JONES. I so understand.

Senator GLASS. Then, why do they not leave the Federal reserve system? Joining the Federal reserve system would not make them any less members of par clearance or any more members of par clearance.

Mr. JONES. Nonmembers have a chance to get out of the par clearance, for one thing.

Senator GLASS. They have not gotten out. There were 17,000 joined it.

Mr. JONES. That is because of the panic fear of a return to former coercive measures.

Senator GLASS. Why don't they get out of the par collection system now?

Mr. JONES. Because there has been no affirmative announcement from the Federal Reserve Board that they have accepted the doctrine of the Supreme Court.

The little banks are slow to act in carrying out their desire to come off the par list without an authoritative statement from the Reserve Board and banks that they will not be molested by them in the exercise of their right to charge exchange. The reserve banks advised them four years ago, individually as well as collectively, that they must remit at par for their items or else undergo methods of collection that they could not stand. It would seem that these banks are now entitled to have the reserve authorities advise them with the same degree of particularity that the policy has been reversed and that they will not be subjected to such methods.

Senator GLASS. The doctrine of the Supreme Court is not in any degree contrary to the Federal reserve act?

Mr. JONES. Not to the act, of course not, but certainly contrary to the past policy of the Reserve Board, which is still being continued.

Mr. WINGO. As I understand, there are a large number of nonmember banks that have joined the par collection system?

Mr. JONES. Yes, sir.

Mr. WINGO. Is it your contention that while there is no requirement of law that compelled them to go into that the condition of their business and the threatening coercive measures of the Federal reserve officials left them no alternative that they were forced in?

Mr. JONES. That is undoubtedly true.

Mr. WINGO. Is that the basis of any resentment among any of those banks against the system?

Mr. JONES. That is partly the basis, and then the propaganda I have been talking about.

Mr. WINGO. You think that, then, is one of the elements that blinds them to the benefits of membership, assuming it has benefits, and precludes them from coming in?

Mr. JONES. That opens my eyes, Mr. Wingo.

Senator GLASS. Mr. Jones, will you tell us at what date the Federal Reserve Board put into effect the par-collection system?

Mr. JONES. The Federal Reserve Board started putting it in in 1919 as to nonmembers, so far as I can tell from the record, Senator.

Senator GLASS. Pretty nearly five years after the adoption of the Federal reserve system?

Mr. JONES. Yes.

Senator GLASS. Then why did not these banks go into the Federal reserve system during that five years? They had no occasion for resentment then?

Mr. JONES. It was not the proper thing to do. Just as Mr. Bennet said, many of those that are in tell them to stay out.

Senator GLASS. Then you are here to tell us they should stay out and not come in——

Mr. WINGO (interposing). Will you please permit me to resume where I was interrupted?

Senator GLASS. I beg your pardon.

Mr. WINGO. That is all right. We have plenty of time. Here is the point I want to get in my mind: Without regard to the merits of the controversy, even assuming for the sake of argument that they are absolutely wrong about par clearance, the fact remains that they feel resentful about what they thought was coercion in getting them in the par-collection system—they had no choice. Here is the thing; I want to get your viewpoint from your testimony: Do you believe that if the par-clearance matter were out of the way that that might cause the resentment to recede and the misapprehension to pass away and bring some of them into the system or not?

Mr. JONES. If that was out of the way, it would remove to a great extent the resentment, Mr. Wingo.

Mr. WINGO. I believe you stated in the beginning, which comes to my mind from the last question of the Senator—and I happen to know that was true of at least one State bank, because I advised that myself, that they waited to see how the system operated if they had any doubts about it—and the directors had some doubts—I said, "If that is the way you feel, I would just wait and see how it operates. You are on cordial terms with the national bank, and by keeping up with the operation of it through them you can then make up your minds, based on experience, whether or not you want to get in." A great many of them delay on that account. Then the war and the row about par clearance and other things, you think, has kept them out?

Mr. JONES. That has kept them from looking into it.

Mr. WINGO. The point I am getting at in all these hearings is to find out what merit there is in any proposed change and whether or not the change can be made, whether the change should be made in regulations or will it require change of law and what can be done to remove the misapprehensions which are plainly in some cases mistaken ideas that some of the banks have about the operation of the system and the law itself and a lack of appreciation on their part as to the real benefits to them as well as to the public in coming in. That is what I am interested in more than I am in trying to place the blame for mistakes that have been made in the past, and on that I would like to have your judgment. One thing mentioned is par clearance, par collections. We will get that out of the way. Now, is there any proposed change in the regulations or in the law that you think they want that you would suggest to this committee that would induce the nonmember banks to come in?

Mr. JONES. May I finish par clearance first?

Mr. WINGO. Certainly. You have got what I want to get, as I have made clear to every other witness.

Mr. JONES. We have some suggestions that if the committee want we will make.

Mr. STEAGALL. Before you leave par clearance let me suggest to you that your statement will be more complete if you will incorporate in it the history of the practices on the part of the Federal Reserve Board which the State banks regard as unfair and improper in their efforts to enforce par collection.

Mr. JONES. Well, that is a long story, Mr. Steagall. During 1919 the Federal reserve banks, acting, as we contended in our litigation, but did not convince the courts, under the directions of the Federal Reserve Board and indisputably under the regulations of that board, undertook to force nonmember banks to remit at par to the reserve

banks where they had declined to do so under persuasion. The methods used to bring nonassenting banks into line in various districts were set out in the daily press and in the banking journals and put the banks of the country on notice of what might be expected under similar conditions everywhere.

The Federal Reserve Bank of Atlanta sent out its famous letter containing the following language:

> This will include the checks and drafts drawn upon your bank, and the purpose of this letter is to ask you to join the vast army of par remitting banks by advising us it will be agreeable for us to include your name in the next issue of our par list, and that you will remit to us at par for items drawn upon you. While, as stated, the Federal reserve act does not permit us to pay exchange for the remittance of bank checks and drafts payable upon presentation we can incur any cost that is necessary in order to carry out the purposes of the act, and we would very much regret to be forced to adopt other methods of collection that would prove embarrassing, annoying, and expensive to you.

The Georgia banks brought their action against the Federal Reserve Bank of Atlanta and the executive officers thereof to restrain them from adopting embarrassing, annoying, and expensive methods in order to force agreements to remit at par and set up that it was the intention of the defendants to use certain methods describing those that had been used in the other districts. A restraining order was granted and our banks continued to charge exchange under such restraining order from that time until the final decision this year in the United States Supreme Court, since which we have been operating and charging exchange by virtue of the final order of the district court and the principles laid down by the Supreme Court. Our restraining order was issued before the Atlanta bank had an opportunity of putting into effect the intention expressed in their letter and which we charged in our declaration to be the same as had been carried out by other reserve banks.

The methods used in the other districts were sought to be proven on the trial of our case in Atlanta through duly executed interrogatories in all cases except that of Brookings, Oreg., when we had present Mr. George D. Wood, of the Brookings State Bank, to appear and testify in person. The sworn evidence sought to be introduced but which was rejected by the court showed coercive measures adopted by various reserve banks in other districts, was in brief as follows:

Fourth district, Catlettsburg, Ky. After exhausting efforts to persuade the Catlettsburg bank to remit at par the Cleveland Reserve Bank advertised through its par list that it would collect checks at par from the Catlettsburg bank. The checks gathered together in this way were presented and collected in cash over the counter through the agency of the American Railway Express Co. Later the express company ceased handling these checks for collection, and the defendant reserve bank appointed a local agent, resident of Catlettsburg, and through such agent presented all checks that came into its hands drawn upon the Catlettsburg bank and demanded cash in payment over its counter. To protect itself against this the Catlettsburg bank stenciled blank checks furnished its depositors with the indorsement, "Payable in cash or exchange draft at the option of the Farmers & Merchants Bank of Catlettsburg, Ky.," and when such checks were presented the Catlettsburg bank gave its exchange

draft upon its Cincinnati correspondent in payment therefor. Later the Cleveland Reserve Bank refused to handle these stenciled drafts and returned them to their correspondents, and when so returned followed them up with letters to the original payees to the effect that such checks had been presented and could not be collected and advising them to insist upon having checks that could be presented and collected through the reserve bank. Frequently these letters reached the payees after the check had been duly presented through regular banking channels and paid by the Catlettsburg bank.

An agent of the Cleveland Reserve Bank, one M. C. Magee, went to Catlettsburg in December, 1919, and sought to persuade the bank to agree to remit at par. Failing in this, he then demanded as a matter of right that the bank consent to remit at par to the Federal reserve. This being refused, he then threatened to injure and destroy the business and the business reputation of the Catlettsburg bank, stating the reserve bank would put the Catlettsburg bank on its par list, obtain possession of all its out-of-town checks, present such checks at its counter and demand of it payment in cash therefor, and stated that no bank on earth could stand such a method of collection. He gave out in drug stores, at the post office, at the express office that he was a Government agent, a Federal reserve man, and left the impression with the citizens of the small town of Catlettsburg that he occupied a place of authority with the United States Government. He then inquired of the clerks in the United States post office, local express office, and in the drug stores and mercantile stores about town of and concerning business reputation and financial standing of the bank and of its officers and employees, and left the impression among the citizens of the town that the Farmers & Merchants Bank was in financial distress, and that he, as a representative of the Federal reserve bank, was in Catlettsburg for the purpose of protecting the interest of said reserve bank.

The said Magee created scenes and disturbances in the bank in connection with the collection and presentation of the items of the Federal Reserve Bank of Cleveland and sought or made opportunity, almost every time a depositor came into the bank, of creating or starting a disturbance with the very evident purpose of leaving an impression with such depositor that would be unfavorable and injurious to the bank's credit.

Magee went among the bank's depositors and attempted to persuade them that checks stenciled as I have stated were not negotiable and when circulated over the country were very injurious to the makers' credit and suggested to the depositors that they demand of the bank that it remove such indorsement fom their checks and suggested to them that the bank was injuring its depositors' credit by the method under which they were doing business and in case the bank refused to remove the indorsement that such depositors had better do their banking business with a different bank. As a result af Magee's statements a number of depositors removed their accounts from the State bank to its only competitor, a national bank at Catlettsburg, and the State bank's business suffered severely thereby. They were not able to lend much cash by reason of the demands the Federal reserve was making of them. Magee's actions required the State bank to maintain an excessive

cash reserve in its vaults as there was no way of knowing what demands would be made of it from day to day and at the same time it had to maintain reserves with its correspondent banks for the same reason. The situation became known to the community at large and an investigation was made by a grand jury of the county and an indictment returned against Magee for circulating statements derogatory to the bank which is a penal offense under the laws of Kentucky. The indictment has not been tried because Magee has never to the knowledge of the witnesses been in Kentucky since it was found. A local agent previously appointed by Magee continued to collect over the counter until stopped by a restraining order filed in July, 1912. This agent was a maiden lady who went to the bank equipped with a gocart in which to place currency and cash collected by her in payment of the checks accumulated. She carried sacks in which to place currency and coin and seals and blank papers. She assorted and listed her cash in the lobby of the bank, thus attracting attention of depositors and customers and inducing speculation and inquiries as to the unusual procedure that was going on. She was paid $60 or $65 a month in salary and there was daily expense involved for postage, registering checks to Catlettsburg, and of expressing currency to Cincinnati, together with other incidental expenses. The average range of collections in the course of the year was from $100 to $16,000 in a day. Miss McCall and Magee and the express company each refused to accept exchange draft in payment of items although drawn upon reserves in Cincinnati to which point they sent the cash and which check could be forwarded much cheaper than the currency.

Eleventh district, Bastrop, La.: The Federal Reserve Bank of Dallas has used every conceivable effort to obtain the consent of the Bastrop State Bank to remit cash items at par; and not only that, it has adopted every conceivable means to force the accomplishment of that result. In 1919 it sent its special agents to interview the State banks and to induce them to sign a par clearance agreement. Bastrop State Bank refusing, the Reserve Bank of Dallas undertook by various methods to coerce it to sign the agreement—sent special agents there to interview customers of the bank; threatened to locate a special agent there to collect cash items on the bank in cash across its counter; on at least two occasions held such cash items until they amounted in the aggregate to more than double the cash reserve which the Bastrop bank under the laws of Louisiana was required to have on hand in its safe or vault and then presented those items across the counter of the bank for payment in cash; on one occasion at least the Dallas Reserve Bank sent circular letters to a great many customers of the Bastrop bank; and finally the Reserve Bank of Dallas sent all of its cash items on the Bastrop bank for collection, in cash only, through the American Railway Express Co. At the time of the interrogatories the Dallas bank was endeavoring to collect its items in the same manner, in violation of the Louisiana laws on the subject. The instructions to agents given the express company required payment and remittances in cash not to be held under any circumstances for the convenience of the bank, and under no circumstances to accept the bank's draft in settlement.

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Where checks were cross stamped "This check is not payable through any post office, express company, or Federal reserve bank," the Dallas bank continued to handle such checks, had them presented at the counter for payment in cash, and when refused returned them with notices of dishonor. The exchange charge offered to the reserve bank was one-tenth of 1 per cent, whereas the American Railway Express Co. charged the Federal reserve bank $4.33 for collecting and remitting each thousand dollars.

Tallulah, La.: After the State bank at this point distinctly declined to remit at par to the Federal Reserve Bank of Dallas, representatives of the reserve bank stated that if the State bank did not agree to remit at par the reserve bank would take steps to have the checks presented through some other channel and demand cash over the counter; that checks might some time be presented at one time for an amount in excess of the cash in the bank's vault, in which case if the checks were not paid they would be protested for nonpayment. The State bank offered to remit at the same price that would be charged by the express company or the post office for transmitting remittances of equal amount, and the offer was referred. The representative stated that he knew the bank could not hold out for any great length of time in paying their checks in cash over the counter, as it would be a losing proposition to them and they would in time be forced to join the par clearance system; therefore the reserve banks would not consider such an offer. He stated the Federal reserve was making very large earnings and that the reserve bank was prepared to use any part or all to force the country bank into their par clearance system; therefore it was useless for the country bank to oppose joining the system. These threats forced the State bank to join the par system, reserving the right to withdraw at any time by giving notice. After the Louisiana exchange law was passed the State bank served notice on the Dallas reserve bank canceling their agreement to remit at par. The latter then presented checks through the American Railway Express Co. The State bank tendered the agent of the express company payment less 10 cents per $100 exchange as authorized by the Louisiana law, but the tender of payment was refused and the checks were returned to the Dallas reserve bank. The reserve bank then mailed out from Dallas a "notice of dishonor" directed to the drawer and to each indorser of each check, setting forth that the same had been presented and payment at the full face value refused. These notices were drawn in the form of protest notices clearly for the purpose of creating the impression that checks had been protested, and quite a number of customers who had received these notices asked why their checks had been allowed to go to protest.

In spite of the criticisms of its methods made by the Supreme Court of the United States and in absolute defiance of the laws of the State of Louisiana the Reserve Bank of Dallas continued up to the time of the interrogatories to have the checks presented through the express company—even though the majority of the checks had definitely printed or stamped across their face "This check is not payable to or through any Federal reserve bank or its agent—the agent of the express company being instructed to decline to accept payment in the manner provided by the Louisiana

law, and upon the return of said checks continued to send to the drawer and indorsers the notices of dishonor referred to, the very evident intention being to injure the State bank in the eyes of its depositors and of those receiving checks on it.

Winnsboro, La.: Experience of one of the State banks at this point as recounted by the cashier was that from time to time over a period of about one year two representatives of the Reserve Bank of Dallas called and persisted in their efforts to compel the witness to sign a par clearance agreement for his bank, but he flatly refused. These representatives stated that witness would eventually have to do it; that it was not optional with it; and that his bank had been placed on the par list; that witness's bank had no discretion in the matter and would eventually have to par all checks drawn on it. They insisted that the bank was on the par list and would eventually have to sign up, regardless of the wishes of its officers, and if they refused payment of the checks as demanded they would have trouble with their customers. The items would be presented over the counter for payment in currency and would come in such volume that they would find it out of the question to keep enough cash on hand to pay them, to say nothing of the expense involved in having cash shipped to them. They pressed the point that witness's refusal to sign would result that items would come in in such amounts that his bank would find it most difficult and expensive to keep enough currency on hand; and for that reason, and for the further reason of the complaints of its customers, the bank would eventually be compelled to sign the par clearance agreement. Such a course of business would interfere with the revenues and the conduct of business of witness's bank.

The reserve representatives threatened to have the checks protested and that would cause dissatisfaction among the customers of the bank, which would finally cause it to change its point of view. Witness at first continued to refuse but later remitted at par for their mail collections until the State of Louisiana passed an act giving them the right to charge exchange. After the bank ceased to remit at par the reserve bank items were presented for payment through the express company. Some times two or three collection letters were presented at one time and some times as many as four. Checks were never presented at the bank more than two a week and sometimes only once a week. The aggregate amount of the checks thus presented at one time frequently ran into the thousands. Witness' bank declined to pay them thus presented because the agents would not allow the deduction of one-tenth of 1 per cent exchange allowed by the State law. Checks were then returned with the following indorsement on them:

> This item has been presented to the bank on which it is drawn for payment at full face value, without deduction, and has been refused by the bank because a deduction to cover exchange was not allowed. Federal Reserve Bank of Dallas.

Witness was put to much trouble explaining to customers the situation when checks were returned with this indorsement. Witness' bank, usually with the depositors' consent, cross stamped their checks as follows: "This check is not payable through any post office, postmaster, express company, Federal reserve bank or its agents."

The reserve bank did not observe the limitations of this cross-stamp but continued to send such checks regardless thereof but as a result of the stamp the reserve bank did not get as many of the checks of witness' bank as they did before and the amount presented by the reserve bank decreased after such cross-stamping. The necessity for being prepared to pay in cash as well as to pay by draft on reserve agents curtails the lending power of a bank and thus deprives it of a part of its legitimate revenue, this in addition to the loss of revenue from the exchange charge.

Columbia, La. The cashier of the Citizens Progressive Bank was visited by three different representatives of the Dallas Reserve Bank on three different occasions with reference to agreements to remit at par. On the second occasion when the witness refused to sign the reserve bank card the representative presented an accumulation of 8 or 10 checks totaling $8,000 or $10,000 and demanded cash. At that time he signed a 60-day agreement with the representative but it was only after he had demanded the cash for the checks he held and the witness was practically forced to sign the agreement or close the doors of the bank. The third visit came after witness had cancelled the 60-day agreement and after the legislature had passed the exchange law. At that time he signed the 30-day agreement to par after being forced to do so.

The first representative proposed to send the checks by express and have them collected through the express office.

The second representative presented about $8,000 worth of checks, refused to accept exchange for them and demanded the cash unless witness would sign the agreement.

The third representative threatened to write the bank's customers that it would not pay their checks dollar for dollar and that the bank was asking for a discount on same. He also stated he was there to appoint a collecting agency in event the bank did not sign another agreement to remit at par.

Benton, La. The cashier of the Bank of Benton testified that he agreed to remit at par in the fall of 1919 because the representative of the Dallas Reserve Bank made it plain that unless the agreement was signed he would put a representative at Benton or stay there himself to represent all cash items over the window and demand cash for them. He knew this would work a hardship on the bank and in event there would be more items presented than he had the cash on hand to pay, this would embarass the bank. He was afraid he might not keep enough money in his vault to meet an accumulation of these items and was sure that any item he did not pay because of not having the cash on hand would be returned to the reserve bank and he did not want to lose his customers because of having their checks returned to them when they had money to their credit.

This would cause him to keep practically all his reserve money in his vault at all times and to carry in his vault in sight exchange more than the law requires thereby reducing the amount of his loans.

The second representative called because he cancelled that first agreement. He quoted this representative as saying:

> We have been accused of having a big stick. You know it is necessary in order to enforce the law that you have a big stick. We did not write the law but we are going to enforce it. You no doubt realize that we have resource of the Government behind us. In fact, we are part of the Government.

He did not sign a second agreement but did continue to remit at par because he realized that he could not combat such a powerful concern as the Federal reserve bank and because he took the words of its agent that the bank was backed by the resources of the Government of the United States.

(The activities of the Dallas Bank in Louisiana were finally stopped when the Louisiana Legislature passed a penal statute against violation of the exchange law.)

Newton, Tex.: Prior to February 4, 1920, a representative of the Houston branch of the Dallas reserve bank presented a very large bunch of checks to the branch bank at Burkeville, Tex. The witness stated that he did not consider it just or right that the reserve bank agent should accumulate these checks in such quantities and present them for payment demanding cash. Witness had a long telephone conversation with the reserve bank agent while the witness was at Newton and the agent at Burkeville at the branch bank. The witness explained that the batch of checks so accumulated exceeded the cash balance at the Burkeville branch and that he would appreciate it very much if the agent would let him issue Houston or Dallas exchange in lieu of actual cash. The agent agreed to take the exchange provided the bank would sign a par agreement with the reserve bank, otherwise he demanded cash.

The agent demanded currency in the payment of checks. He was offered exchange free of charge and further offered exchange on the State bank at Newton if agreement to pay his cash for said exchange when he reached Newton by private conveyance. The agent refused to accept exchange offered in lieu of currency and stated that his instructions from the Federal reserve bank were such that he had to collect the checks in cash unless the par agreement was signed. The agent stated to witness that his reason for instsiting upon currency and not accepting exchange was that it might embarrass the bank to such an extent that it might sign the par agreement and in so doing was acting under instructions from the reserve bank. The witness' bank finally paid the checks by requiring identification of the agent and, while this was being procured, sending enough cash through the country to replenish the supply at the Burkeville bank after paying the $5,000 of checks presented.

Eighth district, Tupelo, Miss.: This witness quoted a newspaper article appearing in a New Orleans paper dated January 25, 1920, containing information that Mr. Marcus Walker, manager of the New Orleans branch of the Atlanta Reserve Bank, had actively launched a campaign to compel banks to remit at par and including the following paragraph:

"What are we going to do," said Mr. Walker, "when a member bank refuses to pay the check at par is to collect the check at the counter, even if a special messenger must be sent to the bank. This will have the effect of compelling the recalcitrant bank to accede to the par collection provision as it will draw considerably on their cash reserves."

After many circulars from the Reserve Bank of St. Louis and its Memphis branch and visits from representatives the bank signed an agreement to remit at par about the middle of February, 1920. Wit-

ness first declined to sign and asked the representative of the reserve bank what course the reserve bank would pursue following refusal to comply. He replied in substance that it was the purpose of the reserve bank to publish the name of the Tupelo bank on the reserve board's list of banks on which items could be collected at par and that such list would appear on and be distributed broadcast about March 15. The agent undertook to impress upon witness the fact that if and after the name of the Tupelo bank did appear on such par list they would find it difficult to continue to decline to remit at par, because of the embarrassment of having to refuse payment on checks that were presented by the reserve bank. With the cooperation of bankers and others in Mississippi, witness secured the introduction and passage of an act which was approved by the Governor of Mississippi on March 6, 1920, and which effectively protected the State banks of Mississippi from the designs of the Federal reserve system. It prevented the reserve bank from making counter presentations of checks and demanding payment therefor in cash. The testimony shows that the Tupelo bank and the Bank of Nettleton (owned by the Tupelo bank) were placed on the reserve par list without their consent, the result being the accumulation in the reserve bank of a number of items drawn on the Tupelo bank with the expectation on the part of the original holders that they would be paid and remitted for at par by the Tupelo bank. The witness recounts how various wholesalers and manufacturers of St. Louis undertook a campaign among the customers of the Mississippi banks to prejudice said customers against the banks because of the position they had taken and of the statutory protection they had secured at the hands of the legislature. He also showed how the customers generally stood by the local banks and the wholesalers and others eventually gave up their fight.

Tenth district, Norwood, Colo.: Norwood is about 500 miles from Denver and about 18 miles from the nearest railroad station. At Denver is a branch of the Reserve Bank of Kansas City. In November, 1919, the witness had an interview with a representative of the reserve bank relative to par clearance and declined to sign the card for his bank to agree to remit at par. The reserve bank agent said that witness was not being fair to his stockholders in taking the attitude and that the Federal reserve bank would ultimately force his bank to their terms. When asked how the reserve bank would do this the agent said that in one instance they had collected enough checks against a bank until they knew they would not have cash enough to pay them and then presented them at the window and refused to accept anything but cash, and when this was not forthcoming they protested the checks and closed the bank's doors. He said this would happen to witness's bank if he did not agree to their terms. After a long discussion on the merits of the exchange proposition witness told the agent that his bank would remit at par and at the time of the interrogatories had never since made the reserve bank any charge for exchange, because his bank was not large enough to enter into a fight with the reserve system. He never did sign the formal agreement to remit at par.

After adopting the practice of remitting at par the Norwood bank formed the habit of drawing in payment of cash letters drafts either

on its New York or Denver correspondent and governing its action by the size of its balance in either place. The Norwood bank was notified by the reserve bank that unless it discontinued drawing its checks on New York the reserve bank would notify the indorsers of the checks drawn on the Norwood bank that same was not paid on presentation.

(In connection with this incident of the reserve bank at Denver refusing to accept exchange on New York in payment of cash letters, I have in my files correspondence between another Colorado bank and the Denver branch in which the Colorado bank, located in a small town, after agreeing to remit at par, formed the habit of sending checks on the financial center of its portion of the State instead of on a Denver correspondent, the people of the small bank's community having little business dealings with Denver and there being no occasion for keeping a correspondent account at that point. The correspondent bank in the commercial center of the territory was a national bank, and there was another national bank at the same place. When the little bank refused to comply with the demand of the reserve bank—that it sign checks in remittance on Denver—it was finally told that checks on the other city would be accepted if drawn on the other national bank instead of its regular correspondent. In this case the Federal reserve bank was seeking to have an account removed from one member bank in a city to another.)

Pierce, Nebr.: Perhaps the most widely advertised act of the reserve-bank agents in efforts to coerce State banks into agreements to remit at par was at this point. The interrogatories of several witnesses were offered showing that on or about November 14, 1919, a high-powered automobile containing W. S. Lower, M. L. Bishop, a woman, and another man drove up to a bank at Pierce, and Lower and Bishop went into the bank, Lower stating, "We have a few checks here we would like to have you cash," presenting several checks one at a time, which were paid as presented. When through with these checks Lower then stated with a smile that he had one more check he would like paid, and presented a check for $30,100.96. When told that this was more than the bank was required to have in its vaults by law, all Lower and Bishop did was to smile. The assistant cashier wrote an exchange draft for the check and offered it in payment, and Lower refused to accept it, saying they had to have legal tender. The cashier then said, "There is your draft, and I have the check," upon which Bishop reached down into his grip, pulled out a revolver, and passed it back to Lower, who put it into his hip pocket.

The assistant cashier thought he was going to be held up, and Bishop replied, "Do you want to take that stand?" Then Lower stepped out to the car and called in a stranger. The assistant cashier then went into a back room and consulted with the cashier. While in the back room consulting, Lower and Bishop came in. The officers were pretty much embarrassed over not having enough money to meet the check, and when Lower and Bishop noted the embarrassment one of them said, "Why don't you sign a par card, avoid this embarrassment, and keep your money?" The cashier told them he would not sign a par card; that would be left with the prseident who was out of town at the time. The reserve agents then said they had

to have the money right off; that they did not have to wait over five minutes to get their money, and insisted that the money be paid them at once. The cashier asked them if they had been to the other banks, and they said they had not and told the officers they might allow them, but did not have to, to go over to the other banks and get money, but they would not allow them to go out of town. They refused to tell the cashier the aggregate of checks they held on the other banks and warned him to be careful how much he got from the other banks because they held large amounts against them, and the other banks might be sorry for what they let this bank have. The cashier then stepped out of the bank to see about raising some money. On his return they asked him what he was going to do about the check, and he said, "We are going to pay it," which seemed to be a disappointment to them. One of them again asked, "Why not sign the card and keep the money," stating if he did not it would be only a short time before they got him anyway, saying that the Government had plenty of money and would get him if it took 50 years. While the money was being paid the bank's accountant went into the back room and talked to the men. Lower told the accountant that Bishop was a deputy United States marshal, hard-boiled and armed; that he helped to run down robbers in Kansas.

When the assistant cashier carried the money into the back room for them to count Bishop told them that he cleaned up Kansas all except one little banker in a country town that held out against par clearance, and that he told him that the Government would start a national bank in that town and drive him out of business, and that Bishop himself would start a national bank in that town and was going to stick to it until he drove this country banker out of business, and that might be what would happen in Pierce. Bishop showed the assistant cashier that they had protest papers prepared for all of the checks so that they could protest them on a moment's notice.

These witnesses also testified that later an agent of the reserve bank inquired around among the substantial farmers and business men as to the possibility of starting a national bank in Pierce, stating that the State banks did not do their customers justice and that a national bank was needed.

(The banks at Pierce never did agree to remit at par, and direct agents for collection were kept there until a number of banks prepared to file a suit following the Supreme Court decision of May, 1921. When this became known the reserve bank withdrew direct agents for collection from some 45 points in the State.)

The testimony was offered of similar happenings in other points in Nebraska, including Loretto, Brainard, and Steele City.

Seventh district, Clyman, Wis. The cashier of the Farmers' State Bank testified:

> Early in 1920 we received letters from the Federal Reserve Bank of Chicago relative to the so-called par clearance; in none of our answers did we agree to remit at par, and we continued making our regular exchange charges on the cash items sent by them to us for collection. Shortly after the local express agent presented checks drawn on us over the counter and demanded cash in payment. On May 21, 1921, shortly after our opening hour in the morning an agent of the Federal Reserve Bank of Chicago called and presented checks drawn on us amounting to over $6,000. Inasmuch as this was about twice the amount of cash usually carried, we were unable to pay them. The agent, however, offered to take a draft in payment providing that thereafter we would arrange with our correspondents to remit at par in Chicago exchange

for all items cleared through the Federal reserve bank. He also related how checks were collected other than through the express agent appointed. As we could not afford to have our customers' checks presented that morning dishonored we had to follow the course as outlined by him, and since then our correspondent remits for items drawn on us forwarded from the Federal reserve bank.

Franksville, Wis.: The cashier of the Bank of Franksville testified:

During 1919 we had two calls from agents of the Chicago Reserve Bank about par collections but did not make the agreement. During the early part of 1920 there came a letter from the reserve bank saying that after March 1 all collections would be made at par. Their cash letter started to come and we knew that if we did not par them they would present them for cash over the counter as they had done two other banks; therefore we sent them mutilated currency and Chicago, Milwaukee & St. Paul Railway Co. checks and United States Government checks issued in payment of interest on United States registered Liberty Bonds, and interest coupons by express collect in payment of these letters. The United States Government checks they refused to pay and returned to us. We then made arrangements with a correspondent bank in Milwaukee whereby they were to pay the checks and send them to us for collection.

The receipt of revenue from exchange would help materially to build up a surplus account for further protection of its depositors. The bank has not agreed to remit at par to the Chicago Reserve Bank.

Allen, Mich.: The president of this bank testified:

This bank was placed upon the par list of the Federal Reserve Bank of Chicago by agreement, but the bank does not expect to continue to operate under said agreement. It never agreed willingly to do so, and we felt that we could no longer submit to it. We advised the Federal reserve bank on August 18, 1921, that on and after September 1, 1921, we would make regular exchange charges, believing that under the recent Supreme Court decision they would be obliged to remove us from their par list and allow us exchange. They refused to assent to this arrangement and renewed their threats to pursue the same methods of collections which had been threatened and employed before we signed our par clearance agreement.

The controller of collections of the Chicago bank wrote witness a letter to the effect that the 1921 Supreme Court decision did not deny the legal authority of the Federal reserve bank to collect checks on nonmember banks by making presentation thereof at the counter and expressed the hope that he would reconsider his decision, because if he would not remit at par for the checks they were sending to him or arrange to have them collected through one of his Michigan correspondents at par the reserve bank would be obliged to make other arrangements to collect payment in full.

As between having to pay all or a large proportion of checks drawn on deposits in this bank in currency over the counter and remitting for the same without any charge of exchange it would be the lesser of two evils as a permanent arrangement to remit without exchange charges, and would be better for the bank to forego exchange charges than subject itself to a permanent method of paying practically all checks drawn upon it in currency over the counter. As between the two courses we should probably have to surrender to the par clearance campaign.

Twelfth district: The court also declined to admit the oral testimony of George D. Wood, of the Brookings State Bank, Brookings, Oreg., whose testimony, it was represented to the court, would be in substance as follows:

Unusual methods of the collection of cash items upon a bank that declines to remit at par the proceeds, without any charge for exchange, embrace such things as assembling together a large number of checks and presenting the

same over the counter of the bank on which they are drawn for payment in currency, accompanied by the refusal to accept anything in payment but currency; that among such methods of collection, out of the ordinary, there have been the return of checks drawn on such bank, even before presentation, with notice of dishonor, and that that notice instead of being sent to the indorser of the check from whom it was received by the Federal reserve bank was duplicated and sent to the payee or to the drawer of the check, being the depositor of the drawee bank; that among other such methods actually experienced by this witness in the unusual methods of collection against nonpar remitting banks has been the return of the check before presentation for payment to the bank upon which it was drawn, and that on the check was the notation that the bank was closed and out of business, and the check returned with that notation on it; that among other embarrassing, annoying, and expensive methods employed against a State bank has been the stationing of an agent in the town where that bank is located who ostentatiously takes the checks of that bank to the counter and takes the currency and counts it in the presence of the customers of the bank, and who undertakes to create the impression that the bank is in financial difficulties, thereby greatly discouraging and frightening the customers; that all of these methods have been employed against this particular witness's bank by the representatives of the Federal Reserve Bank of San Francisco who offered to abandon and withdraw them all if the witness's bank would agree to remit the proceeds of cash items without exchange, and make that agreement indefinite and continuous.

This testimony was afterwards given the United States District Court at Portland, Oreg., and an injunction granted against the San Francisco Reserve Bank against the practices that were being continued to force the Brookings bank to submit to its demands.

As I have stated, the court refused to allow this testimony as evidence to show the methods the Atlanta Reserve Bank intended to pursue to force compliance with its demands and to illustrate the meaning of the terms "embarrassing, annoying, and expensive."

It will thus be seen that the agents of the reserve system failed in their efforts to persuade the banks that the opportunity to clear their own checks through the reserve system at par was a sufficient offset to giving up their right to charge exchange. As they would not voluntarily go in the system the agents of all the reserve banks adopted similar coercive measures to force that which they could not voluntarily obtain. In this connection it is well to note that the Federal Reserve Bank of Richmond has not to this good hour undertaken to enforce par clearance in the State of South Carolina. It seems to me that this plainly refutes the old claim that they considered that they had a mandate to establish universal par clearance. Of course, the recent Supreme Court decisions have laid at rest that contention.

Mr. STEAGALL. Let me ask you a question there. Do you know what became of the Magee who was indicted at Catlettsburg, Ky.?

Mr. JONES. That man was placed in a bank.

Mr. STEAGALL. A Federal bank?

Mr. JONES. No, sir; in a member bank of the Federal reserve bank in Wheeling, W. Va., two or three months afterwards, and became an officer of that bank, whether or not by influence of Federal reserve officials I do not know. But, anyhow, he was placed in that bank. I do not think he is there now. I looked him up the other day. His name was M. C. Magee. I have a certified copy of the indictment. I took it down to Maysville, Ky., when we expected to have the first hearing on the Catlettsburg case, hoping he would come down to testify, so that they could have him arrested.

Mr. STEAGALL. You are outlining now what is a sworn testimony in the court?

Mr. JONES. Yes, sir.

Mr. STEAGALL. Not admitted because of legal objection, but nevertheless tendered?

Mr. JONES. In Kentucky that testimony about Magee and all is in the record. I have a copy of that record.

The CHAIRMAN. Evidence in regard to the Nebraska bank was presented to the Committee on Banking and Currency a year and a half ago.

Mr. JONES. Yes, sir; it is in there; about three years and a half ago.

The CHAIRMAN. But, Mr. Jones, these tactics are not being permitted at the present time in the Federal reserve system?

Mr. JONES. Oh, no, sir; under the present board—and, by the way, on the advice of the board of governors; that is, the advisory committee—of course the board would have followed it anyhow—but on August 15 they withdrew those direct agents for the collection of checks.

The CHAIRMAN. August 15 what year?

Mr. JONES. 1923, following the Supreme Court decision in June, the direct agents were withdrawn wherever they were being retained.

Mr. WINGO. I think, Mr. Jones, it is but fair to say in the record that everybody admits now not only the inexcusable character of that kind of operations but the absolute folly of it.

Mr. JONES. I think so. I am glad to say for Mr. Crissinger—I would not hesitate to say the opposite if he deserved it, even in his presence, because I am no banker, and I am not afraid of any of them—that we have had human treatment from the present governor of the Federal Reserve Board, something we did not have before—I mean the little bankers—and we advocated his choice, and we were glad he was chosen, and we believe so far as we can direct it we will get fair treatment, and I would like if there is any newspaper statement to go out that they recognize the fact that nonmember banks can get off the par list and their checks can be collected through any other banks, and they will not be molested by the Federal reserve banks.

Senator GLASS. Mr. Jones, I have been looking at something else and did not follow you. Is it not a matter of court record that the charges of these irregularities in the State of Georgia were not proven either in the district court or in the circuit court, and that both the Circuit Court and District Court of the United States explicity stated that the charges were no proven?

Mr. JONES. That is true; yes, sir.

Senator GLASS. Is it not a matter of court record that similar charges presented by some of the bankers of North Carolina were pronounced by the supreme court of that State as not proven?

Mr. JONES. Yes; but not by the circuit court.

Senator GLASS. I said the Supreme Court of North Carolina. I said the District Court and Circuit Court of the United States and State of Georgia.

Mr. JONES. They said in North Carolina they intended by their actions to coerce the banks.

Senator GLASS. They said charges of these irregularities had been such as accumulating checks and presenting them at one time, exclusively. There was no evidence to sustain these charges.

Mr. STEAGALL. Do I not understand you to quote from the sworn testimony of the case?

Mr. JONES. I have not quoted a thing from the North Carolina court, nor anything allowed in the case of Georgia.

We had interrogatories from at least five Federal districts. We offered them in the Georgia case, but they were not admitted, so the court did not pass on them.

Senator GLASS. Excuse me. The court did pass on them and said there was no evidence to sustain the charges.

Mr. JONES. The Senator is mistaken about that.

Mr. WINGO. There is where I was puzzled, as a lawyer. Is not this true, Senator—and I think you will find it true, because the appellate court would not have the authority to go into the credibility of those witnesses—I think you will find that this is what the court did find: It was the court's conclusion as to the evidence, not as to the particular facts proven, but it was that there was no evidence that the acts complained of were done by the reserve bank for a certain motive. I think that is what you will find.

Senator GLASS. No.

Mr. WINGO. You will find the Supreme Court then overruled the circuit court, and held if the testimony should show the intention alleged plaintiffs would be entitled to relief.

Senator GLASS. Held there was no evidence to sustain these charges.

Mr. WINGO. On the face of this sworn testimony?

Senator GLASS. In the face of what sworn testimony?

Mr. WINGO. The testimony he has detailed here.

Senator GLASS. He is talking about the Kentucky case, which I have not examined.

Mr. STEAGALL. I think you will find this is what happened: I think the proof is just as the gentleman says, but I do not think the proof went to the point of showing that the particular order went from the members of the Federal Reserve Board. As a matter of fact, Governor Harding stated in here that the board disclaimed authority for that action or having given any such instructions or any knowledge of any such instructions on the part of the Federal Reserve Board, and he did not attempt, as I remember, to defend that practice.

Senator GLASS. As a matter of fact, the district and circuit Federal courts in Georgia dismissed these cases, in the first instance, on the ground, as you lawyers would say, that there was no case in equity, even if the charges should be sustained.

Mr. WINGO. That is a different statement.

Mr. GLASS. I say, in the first instance. The case was appealed to the Supreme Court of the United States. I may state the matter crudely, because I am not a lawyer. Mr. Justice Holmes in detail recited the charges made by these Georgia bankers against the administration of the Federal reserve bank and the Federal Reserve Board, and said, not that these charges were true, not that they originated with Mr. Justice Holmes, as a great many of the orators have stated,

but he recited the charges as made by these bankers and said if these charges are true they afford a case in equity, and therefore we overrule the inferior courts and remand the case for trial upon the evidence. The case was remanded for trial upon the evidence, and the district court subsequently confirmed by the circuit court, held that the charges were not sustained. That was in Georgia.

In North Carolina the supreme court, I believe it is, called the court of appeals in North Carolina——

Mr. STEAGALL (interposing). The Supreme Court in North Carolina held that similar charges made by the bankers of North Carolina were not sustained by the evidence. The decision of the supreme court, which I have here, dated June 11, 1923, says after the decision in this case, reported in 256 U. S. 350, an answer was filed which denied in large part the allegations of the bill. And then by an amended answer the Federal reserve bank disclaimed any intention of demanding payment in cash when presenting checks at banks and averred its willingness to accept payments in drafts, either on the drawer's Atlanta correspondent, or on any other solvent bank, if collectible at par. The district court heard the case upon the evidence. It found that the Federal reserve bank was not inspired by any ulterior purpose to coerce or to injure any nonmember bank which refused to remit at par. It found that the evidence was insufficient to sustain any charge that the Federal reserve bank was exercising its right to injure or oppress plaintiff's bank. And it found, specifically, that the evidence did not sustain the charge that the Federal reserve bank accumulated checks upon nonmember country banks until they reached a large amount, and then caused the checks to be presented for payment over the counter, in order to compel plaintiff's banks to keep in their vaults so much cash that they would be obliged either to agree to remit at par or to go out of business.

Mr. WINGO. That is quite different from the interpretation which you put upon it awhile ago.

Senator GLASS. Not at all.

Mr. WINGO. Your statement referred to the Supreme Court of the United States, citing what they found with reference to two things: One was the amendment disclaiming intent to injure, and the other was what they found on insufficient evidence. I was somewhat shocked as a lawyer to think that the Supreme Court would, as an original proposition, attempt to pass upon evidence and say there was no evidence at all in view of the record.

Senator GLASS. I never said such a thing and did not suggest such a thing. I said the inferior court.

Mr. WINGO. I said possibly you did not intend it. I am not accusing you of trying to misrepresent, but there is quite a difference in the statement made awhile ago, and that is the reason why I suggested this. You have not read the decision, and it refreshes my mind and bears out what I suggested. They did not undertake to say in effect, "We will just dismiss this evidence because we do not believe the men swore to the truth." They did not have any authority to do that. The appellate court had not the jurisdiction to do that.

Senator GLASS. I did not dream of saying it ever did anything of the kind. I stated in detail the whole legal process, how the case

originated in the district court, which took jurisdiction from the State, or rather assumed jurisdiction of the case, and that originally the district court as well as the circuit court dismissed the whole plea upon the ground that there was no question of equity involved, and that then it came up to the Supreme Court and the Supreme Court decided that there was a ground of equity if the charges alleged could be sustained, and remitted it to the United States District Court, where the case originated, to try the case upon the evidence, and it did try it upon the evidence.

Mr. WINGO. I have not had time to read this. I want to find out if I am in error. This is the North Carolina case I am talking about.

Senator GLASS. I am talking about the Georgia case.

Mr. WINGO. Is this the Georgia case?

The CHAIRMAN. Yes.

Mr. WINGO. In this case did not the Supreme Court call attention to the fact there was conflicting evidence?

Senator GLASS. I have read you what the circuit court said.

Mr. WINGO. Did not the circuit court say that on the undisputed evidence in the case that the court could pass upon the main question, and they held that there was not any intent on the part of the Federal reserve banks to coerce? Is not that what they decided?

Senator GLASS. I read you what they decided.

The CHAIRMAN. I would suggest that the stenographer put in the whole record.

(Mr. Jones here tendered a pamphlet with the three Supreme Court decisions and one with an analysis prepared and distributed by his associations:)

DECISIONS OF THE SUPREME COURT OF THE UNITED STATES IN THE ATLANTA AND NORTH CAROLINA PAR-CLEARANCE CASES

[Reprinted and distributed by the National and State Bankers' Protective Association and the Country Bankers' Association of Georgia, June, 1923]

DIGEST

These decisions have settled:

1. Banks have right to rely on averages of deposit withdrawal.

2. Though subject to legitimate competition, banks will be protected from unfair competition seeking to break down their business for purpose of forcing change of methods and/or loss of revenue.

3. Courts will not sanction warfare of Federal reserve system upon State banks:

(*a*) Through collecting checks in a body and presenting at counters for purpose of breaking down business as now conducted.

(*b*) By "other devices detailed" in the Atlanta case and actually followed in other reserve districts.

(*c*) By methods of collection that would prove "embarrassing, annoying, and/or expensive" to nonassenting banks.

4. Where rights of reserve banks infringe rights of other banks or of business both will be limited. No rights are absolute.

5. Placing names of nonassenting banks on "par lists" to indicate agreements to remit at par will not be permitted.

6. Nonmember banks' right to charge exchange unrestricted by Federal reserve act.

7. Member banks' right to charge exchange regained by Hardwick amendment and restricted only by proviso that charge must be reasonable as fixed by Reserve Board.

8. Par clearance in no way affects the relations of banks to other depositors.

9. Universal par clearance through the Federal reserve system:

(*a*) Was not required by the Federal reserve act, either directly or by inference.

(*b*) Was not even suggested by sections 13 and 16, the only sections in which collections are mentioned.

(*c*) "Par" mentioned only in section 16, and reference "so clear and explicit as to preclude a contention that it has any application to nonmember banks, or to the ordinary process of check collection here involved."

(*d*) Irreconcilable with right to charge exchange regained for member and preserved to nonmember banks by Hardwick amendment.

(*e*) Was not intended or expected by Congress.

10. Authorized collection facilities of Federal reserve banks limited to—

(*a*) Checks payable within their respective districts.

(*b*) Checks payable on presentation at par, in cash or its equivalent.

11. Reserve banks under no duty to accept checks on all banks. Merely authorized under limitations set out.

12. State laws protecting banks in right to charge exchange and giving option of paying in cash or exchange draft, unless otherwise designated by depositor, upheld as not in conflict with:

(*a*) Legal tender clause of Federal Constitution: The debt of the bank is solely to the depositor. Depositor may consent to bank paying its obligation to him by draft. State may provide by legislation that, in the absence of dissent, such consent shall be presumed. Laws which subsist at time and place of making contract and where to be performed enter into it as fully as if they had been expressly referred to or incorporated in its terms. Since they bind the drawer, they bind the payee and every subsequent holder. The holder has no independent right to require payment, in absence of acceptance by drawee bank.

(*b*) Due process clause: Statute is exercise of police power to protect public and promote general welfare. North Carolina exchange law does not inherently deny rights protected by due process clause.

(*c*) Equal protection clause: Police regulations may be directed against existing evils without covering whole field of possible abuses. May be directed against particular instrument of trade war being used against a policy legislature thinks wise to adopt. Legislature may limit prohibitions to conditions and concerns which it concludes alone menace what it deems the public welfare.

(*d*) The provisions of the Federal reserve act.

SUPREME COURT OF THE UNITED STATES

No. 823, October term, 1922. Farmers and Merchants Bank of Monroe, N. C., et al., petitioners, *v.* Federal Reserve Bank of Richmond, Va. On writ of certiorari to the Supreme Court of the State of North Carolina. [June 11, 1923.]

Mr. Justice Brandeis delivered the opinion of the court.

The Legislature of North Carolina provided by section 2 of chapter 20, Public Laws of 1921, entitled "An act to promote the solvency of State banks"—

"That, in order to prevent accumulation of unnecessary amounts of currency in the vaults of the banks and trust companies chartered by this State, all checks drawn on said banks and trust companies shall, unless specified on the face thereof to the contrary by the maker or makers thereof, be payable at the option of the drawee bank, in exchange drawn on the reserve deposits of said drawee bank when any such check is presented by or through any Federal reserve bank, post office, or express company, or any respective agents thereof."

Section 1 authorizes banking institutions chartered by the State to charge a fee not in excess of one-eighth of 1 per cent on remittances covering checks, the minimum fee on any remittance therefor to be 10 cents. Section 4 exempts from the operation of sections 1 and 2 all checks drawn in payment of obligations to the Federal or the State Government. Whether this statute conflicts with section 13 of the Federal reserve act (Dec. 23, 1913, chap. 6, 38 Stat. 251, 263; as amended Sept. 7, 1916, chap 461, 39 Stat. 752; June 21, 1917, chap. 32, sec. 4, 40 Stat. 232, 234) or otherwise with the Federal Constitution is the question for decision.

The legislation arose out of the effort of the Federal Reserve Board to introduce in the United States universal par clearance and collection of checks through Federal reserve banks. See American Bank & Trust Co. *v.* Federal

Reserve Bank of Atlanta (256 U. S. 350). The Federal Reserve Bank of Richmond serves the fifth Federal reserve district, which includes North Carolina. Upon the enactment of this statute the bank gave notice that it considered the legislation void under the Federal Constitution; that, when presenting checks to North Carolina State banks for payment over the counter, it would refuse to accept exchange drafts on reserve deposits as required by section 2; and that it would return as dishonored checks for which only exchange drafts had been tendered in payment. Some checks were returned thus dishonored; and to enjoin such action this suit was brought in a court of the State by the Farmers & Merchants Bank, of Monroe, and 11 other State banks. Two hundred and seventy-one more joined later as plaintiffs. So far as appears, none of them was a member of the Federal reserve system or was affiliated with it. The trial court granted a perpetual injunction. The supreme court of the State reversed the decree (183 N. C. 546); and the case is here on writ of certiorari. (261 U. S.) Defendant admits that, if the North Carolina statute is constitutional, plaintiffs are entitled to an injunction.

To understand the occasion for the statute, its operation and its effect, the applicable banking practice must be considered.[1] Par clearance does not mean that the payee of a check who deposits it with his bank for collection will be credited in his account with the face of the check if it is collected. His bank may, despite par clearance, make a charge to him for its service in collecting the check from the drawee bank. It may make such a charge although both it and drawee bank are members of the Federal reserve system; and some third bank which aids in the process of collection may likewise make a charge for the service it renders. Such a collection charge may be made not only to member banks by member banks, National or State, but it may be made to member banks also by the Federal reserve banks for the services which the latter render. The collection charge is expressly provided for in section 16 of the Federal reserve act (38 Stat. 268), which declares that:

"The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank."

Par clearance refers to a wholly different matter. It deals not with charges for collection but with charges incident to paying. It deals with exchange. Formerly checks, except where paid at the banking house over the counter, were customarily paid either through a clearing house or by remitting to the bank in which they had been deposited for collection a draft on the drawee's deposit in some reserve city. For the service rendered by the drawee bank in so remitting funds available for use at the place of the deposit of the check it was formerly a common practice to make a small charge, called exchange, and to deduct the amount from the remittance. This charge of the drawee bank the Federal Reserve Board planned to eliminate and in so doing to concentrate in the 12 Federal reserve banks the clearance of checks and the accumulation of the reserve balances used for that purpose. The board began by efforts to induce the banks to adopt par clearance voluntarily.[2] The attempt was not successful. The board then concluded to apply compulsion. Every national bank is necessarily a member of the Federal reserve system; every State bank with the requisite qualifications may become such. Over members the board has large powers as well as influence. The first step in the campaign of compulsion was taken in the summer of 1916, when the board issued a regulation requiring every drawee bank which is a member of the Federal reserve system to pay without deduction all checks upon it presented through the mail by the Federal reserve bank of the district. The operation of this requirement was at first limited in scope by the fact that the original act (sec. 13) authorized the reserve banks to collect only those checks which were drawn on member banks and which were deposited by a member bank or other reserve bank or the United States. Few of the many State banks had then elected to become members. In September, 1916, section 13 was amended so as to authorize a reserve bank to receive for collection from any member (includ-

[1] See Annual Reports of the Federal Reserve Board, 1914, pp. 19, 20, 174; 1915, pp. 14–17; 1916, pp. 9–12; Regulation I, series of 1916, p. 169; 1917, pp. 23, 24; Regulation J, series of 1917, pp. 181–183; 1918, pp. 74–77, 204–206, 810, 811, 817, 821; 1919, pp. 40–44, 222–228; 1920, pp. 63–69; 1921, pp. 68, 73, 228–230; letter from the governor of the Federal Reserve Board of January 26, 1920, Senate Document No. 184, Sixty-sixth Congress, second session; also "Par Clearance of Checks," by C. T. Murchison, 1 North Carolina Law Review, 133.

[2] See Report Federal Reserve Board, 1915, pp. 14–17; ibid., 1916, pp. 9–11.

ing other reserve banks) also checks drawn upon nonmember banks within its district. Thereby the Federal Reserve Board was enabled to extend par clearance to a large proportion of all checks issued in the United States. But the regulation (J) then issued expressly provided that the Federal reserve banks would receive from member banks, at par, only checks on those of the nonmember banks whose checks could be collected by the Federal reserve bank at par. It was recognized that nonmembers were left free to refuse assent to par clearance. By December 15, 1916, only 37 of the State banks within the United States, numbering about 20,000, had become members of the system, and only 8,065 of the State banks had assented to par clearance.

Reserve banks could not under the then law make collections for nonmembers. It was believed that, if Congress would grant Federal reserve banks permission to make collection also for nonmembers, the board could offer to all banks inducements adequate to secure their consent to par clearance. A further amendment to section 13 was thereupon secured by act of June 21, 1917 (ch. 32, sec. 4), which provided, among other things, that Federal reserve banks—

"Solely for the purpose of exchange or of collection may receive from any nonmember bank * * * deposits of checks * * * payable upon presentation, provided such nonmember bank * * * maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank."

To this provision, which embodied the legislation proposed by the Federal Reserve Board, there was added, while in the Senate, another proviso relating to the exchange charge, now known in the modified form as the Hardwick amendment, which declares:

"That nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case exceeding 10 cents per $100 or fraction thereof, based on the total amount of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise, but no such charges shall be made against the Federal reserve banks."

Thus a Federal reserve bank was authorized to receive for collection checks from nonmembers who maintained with it the prescribed balance, and strenuous efforts were then made to induce all State banks to so arrange. But the law did not compel State banks to do this. Many refused, and they continued to insist on making exchange charges. On March 21, 1918, the Attorney General (31 Ops. Atty. Gen. 245, 251) advised the President:

"The Federal reserve act, however, does not command or compel these State banks to forego any right they may have under the State laws to make charges in connection with the payment of checks drawn upon them. The act merely offers the clearing and collection facilities of the Federal reserve banks upon specified conditions. If the State banks refuse to comply with the conditions by insisting upon making charges against the Federal reserve banks, the result will simply be, so far as the Federal reserve act is concerned, that, since Federal reserve banks can not pay these charges they can not clear or collect checks on banks demanding such payment from them."

The Federal Reserve Board and the Federal reserve banks were thus advised that they were prohibited from paying an exchange charge to any bank. But they believed that it was their duty to accept for collection any check on any bank, and that Congress had imposed upon them the duty of making par clearance and collection of checks universal in the United States. So they undertook to bring about acquiescence of the remaining State banks to the system of par clearance.[3] Some of the nonassenting State banks made stubborn resistance.[4] To overcome it the reserve banks held themselves out as prepared to collect at par also checks on the State banks which did not assent to par clearance. This they did by publishing a list of all banks from whom they undertook to collect at par, regardless of whether such banks had agreed to

[3] North Carolina was placed on the par list on November 15, 1920. There were on January 1, 1921, in the United States 30,523 banks, State and national. Of these, 1,755 State banks had refused to enter the par list. About 250 of the banks so refusing were in North Carolina. During the year 1921 the number which refused to consent to par clearance increased to 2,353. Annual Report of Federal Reserve Board, 1921, p. 71.

[4] See American Bank & Trust Co. *v.* Federal Reserve Bank of Atlanta, supra; Brookings State Bank *v.* Federal Reserve Bank of San Francisco, 277 Fed. 430, 281 Fed. 222; Farmers' & Merchants' Bank of Catlettsburg, Ky., *v.* Federal Reserve Bank of Cleveland, 286 Fed. 610.

remit at par or not. This resulted in drawing to the Federal reserve banks for collection the large volume of checks which theretofore had come to the drawee bank by mail from many sources and which had been paid by remittances drawn on the bank's balance in some reserve city. If a State bank persisted in refusal to remit at par, the reserve banks caused these checks to be presented at the drawee bank for payment in cash over the counter. The practice adopted by the reserve banks would, if pursued, necessarily subject country banks to serious loss of income. It would deprive them of their income from exchange charges, and it would reduce their income-producing assets by compelling them to keep in their vaults in cash a larger part of their resources than theretofore. That such loss must result was admitted. That it might render the banks insolvent was clear. But the Federal reserve banks insisted that no alternative was left open to them, since they had to collect the checks and were forbidden to pay exchange charges. The State banks denied that the Federal reserve banks were obliged to accept these checks for collection, and insisted that Federal reserve banks should refrain from accepting for collection checks on banks which did not assent to par clearance.

It was to protect its State banks from this threatened loss, which might disable them, that the Legislature of North Carolina enacted the statute here in question.[5] It made no attempt to compel the Federal reserve bank to pay an exchange charge. It made no attempt to compel a depositor to accept something other than cash in payment of a check drawn by him. It merely provided that, unless the drawer indicated by a notation on the face of the check that he required payment in cash, the drawee bank was at liberty to pay the check by exchange drawn on its reserve deposits. Thus the statute merely sought to remove (when the drawer acquiesced) the absolute requirement of the common law that a check presented at the bank's counter must be paid in cash. It gave the drawee bank the option to pay by exchange only in certain cases; namely, when the check was "presented by or through any Federal reserve bank, post office or express company, or any respective agents thereof." The option was so limited, because the only purpose of the statute was to relieve state banks from the pressure which, by reason of the common law requirement, Federal reserve banks were in a position to exert and thus compel submission to par clearance. It was expected that depositors would cooperate with their banks and refrain from making the prescribed notation; and that when the reserve banks were no longer in a position to exert pressure by demanding payment in cash, they would cease to solicit, or to receive, for collection checks on nonassenting state banks. Thus, these would be enabled to earn exchange charges as theretofore. Such was the occasion for the statute and its purpose. Whether this legislation modification of the common law rule which requires payment in cash violates the Federal Constitution is the question for decision. That it does is asserted on five grounds.

First. It is contended that in authorizing payment of checks by draft on reserve deposits section 2 violates the provision of article 1, section 10, clause 1 of the Federal Constitution, which prohibits a State from making anything except gold and silver coin a tender in payment of debts. This claim is clearly unfounded. The debt of the bank is solely to the depositer. The statute does authorize the bank to discharge its obligation to its depositor by an exchange draft. It merely provides that, unless the depositor in drawing the check specifies on its face to the contrary, he shall be deemed to have assented to payment by such a draft. There is nothing in the Federal Constitution which prohibits a depositor from consenting, when he draws a check, that payment may be made by a draft. And, as the statute is prospective in its operation, Denny *v.* Bennett, (128 U. S. 489); Abilene National Bank *v.* Dolley, (228 U. S. 1, 5), there is no constitutional obstacle to a State's providing that, in the absence of dissent, consent shall be presumed. Laws which subsist at the time and place of the making of a contract, and where it is to be performed, enter into and form a part of it, as fully as if they had been expressly referred to or incorporated in its terms. This principle embraces alike those laws which affect its construction and those which affect its enforcement or discharge. (See Ogden *v.* Saunders, 12 Wheat. 213, 231; Von Hoffman *v.* Quincy, 4 Wall.

[5] Statutes similar in purpose were enacted in Alabama, Florida, Georgia, Louisiana, Mississippi, South Dakota, and Tennessee. See Annual Report of Federal Reserve Board, 1921, p. 70; Alabama, Gen. and loc. acts, 1920, No. 35; Florida, Laws, 1921, c. 8532; Georgia, Laws, 1920, p. 107; Louisiana, Acts, 1920, No. 23; Mississippi, Laws, 1920, c. 183; South Dakota, Laws, 1921, c. 31; Tennessee, Pub. Acts, 1921, c. 37.

535, 550.) If, therefore, the provision of section 2 authorizing payment by exchange draft is otherwise valid, it is biding upon the drawer of the check. Since it binds the drawer, it binds the payee and every subsequent holder, whether he be a citizen of North Carolina or of some other State, and wherever the transfer of the check was made. (Brabston *v.* Gibson, 9 How. 263.) For the holder of a check has, in the absence of acceptance by the drawee bank, no independent right to require payment under the general law. (Bank of the Republic *v.* Millard, 10 Wall. 152.) He takes it subject to the construction and with rights conferred by the laws of North Carolina, the place of the bank's contract and of performance. (Pierce *v.* Indseth, U. S. 546.) Conpare Roquette *v.* Overmann, (L. R. 10 Q. B. 525.)

Second, It is contended that section 2 violates the due process clause. The argument is that defendant is a Federal corporation authorized to engage in the business of collecting checks payable upon presentation within the district. a business common to all banking institutions; that the right to engage in this branch of the business is a valuable property right; that while defendant has in the past not made any charge for such collections, it has the right to do so, and could make this branch of its business an important source of revenue; that to compel defendant to accept in payment of checks exchange drafts on reserve deposits, whether good or bad, deprives it of liberty of contract, and in effect, of an important branch of its business, since that of collecting checks cannot be conducted under such limitations. To this argument the answer is clear. The purpose of the statute, as its title declares, was to promote solvency of State banks. We should, in the absence of controlling decision of the highest court of tahe State to the contrary, construe the statute not as authorizing payment in a "bad draft," but as authorizing payment in such exchange drafts only as had customarily been used in remitting for checks. So construed, the statute is merely an exercise of the police power, by which the banking business is regulated for the purpose of protecting the public, and promoting the general welfare. (Noble State Bank *v.* Haskell. 219 U. S. 104, 575.) The reguation here attempted is not so extreme as inherently to deny rights protected by the due process clause (Compare Chicago, Burlington & Quincy R R. Co. *v.* McGuire, 219 U. S. 549, 567, 568; Central Lumber Co. *v.* South Dakota, 226 U. S. 157, 162.) If the regulation exceeds the State's power to protect the public, it must be because some other provision of the Federal Constitution is violated by the means adopted or by the manner in which they are applied.

Third. It is contended that the statute is obnoxious to the equal protection clause. The argument is that the Federal Reserve Bank of Richmond is obliged to accept payment in exchange drafts, whereas other banks with whom it might conceivably compete may demand cash, except in those cases where they present the check through an express company or the post office. It is well settled that the legislature of a State may (in the absence of other controlling provisions) direct its police regulations against what it deems an existing evil, without covering the whole field of possible abuses. (Lindsley *v.* Natural Carbonic Gas Co., 220 U. S. 61, 81; Missouri Pacific Ry. Co. *v.* Mackey, 127 U. S. 205.) If the legislature finds that a particular instrument of trade war is being used against a policy which it deems wise to adopt, it may direct its legislation specifically and solely against that instrument. (Central Lumber Co. *v.* South Dakota, supra, p. 160.) If it finds that the instrument is used only under certain conditions, or by a particular class of concerns, it may limit its prohibition to the conditions and the concerns which it concludes alone menace what it deems the public welfare. The facts recited above disclose ample ground for the classification made by the legislature. Hence, there was no denial of equal protection of the law. There remains to consider whether section 2 exceeds the State's power, because Congress has imposed specifically upon Federal reserve banks duties, the performance of which section 2 obstructs; and that in this way, it conflicts with the Federal reserve act. This is the ground on which the invalidity of the North Carolina act has been most strongly assailed.

Fourth. One contention is that section 2 conflicts with the Federal reserve act because it prevents the Federal reserve banks from collecting checks of such State banks as do not acquiesce in the plan for par clearance. The argument rests on the assumption that the Federal Reseve Bank of Richmond is obliged to receive for collection any check upon any North Carolina State bank, if such check is payable upon presentation; and is obliged to collect the same at par without allowing deductions for exchange or other charge. But neither section

13, nor any other provision of the Federal reserve act, imposes upon reserve banks any obligation to receive checks for collection. The act merely confers authority to do so. The class of cases to which such authority applies was enlarged from time to time by Congress. But in each amendment, as in section 13, the words used were "may receive"—words of authorization merely. It is true that in statutes the word "may" is sometimes construed as "shall." But that is where the context, or the subject matter, compels such construction. (Supervisors *v.* United States, 4 Wall. 435.) Here it does not. This statute appears to have been drawn with great care. Throughout the act the distinction is clearly made between what the board and the reserve banks "shall" do and what they "may" do.[6]

Moreover, even if it could be held that the reserve banks are ordinarily obligated to collect checks for authorized depositors, it is clear that they are not required to do so where the drawee has refused to remit except upon allowance of exchange charges which reserve banks are not permitted to pay. There is surely nothing in the act to indicate that reserve banks must undertake the collection of checks in cases where it is impossible to obtain payment except by incurring serious expense; as, in presenting checks by special messenger at a distant point. Furthermore, the checks which the act declares resereve banks may receive for collection are limited to those "payable on presentation." The expression would seem to imply that the checks must be payable either in cash or in such funds as are deemed by the reserve bank to be an equivalent. A check payable at the option of the drawee by a draft on distant reserves would seem not to be within the limited class of checks referred to in the act. The argument for the Federal reserve bank is not helped by reference to the incidental power conferred by section 4. It is only "such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this (the Federal reserve) act" which are granted. No duty or right of the Federal reserve bank to collect checks is obstructed by the North Carolina statute which merely gives to the drawee bank the right to pay in the customary exchange draft, where its depositor has, by the form used in drawing the check, consented that this be done.

Fifth. The further contention is made that section 2 conflicts with the Federal reserve act because it interferes with the duty of the Federal Reserve Board to establish in the United States a universal system of par clearance and collection of checks. Congress did not in terms confer upon the Federal Reserve Board or the Federal reserve banks a duty to establish universal par clearance and collection of checks; and there is nothing in the original act or in any amendment from which such duty to compel its adoption may be inferred. The only sections which in any way deal with either clearance or collection are 13 and 16. In neither section is there any suggestion that the reserve board and the reserve banks shall become an agency for universal clearance. On the contrary section 16 strictly limits the scope of their clearance functions. It provides that the Federal Reserve Board—

"may at its discretion exercise functions of a clearing house for such Federal reserve banks * * * and may also require each such bank to exercise the functions of a clearing house for its member banks."

There is no reference whatever to "par" in section 13, either as originally enacted or as amended from time to time. There is a reference to "par" in section 16; and it is so clear and explicit as to preclude a contention that it has any application to nonmember banks; or to the ordinary process of check collection here involved. Section 16 (38 Stat. p. 268) declares:

"Every Federal reserve bank shall receive on deposit at par from member banks or from other Federal reserve banks checks and drafts drawn upon any

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[6] In the original Federal reserve act (38 Stat. 251) "may" is used in sections 2, 3, 4, 5, 8, 9, 10, 11, 12, 13, 14, 15, 16, 18, 19, 21, 22, 24, 25, 26, 28. "Shall" is used in those sections and also in sections 1, 6, 7, 20, 23, 27, 29. Thus—Sec. 2: "The Secretary * * * shall designate * * * cities to be known as Federal reserve cities, and shall divide the continental United States into districts. * * * The districts * * * may be readjusted * * *. Such districts shall be known as Federal reserve districts and may be designated by number;" Sec. 3: "Each Federal reserve bank shall establish branch banks within the Federal reserve district in which it is located and may do so in the district of any Federal reserve bank which may have been suspended;" Sec. 5: "Outstanding capital stock shall be increased * * * as member banks increase their capital stock * * * and may be decreased as member banks reduce their capital stock * * *;" Sec. 13: "* * * may receive * * * deposits * * * may discount * * * shall at no time exceed;" Sec. 16: "Everey Federal reserve bank shall maintain reserves * * *;" "Every Federal reserve bank shall receive on deposit."

of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging for its actual expense incurred in collecting or remitting funds, or for exchange sold to its patrons."

The depositors in a Federal reserve bank are the United States, other Federal reserve banks, and member banks. It is checks on these depositors which are to be received by the Federal reserve banks. These checks from these depositors the Federal reserve banks must receive. And when received they must be taken at par. There is no mention of nonmember banks in this section. When, in 1916, section 13 was amended to permit Federal reserve banks to receive from member banks solely for collection other checks payable upon presentation within the district—and when in 1917, section 13 was again amended to permit such receipt solely for collection also from certain nonmember banks—section 16 was left in this respect unchanged. In other respects section 16 was amended both by the act of 1916 and by the act of 1917. The natural explanation of the omission to amend the provision in section 16 concerning clearance is that the section has no application to nonmember banks—even if affiliated.

Moreover, the contention that Congress has imposed upon the board the duty of establishing universal par clearance and collection through the Federal reserve banks is irreconcilable with the specific provision of the Hardwick amendment which declares that even a member or an affiliated nonmember may make a limited charge (except to Federal reserve banks) for "payment of checks and * * * remission therefor by exchange or otherwise." The right to make a charge for payment of checks, thus regained by member and preserved to affiliated nonmember banks, shows that it was not intended, or expected, that the Federal reserve banks would become the universal agency for clearance of checks. For, since against these the final clause prohibited the making of any charge, then if the reserve banks were to become the universal agency for clearance, there would be no opportunity for any bank to make as against any bank a charge for the "payment of checks." The purpose of Congress in amending section 13 by the act of 1917, was to enable the board to offer to nonmember banks the use of its facilities which it was hoped would prove a sufficient inducement to them to forego exchange charges; but to preserve in nonmember banks the right to reject such offer;[7] and to protect the interests of member and affiliated nonmember banks (in competition with the nonaffiliated State banks) by allowing also those connected with the Federal system to make a reasonable exchange charge to others than the reserve banks. The power of the Federal Reserve Board to establish par clearance was, thus, limited by the unrestricted right of unaffiliated nonmember banks to make a charge for exchange and the restricted right of members and affiliated nonmembers to make the charge therefor fixed as reasonable by the Federal Reserve Board. No bank could make such a charge against the Federal reserve banks—because these were prohibited from paying any such charge. Member and nonmember affiliated banks, because they were such, performed the service for the Federal reserve banks without charge. Nonaffiliated nonmember banks are under no obligation to do so. Thus construed, full effect may be given to all clauses in the Hardwick amendment as enacted. It in no way interferes with the right of a depositor in a nonaffiliated State bank to agree with his bank that the checks which he might draw should (unless otherwise indicated on their face) be payable, at the option of the drawee, in exchange in certain cases.

The North Carolina statute here in question does not obstruct the performance of any duty imposed upon the Federal Reserve Board and the Federal reserve banks. Nor does it interfer with the exercise of any power conferred upon either. It is therefore consistent with the Federal reserve act and with the Federal Constitution.

(Reversed.)

Mr. Justice Van Devanter and Mr. Justice Sutherland dissent.

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[7] The governor of the Federal Reserve Board stated in his letter to the Senate, January 26, 1920 (S. Doc. 184, 66th Cong. 2d sess. p. 6): "That a relatively small number of nonmember banks should not want to become members of the clearing system, or should not want to remit at par is, of course, their own concern, and the Federal Reserve Board and the Federal reserve banks have not and will not dispute their right to decline to do so."

IN THE SUPREME COURT OF THE UNITED STATES

No. 717, October term, 1922. American Bank & Trust Co. et al., appellants, *v.* Federal Reserve Bank of Atlanta, et al. Appeal from the United States Circuit Court of Appeals for the Fifth Circuit. [June 11, 1923.]

Mr. Justice Brandeis delivered the opinion of the court.

After the decision in this case, reported in 256 U. S. 350, an answer was filed which denied, in large part, the allegations of the bill. Then, by an amended answer, the Federal reserve bank disclaimed any intention of demanding payment in cash, when presenting checks at the banks, and averred its willingness to accept payment in drafts, either on the drawee's Atlanta correspondent, or on any other solvent bank, if collectable at par. The district court heard the case upon the evidence. It found that the Federal reserve bank was not inspired by any ulterior purpose to coerce or to injure any nonmember bank which refused to remit at par. It found that the evidence was insufficient to sustain any charge that the Federal reserve bank was exercising its right so as to injure or oppress plaintiff banks. And it found, specifically, that the evidence did not sustain the charge that the Federal reserve bank accumulated checks upon nonmember country banks until they reached a large amount and then caused the checks to be presented for payment over the counter, in order to compel plaintiff banks to keep in their vaults so much cash that they would be obliged either to agree to remit at par or to go out of business. With regard to publication on the par list of the names of nonassenting banks, the district court held that the evidence did not justify a finding that such publication was made in order to injure or oppress plaintiff banks. But it was of opinion that insertion of their names might lead to the belief that the plaintiff banks had agreed to remit at par. An injunction was, therefore, granted against inclusion of their names on the par list. The relief sought was in all other respects denied. The decree left the Federal reserve bank free to publish that it would make collection at par of checks upon any bank in any town, thus including those in which plaintiffs had their respective places of business. (280 Fed. 940.) These findings were approved by the Circuit Court of Appeals; and the decree was affirmed. (284 Fed. 424.)

The case is here on an appeal taken by the plaintiffs. The evidence was conflicting. No adequate reason is shown why the concurrent findings of fact made by the two lower courts should not be accepted by us. (Luckenbach *v.* W. J. McCahan Sugar Refining Co., 248 U. S. 139, 145.) Whether, on the undisputed facts, plaintiffs were entitled to additnonal relief is the main question for decision. In order to decide that question it is necessary to consider the course of business formerly prevailing and the changes wrought by the attempt to introduce universal par clearance and collection of checks through the Federal reserve banks.

A large part of the checks drawn on country banks are sent to payees who reside in places other than that in which the drawee bank is located. Payment of such a check is ordinarily secured through the payee's depositing it in his local bank for collection. This bank ordinarily used, as the means of presenting a check to the drawee, a clearing house and/or correspondent banks. Formerly when the check was so presented, the drawee ordinarily paid, not in cash, but by remittance drawn on his balance in some reserve city or by a credit with some correspondent. This process of collection yielded to the country bank a twofold profit. It earned some profit by the small service charge called exchange, which it made for the remittance or the credit. And it earned some profit by using the depositor's money during the period (sometimes weeks) in which the check was traveling the often circuitous route, with many stops, from the payee's bank to its own, and also while the exchange draft was being collected. These avenues of profit are, in large measure, closed by the Federal reserve banks' course of action. These banks do not pay any exchange charges to the drawee. And their superior facilities so shorten the time required to collect checks that the drawee bank's balances available for loans are much reduced. Largely because of the fact that the reserve banks thus make the collection without any deduction for exchange, most checks on country banks are now routed through the reserve banks. Although there is, as the district court found, no intentional accumulation or holding of checks in order to embarrass, the advantages offered by the Federal reserve banks have created a steady flow in increased volume of checks on country banks so routed. That the action contemplated by the Federal reserve

bank will subject the country banks to certain losses is clear.[1] In order to protect them from the resulting loss it would be necessary to prevent the Federal reserve banks from accepting the checks for collection. For these banks can not be compelled to pay exchange charges or to abandon superior facilities.

The contention is that the injunction should issue, because it is ultra vires the Federal reserve banks to collect checks on banks which are not members of the system or affiliated with it, through establishing an exchange balance, and which have definitely refused to assent to clearance at par. It is true that Congress has created in the reserve banks institutions special in character, with limited functions and with duties and powers carefully prescribed. Those in respect to the collection of checks are clearly defined. The original act (act of December 23, 1913, c. 6, sec. 1338, Stat. 251, 263) authorizes the reserve banks to—

"receive from any of its member banks, and from the United States, deposits of * * * checks * * * upon solvent member banks payable upon presentation; or solely for exchange purposes may receive from other Federal reserve banks deposits of * * * checks * * * upon solvent member or other Federal reserve banks payable upon presentation."

By the amendment to section 13 of September 7, 1916 (c. 461, 39 Stat. 752), the class of checks receivable was extended to "checks payable upon presentation within the district." By the amendment to section 13 of June 21, 1917 (c. 32, sec. 4, 40 Stat. 232, 235), the class of banks from which checks might be received "solely for collection" was extended. By the latter amendment the facilities offered by the Federal reserve banks were made available also to such nonmembers as became affiliated with the Federal reserve system by establishing the required balance "to offset items in transit." It is true, also, that in practice this amendment might result in excluding checks on particular banks from the class collectible through the Federal reserve banks. For it enacted the clause which prohibits payment of exchange charges by Federal reserve banks. And as this prohibition would prevent reserve banks from using the usual channels in making collection of checks drawn on those country banks which insist upon exchange charges, the reserve bank might find it impossible or unwise, as a matter of banking practice, to collect such checks at all. But the class of checks to which the reserve bank's collection service might legally be applied was left by the amendment as those "payable upon presentation within its district." Wherever the collection can be made by the Federal reserve bank, without paying exchange, neither the common law nor the Federal reserve act precludes their doing so, if it can be done consisently with the rights of the country banks already determined in this case (256 U. S. 350).

Federal reserve banks are, thus, authorized by Congress to collect for other reserve banks, for members, and for affiliated nonmembers checks on any bank within their respective districts, if the check is payable on presentation and can in fact be collected consistently with the legal rights of the drawee without payable an exchange charge. Within these limits Federal reserve banks have ordinarily the same right to present a check to the drawee bank for payment over the counter as any other bank, State or national, would have. For section 4 (38 Stat. 251, 254) provides that the Federal reserve banks shall have power—

"Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this act and such incidental power as shall be necessary to carry on the business of banking within the limitations prescribed by this act."

The findings of fact negative the charges of wrongful intent and of coercion. The Federal reserve bank has formally declared that it is willing, when presenting checks, to accept in payment a draft of the drawee bank upon its Atlanta correspondent or a draft upon any other solvent bank, if collectible at par. Country banks are not entitled to protection against legitimate competition. Their loss here shown is of the kind to which business concerns are commonly subjected when improved facilities are introduced by others, or a more efficient competitor enters the field. It is damnum absque injuria. As the course of action contemplated by the Federal reserve bank is not ultra vires, we need not consider whether lack of power, if it had existed,

[1] It is said that introduction of a universal system of par clearance and collection of checks through the Federal reserve banks would bring compensatory advantages to the country banks.

would have entitled plaintiffs to relief. (Compare National Bank *v.* Matthews, 98 U. S. 621; Blair *v.* Chicago, 201 U. S. 400, 450.)

Some minor objections are urged. The Federal Reserve Bank of Atlanta serves directly only the sixth reserve district, which includes Georgia. It is contended that the decree should be reversed because the district court refused to allow the intervention as plaintiffs of banks located outside of that district; because that court refused to admit evidence of the activities engaged in by other Federal reserve banks in other districts under the approval of the Federal Reserve Board; and because the court admitted certain joint answers to interrogatories propounded under Equity Rule 58. We can not say that the trial court abused the discretion vested in it, or erred, in so ruling.

(Affirmed.)

SUPREME COURT OF THE UNITED STATES

No. 679, October term, 1920. American Bank & Trust Co. et al., appellants, *v.* Federal Reserve Bank of Atlanta, Ga., et al. Appeal from the United States Circuit Court of Appeals for the Fifth Circuit. [May 16, 1921.]

Mr. Justice Holmes delivered the opinion of the court.

This is a bill in equity brought by country banks incorporated by the State of Georgia against the Federal Reserve Bank of Atlanta, incorporated under the laws of the United States, and its officers. It was brought in a State court but removed to the district court of the United States on the petition of the defendants. A motion to remand was made by the plaintiffs but was overruled. The allegations of the bill may be summed up in comparatively few words. The plaintiffs are not members of the Federal reserve system and many of them have too small a capital to permit their joining it—a capital that could not be increased to the required amount in the thinly populated sections of the country where they operate. An important part of the income of these small institutions is a charge for the services rendered by them in paying checks drawn upon them at a distance and forwarded, generally by other banks, through the mail. The charge covers the expense incurred by the paying bank and a small profit. The banks in the Federal reserve system are forbidden to make such charges to other banks in the system. (Federal Reserve Act of December 23, 1913, c. sec. 13; 38 Stat. 263; amended March 3, 1915, c. 93; 38 Stat. 958; September 7, 1916, c. 461; 39 Stat. 752; and June 21, 1917, c. 32, secs. 4, 5; 40 Stat. 234, 235.) It is alleged that in pursuance of a policy accepted by the Federal Reserve Board the defendant bank has determined to use its power to compel the plaintiffs and others in like situation to become members of the defendant, or at least to open a nonmember clearing account with defendant, and thereby under the defendant's requirements, to make it necessary for the plaintiffs to maintain a much larger reserve than in their present condition they need. This diminution of their lending power coupled with the loss of the profit caused by the above mentioned clearing of bank checks and drafts at par will drive some of the plaintiffs out of business and diminish the income of all. To accomplish the defendants' wish they intend to accumulate checks upon the country banks until they reach a large amount and then to cause them to be presented for payment over the counter or by other devices detailed to require payment in cash in such wise as to compel the plaintiffs to maintain so much cash in their vaults as to drive them out of business or force them, if able, to submit to the defendants' scheme. It is alleged that the proposed conduct will deprive the plaintiffs of their property without due process of law contrary to the fifth amendment of the Constitution and that it is ultra vires. The bill seeks an injunction against the defendants collecting checks except in the usual way. The district court dismissed the bill for want of equity and its decree was affirmed by the circuit court of appeals (November 19, 1920). The plaintiffs appealed, setting up want of jurisdiction in the district court and error in the final decree.

We agree with the court below that the removal was proper. The principal defendant was incorporated under the laws of the United States and that has been established as a ground of jurisdiction since Osborne *v.* Bank of the United States (9 Wheat. 738); Pacific Railroad Removal Cases (115

U. S. 1); Matter of Dunn 212 U. S. 374). We shall say but a word in answer to the appellants' argument that a suit against such a corporation is not a suit arising under those laws within section 24 of the Judicial Code of March 3, 1911 (c. 231; 36 Stat. 1087). The contrary is established, and the accepted doctrine is intelligible at least since it is part of the plaintiffs' case that the defendant bank existed and exists as an entity capable of committing the wrong alleged and of being sued. These facts depend upon the laws of the United States. (Bankers Trust Co. *v.* Texas & Pacific Ry. Co., 241 U. S. 295, 306, 307; Texas & Pacific Ry. Co. *v.* Cody, 166 U. S. 606; see further Smith *v.* Kansas City Title & Trust Co., February 28, 1921.) A more plausible objection is that by the Judicial Code, section 24, sixteenth, except as therein excepted national banking associations for the purposes of suits against them are to be deemed citizens of the States in which they are respectively located. But we agree with the court below that the reasons for localizing ordinary commercial banks do not apply to the Federal reserve banks created after the Judicial Code was enacted and that the phrase "national banking associations" does not reach forward and include them. That phrase is used to describe the ordinary commercial banks whereas the others are systematically called "Federal reserve banks." We see no sufficient ground for supposing that Congress meant to open the questions that the other construction would raise.

On the merits we are of opinion that the courts below went too far. The question at this stage is not what the plaintiffs may be able to prove or what may be the reasonable interpretation of the defendants' acts, but whether the plaintiffs have shown a ground for relief if they can prove what they allege. We lay on one side as not necessary to our decision the question of the defendants' powers, and assuming that they act within them consider only whether the use that according to the bill they intend to make of them will infringe the plaintiffs' rights. The defendants say that the holder of a check has a right to present it to the bank upon which it was drawn for payment over the counter, and that however many checks he may hold he has the same right as to all of them and may present them all at once, whatever his motive or intent. They ask whether a mortgagee would be prevented from foreclosing because he acted from disinterested malevolence and not from a desire to get his money. But the word "right" is one of the most deceptive of pitfalls; it is so easy to slip from a qualified meaning in the premise to an unqualified one in the conclusion. Most rights are qualified. A man has at least as absolute a right to give his own money as he has to demand money from a party that has made no promise to him; yet, if he gives it to induce another to steal or murder, the purpose of the act makes it a crime.

A bank that receives deposits to be drawn upon by check, of course, authorizes its depositors to draw checks against their accounts and holders of such checks to present them for payment. When we think of the ordinary case, the right of the holder is so unimpeded that it seems to us absolute. But looked at from either side it can not be so. The interests of business also are recognized as rights, protected against injury to a greater or less extent, and in case of conflict between the claims of business on the one side and of third persons on the other, lines have to be drawn that limit both. A man has a right to give advice, but advice given for the sole purpose of injuring another's business and effective on a large scale might create a cause of action. Banks, as we know them, could not exist if they could not rely upon averages and lend a large part of the money that they receive from their depositors on the assumption that not more than a certain fraction of it will be demanded on any one day. If, without a word of falsehood but acting from what we have called disinterested malevolence, a man by persuasion should organize and carry into effect a run upon a bank and ruin it, we can not doubt that an action would lie. A similar result, even if less complete in its effect, is to be expected from the course that the defendants are alleged to intend, and to determine whether they are authorized to follow that course it is not enough to refer to the general right of a holder of checks to present them, but it is necessary to consider whether the collection of checks and presenting them in a body for the purpose of breaking down the petitioner's business as now conducted is justified by the ulterior purpose in view.

If this were a case of competition in private business, it would be hard to admit the justification of self interest considering the now current opinion as to public policy expressed in statutes and decisions. But this is not private business. The policy of the Federal reserve banks is governed by the

policy of the United States with regard to them and to these relatively feeble competitors. We do not need aid from the debates upon the statute under which the reserve banks exist to assume that the United States did not intend by that statute to sanction this sort of warfare upon legitimate creations of the States.

(Decision reversed.)

ANALYSIS AND COMMENTS ON THE OPINIONS OF THE SUPREME COURT OF THE UNITED STATES IN THE ATLANTA AND NORTH CAROLINA PAR CLEARANCE CASES, JUNE 11, 1923

[Prepared and distributed by the National and State Bankers' Protective Association and the committee of defense of the Country Bankers' Association of Georgia]

NO "LYNCH LAW" FOR SMALL BANKS

Financial violence through a mob of checks no longer to be feared.

Only bare stem, too weak to survive, left of collection system when supreme court finished pruning process on unauthorized activities.

Par clearance not mandatory, says court—reserve banks' right to establish it limited by State banks' unrestricted right to charge exchange.

Reserve banks were never expected nor intended to become universal clearing agents.

Member banks regained right to charge exchange through Hardwick amendment.

Right of self-determination by small banks made safe.

HISTORICAL

On December 23, 1919, the Federal Reserve Bank of Atlanta sent out a letter to nonpar-remitting banks in the sixth district in which it said, in part:

"However, the time has now arrived, when, in justice to the 8,955 member banks of the Federal reserve system, and the nonmember banks who maintain clearing accounts with the various Federal reserve banks, together with the 16,196 nonmember banks who are remitting at par, we must, in compliance with the intent of the Federal reserve act, begin receiving on deposit, at par, checks and drafts payable on presentation drawn on any bank in the United States, whether a member of the Federal reserve system or not. This will include the checks and drafts upon your bank, and the purpose of this letter is to ask that you join the vast army of par-remitting banks by advising us it will be agreeable for us to include your name in the next issue of our par list, and that you will remit to us at par for items drawn upon you. While, as stated, the Federal reserve act does not permit us to pay exchange for the remittance of bank checks and drafts payable upon presentation, we can incur any cost that is necessary in order to carry out the purposes of the act, and we would very much regret to be forced to adopt other methods of collection that would prove embarrassing, annoying, and expensive to you."

COUNTRY BANKS ADOPT RESOLUTIONS

On December 30, 1919, a largely attended meeting of Georgia banks, under the auspices of the Country Bankers' Association of Georgia, was held in Atlanta to decide upon what position these banks would assume in regard to this announcement and policy by the reserve bank.

The meeting adopted strong resolutions in opposition to the announced policy of the reserve banks, including this:

"*Resolved*, First, we deplore this action of the Federal reserve bank in attempting to place all banks of the sixth Federal reserve district upon its par list.

Second, that such action upon their part if accomplished will upset an economic principle heretofore acknowledged as just and fair to the country banks of this section; furthermore, affect seriously a legitimate source of profit and offer nothing in return for this sacrifice upon the part of the small banks situated throughout the agricultural districts of Georgia.

Third, we further deplore the announced intention of the Federal reserve bank as contained in their letter December 22, 1919, in which they state that upon our failure to submit to the enforced par clearance of our checks that they

will employ methods which will be expensive, embarrassing, and annoying to our institutions and to our customers; such coercive methods are both hostile and repugnant to the principles of democracy and freedom as proclaimed and defended by our Government not only by our fathers and forefathers, but more recently upon the battle fields of France.

Fourth, we regard with grave concern this contemplated action upon the part of the Federal reserve bank to usurp the rights, powers, and privileges guaranteed us under our State charters and by the spirit "might makes right" enforce upon us nationalization or federalized control.

Fifth, that it is the settled conviction of the State banks of Georgia, here assembled, that it is the imperative duty of all such banks to defend with every expedient available against this threatened invasion of their vested rights and revenues and the vital interests of their customers and communities."

This meeting also provided for the appointment of a committee of defense of 25 to take charge of the organized resistance of the country banks, which committee is still functioning.

THE ISSUE JOINED

The effort and purpose of the Federal Reserve Bank of Atlanta was to put the entire sixth district (including Georgia) on a basis of universal par clearance.

The aim and purpose of the country banks was to defeat the Federal reserve bank's effort to establish universal par clearance in this district. That is what the fight was about then and that remains the issue to-day, and in order to understand the situation to-day it is well to keep this basic purpose in mind The issue was thus joined.

And thus the fight was thrust upon us. We did not seek it but only asked to be let alone. Having refrained from acquiring membership we sought no business relations with reserve banks and desired only to be let alone.

We have confined ourselves to the issues involved and have criticized no other policies save those relating to par clearance.

The Federal reserve system has suffered from this par clearance controversy and suffered severely but they must in all justice attribute all unpleasant consequences to their own shortsightedness and mistaken policy.

We are thus presented with the alternatives—surrender our rights or fight. We choose to fight.

For more than three years this contest has waged with great intensity and earnestness, and many collateral issues have grown out of it, but basically the contest remains, Shall the Federal reserve bank establish universal par clearance?

If the Federal reserve bank succeeds in establishing par clearance in this district, we have failed. But if it does not succeed in its efforts to do so, then we have won our fight.

Our success or failure, and theirs, must be measured by the result finally accomplished, and not by what they or we may claim or say.

THE ATLANTA CASE

The first step in our organized campaign of defeuse was taken on January 15, 1920, when we sought and obtained from the Superior Court of Fulton County, Ga., a temporary restraining order, restraining the Federal Reserve Bank of Atlanta, in part, as follows:

"In the meantime and until the hearing or further order of the court the defendants and each of them, their agents and servants, are restrained from employing and putting into effect any method of collecting checks drawn against petitioners or either of them, or against any other bank in like condition which is hereafter made a party plaintiff in this case, that would prove embarassing, annoying, or expensive to such banks; and from collecting such checks in any manner except in the usual and orderly way now employed among corresponding banks and clearing houses; and from interfering with any such bank in charging, collecting, or retaining the usual and customary rate of exchange charges now in effect between corresponding banks and clearing houses.

"It is the sole and only object and purpose of this restraining order to preserve the existing status and method of collecting and remitting for checks through the mails by petitioners and other banks in like situation who may

become party plaintiff in this case until the matters complained of in this petition may be heard by the court in regular course.

"This January 15, 1920."

This has since become known as "The Atlanta case."

As originally filed the Atlanta case embraced only banks in the State of Georgia but immediately after the granting of this restraining order against the Federal Reserve Bank of Atlanta banks in other States in the sixth district sought the court's protection under this order, intervened, and became parties to the Atlanta case.

NATIONAL AND STATE BANKERS' PROTECTIVE ASSOCIATION FORMED

Encouraged by the successful fight being made by the Georgia banks, banks in other districts began to assert themselves, and to seek cooperation with the banks of the sixth district, while the banks of this district also sought to coordinate their efforts with the others; and this resulted in the formation at New Orleans on February 6, 1920, of the National and State Bankers' Protective Association, charged with the duty of carrying on the campaign all over the United States.

The Georgia campaign, then, to a greater or less degree became merged with the national campaign and the Atlanta case important in proportion to the relation it bore to the campaign as a whole.

OTHER PAR CLEARANCE CASES

During the progress of the fight, and as a result of the successful resistance of the Georgia banks, there has been begun three other cases of litigation, viz:

Farmers & Merchants Bank of Catlettsburg, Ky., *v.* the Federal Reserve Bank of Cleveland, and known as the Kentucky case; the Farmers & Merchants Bank of Monroe, N. C., et al. *v.* the Federal Reserve Bank of Richmond, and known as the North Carolina case; and the Brookings State Bank of Brookings, Oreg., *v.* the Federal Reserve Bank of San Francisco and known as the Oregon-California case.

The Atlanta case alone was based on threatened action, while in the other cases the overt acts had already been committed upon numerous occasions. This placed a much heavier burden of proof on us in the Atlanta case as we were called on to prove intention.

The Atlanta case was removed to the Federal court and went to the Supreme Court of the United States on demurrer.

EIGHT STATE EXCHANGE LAWS

During the progress of the campaign eight States, as a result of the efforts of the Country Bankers Association of Georgia and the National and State Bankers' Protective Association, in connection with local bankers, passed laws designed to protect nonmember State banks in the matter of exchange charges. These States include all States in the sixth district and some others—North Carolina and South Dakota.

These laws are not uniform, but all have a common object—that of preserving the right to charge exchange and to protect banks from Federal reserve coercion.

STATEMENT OF RESERVE BANK COUNSEL

In the Atlanta case, H. N. Randolph, counsel for the reserve bank, is quoted as saying:

"As a primary result of the decision in the latter case, the restraining order which was granted more than three years ago against the Federal Reserve Bank of Atlanta will be dissolved and set aside as soon as the judgment of the United States Supreme Court can be made the judgment of the United States district court here.

"When that is done the case will be at end with every point decided in favor of the Federal Reserve Bank of Atlanta and what is more with all the acts and steps taken by its officers in inaugurating the par remittance program sustained in every particular and completely vindicated."

The Federal Reserve Bank of Atlanta and its officers were not charged with the commission of any unlawful acts or coercive conduct, of which any court

could convict or acquit them. They were charged with intending a line of conduct in conformity to the threat contained in their letter and which the alleged they were authorized, nay required, by law to adopt. Before the necessary machinery for their campaign of force could be assembled and put into operation they were stopped by the injunction and denied the opportunity of committing any of the illegal acts of which they claim now to have been acquitted. They loudly claim, through counsel, acquittal of that of which they were not even charged.

We have never thought that the directors and officers of the Atlanta reserve bank had much heart in this fight, or, if left to themselves, free from Reserve Board constraint, that they would have inaugurated a coercive campaign to accomplish it. And yet, when it seemed likely to succeed, they appeared in their testimony entirely willing, if not anxious, to assume responsibility for it.

DECREES IN ATLANTA CASE

While it is true that in the Atlanta case the Supreme Court affirmed the decree of the lower courts and denied our appeal for additional protection, at the same time a thorough examination of the decisions and the record discloses that we have, as a practical matter, but slight ground for disappointment even here. All of the essential legal questions involved have been settled in our favor, and our rights firmly established. This being true, and in view of the disclaimer filed by the reserve bank under oath, the Supreme Court seemed to think we did not need any further protection from the courts than is afforded by the limited injunction decreed by the lower courts.

In this case, it is not enough to look only at the questions decided by the Supreme Court in its latest opinion but we must look as well to the first opinion of the court in this case, as handed down May 16, 1921, and which the latest opinion reaffirms and applies to the issues of the case.

RIGHTS OF HOLDER LIMITED

In the first place, never since the establishment of the first bank and prior to this decision had the courts defined any limitations upon the rights of the holders of one check or of many to present those checks to the drawee bank and demand payment thereof in cash. Indeed it was popularly supposed that that right was absolute and was not restricted by whatever the motive or intent of such presentation might be. It was upon this erroneous conception that the plan of direct presentation and demand for cash was based, and its ultimate success expected.

The reserve banks made this a part of their contentions, and claimed as a result of it the right to carry out their scheme.

In disposing of this contention and finally setting up an important principle of the law of bank checks, Mr. Justice Holmes said in the opinion of the Supreme Court referred to:

"The defendants say that the holder of a check has a right to present it to the bank upon which it was drawn for payment over the counter, and that however many checks he may hold he has the same right as to all of them and may present them all at once, whatever has motive or intent. * * * Most rights are qualified. A man has at least as absolute a right to give his own money as he has to demand money from a party that has made no promise to him; yet if he gives it to induce another to steal or murder the purpose of the act makes it a crime. * * * When we think of the ordinary case the right of the holder is so unimpeded that it seems to us absolute. But looked at from either side it can not be so. The interests of business also are recognized as rights, protected against injury to a greater or less extent and in case of conflict between the claims of business on the one side and of third persons on the other lines have to be drawn that limit both."

This, then, constitutes an important and essential legal contention and principle which the country banks have won for all time, in this case, and constitutes the first major defeat for the reserve banks in their campaign to enforce par clearance. They have no right to "collect checks and present them in a body for the purpose of breaking down a bank's business as now conducted." Continuing to define the limits which circumscribe the right of presenting checks, the Supreme Court then said:

"A similar result even if less complete in its effect is to be expected from the course that the defendants are alleged to intend, and to determine whether

they are authorized to follow that course it is not enough to refer to the general right of a holder of checks to present them but it is necessary to consider whether the collection of checks and presenting them in a body for the purpose of breaking down the petitioner's business as now conducted is justified by the ulterior purpose in view."

RIGHT TO RELY ON AVERAGES

In this decision the Supreme Court also established another right of vital importance to all banks, that being the right to rely upon "averages" in anticipating the withdrawal of deposits upon checks from day to day.

Having the right to rely on such averages recognized and established, it follows as a necessary corallary that the reserve banks can claim no power or privilege to adopt a course of conduct toward them calculated to upset and destroy these averages. Upon this point the court said:

"Banks as we know them could not exist if they could not rely upon averages and lend a large part of the money that they receive from their depositors on the assumption that not more than a certain fraction of it will be demanded on any one day."

WARFARE OUTLAWED

And finally the court outlawed the particular sort of "warfare" which had been waged to enforce par clearance, when it said in the final paragraph of its decisions:

"The policy of the Federal reserve banks is governed by the policy of the United States with regard to them and to these relatively feeble competitors. We do not need aid from the debates upon the statute under which the reserve banks exist to assume that the United States did not intend by that statute to sanction this sort of warfare upon legitimate creations of the States."

All of these fundamental points and issues had been won by the country banks prior to the second decision of the Supreme Court, and in it are reaffirmed and applied to the case. So that the second opinion of the court in the Atlanta case must be read and interpreted with the rights established, and these principles set up.

MAIN QUESTION IN FINAL DECISION

Taking express and judicial cognizance of the disclaimer filed under oath by the Reserve Bank of Atlanta, and referriing back to its former decision in the case, the Supreme Court in the present opinion says:

"Whether on the undisputed facts, plaintiffs were entitled to additional relief is the main question for decision."

Other issues treated of are then but incidental to the main question as stated.

This case differs from the ordinary law suit for the recovery of money or some similar object, and which is settled by a verdict for or against the defendant.

It relates rather to a policy and the continuance of a course of conduct composed of numerous elements and a multitude of individual acts all more or less interrelated, some harmless in and of themselves and some vicious. So that to clearly understand what the term "further relief" embraces we must look back and see what relief we have already obtained.

RELIEF GRANTED

First, we have the bill of rights which the Supreme Court announced and established for us on the first hearing, and as set out above.

Second, we have the injunction against the publication of our names on the par list as granted by the district court, and now made permanent; and

Third, we have the sworn disclaimer of the reserve bank in which they formally abandon most of their previous essential positions and contentions,

DISCLAIMER

That disclaimer in part was:

"Neither the Federal Reserve Bank of Atlanta, nor any of its officers had any intention of adopting a method which would prove embarrassing, annoying or expensive to the banks in question or to any other bank. Neither the writer nor any officer of the Federal reserve bank desired to employ any methods which

would embarrass, annoy, or cause expense to any bank whatsoever. The method in contemplation was simply this: In case a nonmember State bank should not be willing to remit in available exchange at par through the mails for checks sent by the Federal Reserve Bank of Atlanta for payment, the Federal reserve bank, in order to collect such checks in the only other method available, would forward the checks as and when received, without accumulation and in the regular course of business, to an agent or agents located in the same town as the bank on which said checks were drawn, or would send one of its own representatives with the checks in question to such town, such agent to be instructed immediately to present the checks across the counter for payment either in the usual exchange at par or in cash for the full amount thereof, at the option of the drawee bank. In case the drawee bank refused to pay such checks either in such exchange at par or in cash, the agents were to be instructed to have the check protested for nonpayment and thereafter return the check to the Federal Reserve Bank of Atlanta. * * * The sole and only purpose of the Federal Reserve Bank of Atlanta in the matter in question is to render to its member banks and to its clearing member banks depositing checks with it for collection the service of collecting the checks at par, as contemplated by the provisions of the Federal reserve act. * * * The Federal reserve bank will be willing to accept in payment a draft of the drawee bank on its Atlanta correspondent or a draft upon any other solvent bank, which is collectible at par."

Fourth, we have the relief afforded by the opinion of the Supreme Court in the North Carolina case interpreting sections 13 and 16 of the reserve act defining the duties and powers of the Reserve Board and banks in the premises, which was handed down concurrently with this decision, and which destroys practically all of the remainder of the reserve bank's essential contentions.

That is the present relief which the court must have had in mind when it undertook to say whether we were entitled to any further relief, and decided we were not.

But, for all practical purposes it is quite sufficient.

Of course, it is also true we have State exchange laws in every State in the sixth district and in some other States, each sufficient to afford relief to the banks in that State, and the only one that has been attacked held to be good and valid. But the court was not at that time considering State laws in the sixth district.

ELIGIBILITY OF CHECKS DEFINED

Further in this opinion the court says:

"But the class of checks to which the reserve bank's collection service might legally be applied, was left by the amendment as those 'payable upon presentation within its district.'"

The limitation "within its district" is not mere surplusage—it fixes a definite limitation upon the right of each Federal reserve bank.

This limitation upon the class of checks which may be legally received by the Federal reserve banks is just as definite as though this sentence read: "But the class of checks to which the reserve banks' collection service may be legally applied are those payable within its district."

To give force to this qualification it must be held that the collection system of each Federal reserve bank is legally restricted to checks payable within its own district, and to receive checks payable in any other district save its own is an illegal application of its collection service.

There is no difficulty in reconciling this construction with the provision in section 16 that Federal Reserve Board may act as a clearing house for Federal reserve banks, because there is no conflict. While the reserve banks can not receive for collection checks payable outside of their own districts they may receive in payment of obligations due them checks drawn upon member banks in any district; and it is in the collection of this latter class of checks that the reserve board may act as a clearing house for reserve banks.

How is an inter-district collection system legally possible under the court's emphasis of "payable upon presentation within its district?"

How can the New York bank under this language receive for collection a check drawn on a bank in the Cleveland district, or the Atlanta bank one payable in the Richmond district? What additional power have they to receive for collection an ineligible check through another reserve bank over one from a member outside its district This definite limitation seems heretofore to have been wholly ignored by all reserve banks.

Continuing, the court says:

"Wherever collection can be made by the Federal reserve bank, without paying exchange, neither the common law, nor the Federal reserve act precludes their undertaking it; if it can be done consistently with the rights of the country banks as already determined in this case (256 U. S. 350)."

NONMEMBERS' RIGHTS REAFFIRMED

Again note the proviso, "If it can be done consistently with the rights of the country banks already determined in this case."

Those rights, as already determined, as they have been analyzed above.

We do not think the reserve bank can take much consolation or benefit from this, or that we have lost anything.

Country banks have never sought protection from legitimate competition, and lose nothing from its denial.

So on the whole, while denying us any additional relief in the Atlanta case which it did not think we needed, the court in affirming the lower courts' decree has done no harm, but on the other hand in bringing out the ineligibility of interdistrict collections has dealt the reserve bank collection system a body blow.

THE NORTH CAROLINA ACT

Mr. Alexander W. Smith, leading counsel in the Atlanta case, was associated with Mr. John J. Parker, of Charlotte, N. C., in the successful defense of the constitutionality of the North Carolina law.

The chief provisions of the North Carolina law are:

"SECTION 1. That for the purpose of providing for the solvency, protection, and safety of the banking institutions and trust companies chartered by this State and having their principal offices in this State, it shall be lawful for all banks and trust companies in this State to charge a fee, not in excess of one-eighth of 1 per cent, on remittances covering checks, the minimum fee on any remittances therefor to be 10 cents.

"SEC. 2. That in order to prevent accumulation of unnecessary amounts of currency in the vaults of the banks and trust companies chartered by this State, all checks drawn on said banks and trust companies shall, unless specified on the face thereof to the contrary by the maker or makers thereof, be payable at the option of the drawee bank, in exchange drawn on the reserve deposits of said drawee bank when any such checks are presented by or through any Federal reserve bank, postoffice, or express company, or any respective agents thereof."

THE NORTH CAROLINA CASE

The Federal Reserve Bank of Richmond took the position that this law was unconstitutional and invalid, and this developed into what is known as the North Carolina case.

The lower State courts in North Carolina upheld this law, but the Supreme Court of North Carolina declared it unconstitutional as being in conflict with the Federal reserve act, and it was presently before the Supreme Court of the United States on certiorari for an interpretation of sections 13 and 16 of the reserve act. The Atlanta and North Carolina cases were heard and argued together before the Supreme Court, and the decisions handed down contemporaneously, so that to get a complete and correct understanding of the court's opinions, they must be read and considered in the light of each other.

In this controversy there were two basic contentions involved:

(*a*) The Federal reserve bank contended that the Federal reserve act made it mandatory upon it to establish a system of universal par clearance; and

(*b*) That the same act destroyed the rights of nonmember banks to charge exchange.

The first of these contentions was made in the following language—as well as upon many other occasions:

"The action of the various Federal reserve banks in extending their par lists has met with the cordial approval of the Federal Reserve Board, which holds the view that under the terms of existing law, the Federal reserve banks must use every effort to collect all bank checks received from member banks at par. * * * It is the board's duty to see that the law is administered fairly and without discrimination and that it applies to all banks alike and it is making an earnest endeavor to carry out the laws as construed by the

highest legal authorities of the administrative branch of the Government." (Extract from Gov. W. P. G. Harding's letter attached to petition in Atlanta case as Exhibit A.)

"However, the time has now arrived, when, in justice to the 8,955 member banks of the Federal reserve system, and the nonmember banks who maintain clearing accounts with the various Federal reserve banks, together with the 16,196 nonmember banks who are remitting at par, we must, in compliance with the intent of the Federal reserve act, begin receiving on deposit, at par, checks and drafts payable on presentation drawn on any bank in the United States whether a member of the Federal reserve system or not. This will include the checks and drafts drawn upon your bank, and the purpose of this letter is to ask that you join the vast army of par remitting banks by advising us it will be agreeable for us to include your name in the next issue of our par list, and that you will remit to us at par for items drawn upon you. While, as stated, the Federal reserve act does not permit us to pay exchange for the remittance for bank checks and drafts payable upon presentation, we can incur any cost that is necessary in order to carry out the purposes of the act, and we would very much regret to be forced to adopt other methods of collection that would prove embarrassing, annoying, and expensive to you." (Letter of Gov. M. B. Wellborn attached to petition in Atlanta case as Exhibit B.)

"Whereas under the terms of section 13 and section 16 of the Federal reserve act, Federal reserve banks are required to receive on deposit checks or drafts payable upon presentation; and * * *

"Whereas at recent conferences of Federal reserve agents and governors of Federal reserve banks, the sentiment was expressed that the entire country should be put on a universal par clearance basis in accordance with the Federal reserve act. Be it

"*Resolved*, That the board of directors of the Federal Reserve Bank of Atlanta does hereby instruct the officers of the bank to adopt such plans and incur any necessary expense in order to effectively arrange for the par clearance of checks and drafts drawn upon present nonpar-remitting banks, payable upon presentation, received upon deposit by the Federal Reserve Bank of Atlanta." (Resolutions of Atlanta Reserve Bank directors, December 11, 1919.)

Testifying with reference to the campaign to establish universal par clearance, following questions were propounded to and answered by W. P. G. Harding (see transcript Atlanta case, 286–287).

Q. Where was that campaign first started?—A. It was started in New England in the Boston district.

Q. Why did you not inaugurate it all over the United States at one time?—A. Because it was not possible to do it.

Q. Why was it not possible to do it?—A. It was a new system, and we had to work it out along the lines of least resistance.

Q. If the law compelled you to do it, what discretion did you have as to where you would start?—A. I think we had a good deal of discretion.

Q. Then, it was not mandatory, was it?—A. Oh, yes.

"But they believed that it was their duty to accept for collection any check on any bank; and that Congress had imposed upon them the duty of making par clearance and collection of checks universal in the United States. * * * But the Federal reserve banks insisted that no alternative was left open to them since they had to collect the checks and were forbidden to pay exchange charges." (United States Supreme Court in the North Carolina case.)

NO DUTY TO ESTABLISH PAR CLEARANCE

In finally disposing of this contention the United States Supreme Court said:

"Congress did not in terms confer upon the Federal Reserve Board or the Federal reserve banks a duty to establish universal par clearance and collection of checks; and there is nothing in the original act or in any amendment from which such duty to compel its adoption may be inferred. The only sections which in any way deal with either clearance or collection are 13 and 16. In neither section is there any suggestion that the reserve board and the reserve banks shall become an agency for universal clearance. On the contrary, section 16 strictly limits the scope of their clearance functions. It provides that the Federal Reserve Board—

"'may at its discretion exercise the functions of a clearing house for such Federal reserve banks * * * and may also require each such bank to exercise the functions of a clearing house for its member banks.'

"NO REFERENCE TO PAR COLLECTIONS IN ACT

"There is no reference whatever to 'par' in section 13, either as originally enacted or as amended from time to time. There is a reference to 'par' in section 16; and it is so clear and explicit as to preclude a contention that it has any application to nonmember banks, or to the ordinary process of check collection here involved."

IS "IRRECONCILABLE WITH HARDWICK AMENDMENT"

Moreover, the establishment of a universal par clearance system is not only unauthorized but is found by the court to be obnoxious to and irreconcilable with the specific provision of the Hardwick amendment. It said:

"Moreover, the contention that Congress has imposed upon the board the duty of establishing universal par clearance and collection of checks through the Federal reserve banks is irreconcilable with the specific provision of the Hardwick amendment."

POWER TO ESTABLISH LIMITED—NONMEMBERS' RIGHT TO CHARGE EXCHANGE UNRESTRICTED

Contrary to the contention that the Federal reserve act destroyed any of the rights of nonmember banks to charge exchange, the court held:

"The power of the Federal Reserve Board to establish par clearance was, thus, limited by the unrestricted right of unaffiliated nonmember banks to make a charge for exchange and the restricted right of members and affiliated nonmembers to make the charge therefor fixed as reasonable by the Federal Reserve Board. No bank could make such a charge against the Federal reserve banks, etc."

ATTORNEY GENERAL'S OPINION

The court also quotes with approval from the official opinion of the Attorney General to President of March 21, 1918, and before this campaign to enforce par clearance was begun, as follows:

"The Federal reserve act, however, does not command or compel these State banks to forego any right they may have under the State laws to make charges in connection with the payment of checks drawn upon them. The act merely offers the clearing and collection facilities of the Federal reserve banks upon specified conditions. If the State banks refuse to comply with the conditions by insisting upon making charges against the Federal reserve banks, the result will simply be, so far as the Federal reserve act is concerned, that since the Federal reserve banks can not pay these charges they can not clear or collect checks on banks demanding such payment from them."

Continuing, the court said:

"The Federal Reserve Board and the Federal reserve banks were thus advised that they were prohibited from paying an exchange charge to any bank.

"The expression would seem to imply that the checks must be payable either in cash or in such funds as are deemed by the reserve bank to be an equivalent. A check payable at the option of the drawee by a draft on distant reserves would seem not to be within the limited class of checks referred to in the act."

The court thus finally settled beyond further question that not only is the Federal Reserve Board and banks under no duty to establish a system of universal par clearance, but in attempting to do so, their action has been irreconcilable with the purposes and intentions of the act.

Not only this, but their power to do so is limited by the court "by the unrestricted right of unaffiliated nonmember banks to make a charge for exchange and the restricted right of members."

How then can the board and banks make any further effort to extend their clearing system or to maintain the system they have already established without a total disregard for the decision of the highest court, violating the

purposes of the act, and displaying a complete indifference to the rights of banks as set up by the court?

The court has said they have no duty to do so—that it is contrary to the purposes of the act, and their power is limited by the rights of nonmember banks.

How can they continue? In what sort of a position will it place them if they do continue?

Responsibility must rest where it belongs. Can they afford to assume that burden? As mildly as it can be stated, these decisions must inevitably prove a serious blow to Federal reserve prestige.

What reason can they give which will not do violence to their oft-repeated contention that their sole and only purpose is to carry out the requirements of the act?

MEMBER BANKS REGAINED RIGHTS

Now as to member banks. Where do they stand in relation to this decision? With respect to these banks the court said:

"The right to make a charge for payment of checks, thus regained by member and preserved to affiliated nonmember banks, shows that it was not intended, or expected, that the Federal reserve banks would become the universal agency for clearance of checks. For, since against these the final clause prohibited the making of any charge, then if the reserve banks were to become the universal agency for clearance, there would be no opportunity for any bank to make as against any bank a charge for the 'payment of checks.'"

So then the court makes it clear that it was not intended nor expected that the reserve board would establish a system that would deprive member banks of "the right to make a charge for the payment of checks, thus regained by member and preserved to affiliated nonmember banks."

Member banks' right to exchange under the reserve act is thus firmly established by the Supreme Court.

MEMBER BANKS LOSSES

All the loss of exchange revenue by member banks since 1917, through the establishment of the Federal reserve par clearance system, is thus held by the Supreme Court to be contrary to the intentions and express provisions of the act. What has deprived them of this revenue? It was the act of the reserve board, in establishing its clearance system and enforcing its operation in a way and on a basis contrary to the official ruling of the Attorney General and which was "irreconcilable with the express provision of the Hardwick amendment." That is what the board and the Federal reserve banks have done to their member banks. Member banks, when they understand the situation, are now going to ask the board the very pertinent question—"Are the Federal reserve banks going to continue to deprive members of the exchange revenue which the Supreme Court has said the members are entitled to and that Congress intended them to have?" What will the reserve board answer? What can it say?

WILL BOARD RESPECT MEMBERS' RIGHTS

Will it say "We are willing for our members to have all the revenue which Congress intended they should have—and to restore to them that of which they have been wrongfully deprived we will abandon a clearing system which the Supreme Court has said we were never expected or intended to inaugurate?" Will they say that, or will they willfully set at naught the intentions of Congress and the decisions of the highest court in the world and continue the clearing system until new litigation in behalf of member banks restrains them?

POWER TO HANDLE NONMEMBER' CHECKS

Now, let us consider for a moment the right and power of the Federal reserve bank of Atlanta to handle for collection checks drawn on any unaffiliated nonmember bank in Georgia or the other States in the Sixth District (all having exchange laws).

Touching this question the court said:

"But neither section 13, nor any other provision of the Federal reserve act, imposes upon reserve banks any obligations to receive checks for collection. The act merely confers authority to do so.

"There is surely nothing in the act to indicate that reserve banks must undertake the collection of checks in cases where it is impossible to obtain payment except by incurring serious expense; as, in presenting checks by special messenger at a distant point. Furthermore, the checks which the act declares reserve banks may receive for collection are limited to those 'payable on presentation.' The expression would seem to imply that the checks must be payable either in cash or in such funds as are deemed by the reserve bank to be an equivalent. A check payable at the option of the drawee by a draft on distant reserves would seem not to be within the limited class of checks referred to in the act."

Checks drawn on Georgia banks under the State law are payable "either in money or exchange drawn on its approved reserve agents" and this may be upon distant reserve agents checks upon which are not collectible at par. So that it seems clear that checks drawn upon unaffiliated nonmember banks in Georgia and other States having exchange laws are not among those which the act declares the reserve banks may receive for collection.

PAR CLEARANCE MEANS NOTHING TO PUBLIC

A great deal has been said of the public's interest in par clearance, and of the benefits which are supposed to flow to the public from the operation of the Federal reserve par clearance system.

It is interesting to note the Supreme Court's remarks on this point:

"Par clearance does not mean that the payee of a check who deposits it with his bank for collection will be credited in his account with the face of the check if it is collected. His bank may, despite par clearance, make a charge to him for its service in collecting the check from the drawee bank. It may make such a charge although both it and the drawee bank are members of the Federal reserve system; and some third bank which aids in the process of collection may likewise make a charge for the service it renders."

This is exactly in keeping with what we have so frequently told the public and it reduces the "bunco boast" that "par clearance would make every farmer's check worth a hundred cents on the dollar everywhere in the United States" to an absurdity.

What is the life of a check? It is from the time is is drawn until it is paid, and the only time it has any value is when it is in life. Under the reserve system's deferred-credit plan of collection if a depositor places a $1,000 check on Denver, Colo., in an Atlanta bank and receives immediate credit, as is customary, in order to collect it through the reserve system the Atlanta bank must put up with the reserve bank of its district $100 of real money as a reserve against the $1,000 deposit until the check has been collected in Denver and the proceeds paid to the Atlanta Reserve Bank. The check is not good as a reserve against itself. It is worth 10 per cent less than nothing. In central reserve city banks it is worth 13 per cent less than nothing, and in "country banks" it is worth 7 per cent less than nothing.

Instead of checks, then, being worth 100 cents on the dollar, they are worth 7 to 13 per cent less than nothing, under the boasted "par clearance" system of the reserve banks.

At this time the weekly consolidated statements of the reserve banks are showing about $600,000,000 of the highest type of bank credit outlawed and withdrawn from the use of commerce by this process, to which should be added the 7 to 13 per cent, required to maintain reserves thereon where secured through demand deposits.

That this is generally true is well known to all bankers.

What can be said in favor of reiterated claims which the court has shown to be so completely without basis of fact?

CHARGED WITH "COERCION"—CONVICTED OF "COMPULSION"

In handing down these decisions the Supreme Court has settled several much controverted questions of fact in this campaign; we have charged repeatedly that the Federal reserve system was guilty of coercion and that it had inaugurated a system of compulsion by which it was and expected that it would be able to compel nonmember banks to forego their rights and revenues and join the par clearance system of the reserve banks.

Commenting on this phase of the matter, the Supreme Court said:

"The board began by efforts to induce the banks to adopt par clearance voluntarily. The attempt was not successful. The board then concluded to apply compulsion. * * * The first step in the campaign of compulsion was taken in the summer of 1916. * * * By December 15, 1916, only thirty-seven of the State banks within the United States, numbering about 20,000, had become members of the system. * * * A further amendment to section 13, was thereupon secured by act of June 21, 1917, * * * thus a Federal reserve bank was authorized to receive for collection checks from nonmembers who maintained with it the prescribed balance; and strenuous efforts were then made to induce all State banks to so arrange. But the law did not compel State banks to do this. Many refused; and they continued to insist on making exchange charges. On March 21, 1918, the Attorney General advised the President: 'If the State banks refuse to comply with the conditions by insisting upon making charges against the Federal reserve banks, the result will simply be, so far as the Federal reserve act is concerned, that since the Federal reserve banks can not pay these charges they can not clear or collect checks on banks demanding such payment from them.'

"The Federal Reserve Board and the Federal reserve banks were thus advised that they were prohibited from paying an exchange charge to any bank. But they believed that it was their duty to accept for collection any check on any bank; and that Congress had imposed upon them the duty of making par clearance and collection of checks universal in the United States. So they undertook to bring about acquiescence of the remaining State banks to the system of par clearance. Some of the nonassenting State banks made stubborn resistance. To overcome it the reserve banks held themselves out as prepared to collect at par also checks on the State banks which did not assent to par clearance. This they did by publishing a list of all banks from whom they undertook to collect at par, regardless of whether such banks had agreed to remit at par or not. * * * If a State bank presisted in refusal to remit at par, the reserve banks caused these checks to be presented, at the drawee bank, for payment in cash over the counter. The practice adopted by the reserve banks would, if pursued, necessarily subject country banks to serious loss of income. It would deprive them of their income from exchange charges; and it would reduce their income-producing assets by compelling them to keep in their vaults in cash a much larger part of their resources than theretofore. That such loss must result was admitted. That it might render banks insolvent was clear."

Thus the Supreme Court has found the Federal reserve system on the charge of coercion and compulsion, in substance, guilty as charged.

ULTERIOR MOTIVE

Another charge which has been made repeatedly by the country banks was that by this process of compulsion in the matter of clearance the Federal Reserve Board and banks were undertaking to drive the reserves of the nonmember bank into the coffers of the Federal reserve banks and thereby enormously increasing the deposits of the reserve banks.

Touching this matter the Supreme Court said:

"For the service rendered by the drawee bank in so remitting funds available for use at the place of the deposit of the check it was formerly a common practice to make a small charge, called exchange, and to deduct the amount from the remittance. This charge of the drawee bank the Federal Reserve Board planned to eliminate and, in so doing, to concentrate in the twelve Federal reserve banks the clearance of checks and the accumulation of the reserve balances used for that purpose."

Again we say, guilty as charged.

OTHER CHARGES

The State banks have also alleged that the practice of enforced par clearance by presentation at the window and demanding payment in cash exposed the nonmember banks to the danger of being made insolvent by such action, and in regard to this point the court said:

"That it (the practice adopted by reserve banks) might render banks insolvent was clear."

Again, the Supreme Court sustains the charge.

Country banks have asserted and maintained that this collection system would compel them to keep in their vaults a much larger part of their

resources than they had theretofore, thereby reducing their income-producing assets.

As to this charge we quote from the decision as follows:

"The practice adopted by the reserve banks would, if pursued, necessarily subject country banks to serious loss of income. It would deprive them of their income from exchange charges; it would reduce their income-producing assets by compelling them to keep in their vaults in cash a much larger part of their resources than theretofore."

The court again fully sustains the charge and contention of country banks.

EXTRAVAGANT EXPENDITURES UNAUTHORIZED

It was contended that the enormous and unlimited expense which Federal reserve banks claimed they were authorized to expend in collecting checks on nonmember and nonassenting banks was unauthorized under the Federal reserve act, while the Federal reserve banks contended and acted on the contention that they were authorized and required to expend any amount which might be necessary in order to bring about par clearance and the par collection of checks on nonassenting banks. Touching this phase of the matter the court has said:

"There is surely nothing in the act to indicate that reserve banks must undertake the collection of checks in cases where it is impossible to obtain payment except by incurring serious expense, as in presenting checks by special messenger at a distant point."

In this the court convicts reserve banks of expending large sums in an unauthorized way in their campaign of unlawful compulsion of nonmember banks, and in this they are guilty as charged.

NO WARRANT FOR PAR CLEARANCE

Disputing the allegations of the reserve banks, the country banks have at all times maintained that there was no warrant in the Federal reserve act for the Federal reserve banks to undertake the inauguration of universal par clearance or become the universal agent for the collection of checks in any way. On this point the court says:

"The only sections which in any way deal either with clearance or collection are 13 and 16. In neither section is there any suggestion that the reserve board and the reserve banks shall become an agency for universal clearance. On the contrary, section 16 strictly limits the scope of their clearance functions. * * * There is no reference whatever to "par" in section 13, either as originally enacted or as amended from time to time. There is a reference to "par" in section 16, and it is so clear and explicit as to preclude a contention that it has any application to nonmember banks, or to the ordinary process of check collection here involved."

At all times the Federal Reserve Board and the Federal reserve banks have maintained and contended that their only purpose in inaugurating the plan of universal par clearance was to carry out the purposes of Congress, as expressed in the act, and that if in so doing the revenues and rights of nonmember banks were infringed it was to be regretted, it could not be helped. Whether this was a sincere statement of purpose must soon become apparent.

That the interpretation of the law and its requirements by the Federal Reserve Board and banks was wholly wrong has been shown by the court. They are now told that not only did the reserve act place no mandate on them to establish universal par clearance, but that on the other hand to do so was irreconcilable with the specific provisions of the Hardwick amendment.

They are told further that their right to establish such a system is limited by the unrestricted right of unaffiliated nonmember banks to charge exchange and the restricted rights of members. They are further told that they are under no duty to undertake the collection of checks drawn on unaffiliated nonmember banks and that any unusual expense incurred in handling such checks is unauthorized.

INABILITY TO CONSTRUE LAW

The utter inability of the reserve board and banks, even with the aid of eminent counsel, and with the aid of an official ruling of the Attorney General, substantially disregarded, to interpret the law, has been so striking, in the light of the Supreme Court's decision, as to raise a serious doubt if perhaps

their construction of other sections may not have been equally faulty and unsound.

In the future many bankers will naturally fail to be very greatly impressed by the board's statements "it is the law."

RESPONSIBILITY

Responsibility should rest where it belongs, and in all candor it is heavy enough even when divided among many. Those who are responsible, through the prostitution of a great law, for depriving others illegally and unlawfully of untold millions of dollars of property rights, have indeed a heavy responsibility.

Former Governor Harding and his administration is responsible for the inauguration of this vicious policy, and the present board has but limited responsibility for its maintenance up to June 11, 1923. Since that date the sole responsibility is upon the present administration.

It will be far less embarrassing and blameworthy to voluntarily quit now, as soon as possible after the decisions, than to be compelled to quit a little later.

LAW HAS BEEN MADE PLAIN

There can no longer be any misapprehension as to the law and its meaning and by their acts in the premises with this interpretation of the law for them it will be determined whether there is a real desire to administer the law as the court of last resort has interpreted it or whether there is an ulterior motive behind it all, which still persists and controls their actions.

If there was a sincere intention and desire to carry out the law and they now desire to do so, what, in good faith, must they now say to the thousands of banks who have joined their par clearance system under a misrepresentation of the law and of what it required of the Federal reserve banks and of all other banks? The board and the reserve banks represented to the nonmember banks over a period of years and upon innumerable occasions that the law required them to establish universal par clearance and that it required in effect non-member banks to acquiesce therein and to forego their exchange revenues. The court has said that this is untrue, that the reserve act makes no such requirements and the question for the reserve board and banks now is, in view of the findings of the court: Are you going back to these State banks and say to them, "We were mistaken, we misconstrued the law and misrepresented its requirements to you, we are not required to inaugurate universal par clearance and it was not expected or intended that we should become universal agency for the clearance of checks"? Are they going to tell the State banks that the Federal reserve act did not and does not undertake to destroy the State banks' right to charge exchange, but on the other hand that the State banks are free to accept or reject the par clearance system without fear of open or secret reprisals?

It is only by such process as this that the reserve board and banks can free themselves from the odium of willful misrepresentation of the law and its requirements. The eyes of every bank in the United States will be upon them, assessing the honesty of their purposes by what they do now.

How can the reserve board or banks justify the continuance of the system and its enforced operation which they have started without warrant of law and contrary to the official ruling of the Attorney General, and which the Supreme Court has said they were never intended or expected to establish, and of which it said it is irreconcilable with the provisions of the act? This goes to the very root of the system; it can not be evaded or disregarded, the clearing system itself, and the idea, plan, and purpose on which it is based are all condemned, and that wholesome respect for the opinion of the Supreme Court, which is incumbent upon all Government agencies and citizens, demands that the par clearance system of the reserve banks now be abolished. No half-way ground will suffice, no discretion is left to the board, it must abolish the par clearance system, abandon its clearing functions or disregard the decision of the court, and stamp with falsity the previous reiterated statements that the sole and only purpose was to carry out the letter and intents of the act.

Mr. WINGO. I am reading from page 2 of this decision of the Supreme Court of the United States in the American Bank & Trust Co. *v.* The Federal Reserve Bank of Atlanta. The case is here on

appeal taken by the plaintiff. The evidence is conflicting. No adequate reason is shown why the concurrent finding of facts made by the two lower courts should not be accepted by us. Whether, on the undisputed facts, plaintiffs were entitled to additional relief is the main question for decision.

Senator GLASS. The whole question at issue is that the Federal Reserve Bank of Atlanta had resorted to cruel, coercive, and depressive measures to compel the State banks of Georgia to join the par-collection system and to clear at par, and the Supreme Court says here textually that the district court under the Federal reserve bank was not inspired by any ulterior purpose to coerce or to injure any nonmember bank which refused to remit at par.

It found that the evidence was insufficient to sustain any charge that the Federal reserve bank was exercising its rights so as to injure or oppress plaintiff's banks.

And now, listen—

and it found, specifically, that the evidence did not sustain the charge that the Federal reserve bank accumulated checks upon the nonmember country banks until they reached a large amount and then caused the checks to be presented for payment over the counter.

Now, that was the whole issue.

Mr. STEAGALL. That is in the Georgia case?

Senator GLASS. That is in the Georgia case, and you have here the opinion of Mr. Justice Clarke, of the Supreme Court of North Carolina. You will find Mr. Justice Clarke says specifically that the banks of North Carolina did not present evidence of that charge, that the Federal reserve bank in Richmond had accumulated checks.

Mr. WINGO. That brings up an issue of fact. The Senator says the court did not present the evidence.

Mr. JONES. The Senator thought the evidence I was giving was in Kentucky or Nebraska. I think I said it was presented in the Georgia court, and I think I have specifically stated that the court did not consider that, and excluded it, and that was one of our grounds of error.

Senator GLASS. I was looking at something else here, and I thought he was undertaking from unofficial records to state what was the situation in Kentucky and Nebraska.

Mr. STEAGALL. I stated originally that was excluded by the court at the outset.

Mr. WINGO. The Senator read from the statement of the Supreme Court opening its opinion—not expressing its own opinion but stating what the Supreme Court in North Carolina did, and then when it came to pass on that, after it had made that opening statement, did they go any further than indicated by the evidence, I suggested that the court's decision was on the question whether on the undisputed facts plaintiffs were entitled to additional relief.

Mr. JONES. I just wanted to clarify this Georgia case. The Senator has an incorrect idea of it.

Senator GLASS. Maybe I am incapable of interpreting the decision of the Supreme Court. If I have an incorrect idea, the Supreme Court has, too.

Mr. JONES. The court below, in its original opinion, did not have the correct idea, and I will tell you why: We never charged that

the Federal reserve bank resorted to anything. We stopped them before they got to resorting. They sent us a letter stating they hoped we would acquiesce in this demand that we remit at par and thus prevent them having to use methods that would prove embarrassing, annoying, and expensive to us.

The CHAIRMAN. Who sent you the letter?

Mr. JONES. The governor of the Atlanta district, M. B. Wellborn. That letter went to over 1,000 banks in Georgia and the sixth district, outside of New Orleans territory. But we stopped them by an injunction that has been good up to the time this remitter was made to the court below, in which we were left only a partial injunction—you must not put their names on your par list. But when it came to trying the case, the plaintiff banks did prove oral statements of the chairman of the board that methods would be used that the banks could not stand including presentation and demand for payment in cash only and that banks would be forced into the system; they did prove that the deputy governor of the Atlanta bank in charge of this matter had written letters stating that if the banks did not comply the checks would be presented over the counter with demand for payment in cash only; they did prove that when they wrote the reserve bank that the methods threatened constituted the use of the big stick and that they could not withstand such methods and would therefore be compelled to acquiesce such acquiescence was readily accepted on that basis; they did prove by letter from the deputy governor that the Atlanta bank did not intend to try to collect on all banks at one time because of the great expense involved but would establish zones and after forcing the banks in one zone to comply would move on to another; they did prove by the governor that collecting over the counter by agents of the reserve bank would embarrass and annoy the little bank and prove expensive to it even though there might have been no accumulation in point of time; they did prove that deprivation of the revenue from exchange would in some cases reduce the net earnings of banks to the vanishing point; they did prove in the case of two banks in Florida and Alabama, before the restraining order was extended to cover the entire district, the actual accumulation of checks in point of time and presentation at the counters by an express agent in one case and a reserve bank agent in another with demand for payment in cash; in fact, they produced legal evidence largely from Federal reserve sources to substantiate every essential allegation they had made of the intention of the Federal reserve bank to use the methods characterized by the Supreme Court as constituting warfare upon legitimate creations of the States.

The strength of this presentation was so great that able counsel for the defendants felt impelled, following a suggestion by the trial judge, to file a sworn disclaimer in the form of an amended answer which reads in part as follows:

> Defendants deny that under any policy promulgated and approved by the Federal Reserve Board for the guidance of the Federal reserve banks, plaintiffs are entitled to expect the same methods of executing said policy to be adopted by the defendant bank as have been employed with success by any of the other Federal reserve banks, and, on the contrary, the defendants aver the facts to be as set forth in the answers heretofore made and filed

by the individual defendants, M. B. Wellborn, Joseph A. McCord, L. C. Adelson, and M. W. Bell, to interrogatories propounded by the plaintiff herein under rules and orders of this honorable court and how appearing of record in this cause, the thirtieth of said interrogatories, together with the answer thereto, being in the following language, to wit:

"Q. 30. Were not such methods to be the same in substance and effect as those adopted in the other districts in which universal par clearance had already been undertaken? And were not the methods practically directed from the offices of the Federal Reserve Board at Washington?

"A. 30. Each Federal reserve bank directs its own affairs and the procedure for making possible the clearance system contemplated by the Federal reserve act was and is entirely within the province of each. There were no directions from the officers of the Federal Reserve Board in Washington as to what procedure should be employed; the board, in construing the act, issued regulations pursuant thereto, but the administration of the points involved is left to each Federal reserve bank, as stated above."

And the forty-eighth of said interrogatories, together with the answer thereto, being in the following language, to wit:

"Q. 48. What general policy has the board of directors of the Federal Reserve Bank of Atlanta ever adopted and followed out on their own initiative and without let or hindrance from the Reserve Board?

"A. 48. All of the general policies inaugurated by the Federal Reserve Bank of Atlanta are initiated, promulgated and put into effect by its officers, under the general direction, control, and supervision of its board of directors. The Federal Reserve Board simply supervises the execution of these policies, to see to it that they conform to the provisions of the Federal reserve act and the regulations promulgated by the board."

Defendants further deny that they have adopted or purpose to adopt, any methods to coerce the plaintiffs to remit at par in the sixth district such as those specified either in the original bill or any amendment thereto, including those set out in the present amendment, and specially the returning of checks drawn on nonassenting banks as dishonored before such checks are even presented for payment and including derogatory notations on said checks affecting the credit of said banks that are transmitted to its depositors and customers, and including such slander or attacks upon the credit and standing of such nonmember banks as to seriously threaten and in some cases to destroy their power to continue business. On the contrary, defendants aver that the only methods which they purpose to adopt or employ with any bank or banks in the sixth Federal reserve district are those set forth in the answer of the individual defendants to the interrogatories aforesaid, and now of record in this cause, and they expressly disclaim any intention or design to proceed otherwise than as therein set forth; the sixth of said interrogatories, together with the answers thereto; being in the following language, to wit:

"Q. 6. If not, please peruse said letter and state what methods of collection the Federal Reserve Bank of Atlanta, acting through its appropriate officers and agents, intend to adopt that would prove embarrassing to the bank to whom said letter was addressed.

"A. Neither the Federal Reserve Bank of Atlanta, nor any of its officers had any attention of adopting a method which would prove embarrassing, annoying or expensive to the bank in question or to any other bank. Neither the writer nor any other officer of the Federal reserve bank desired to employ any methods which would embarrass, annoy or cause expense to any bank whatsoever. The method in contemplation was simply this: In case a nonmember State bank should not be willing to remit in available exchange at par through the mails for checks sent by the Federal Reserve Bank of Atlanta for payment, the Federal reserve bank, in order to collect such checks in the only other method available, would forward the checks as and when received without accumulation and in the regular course of business, to an agent or agents located in the same town as the bank on which said checks were drawn, or would send one of its own representatives with the checks in question to such town, such agent to be instructed immediately to present the checks across the counter for payment either in the usual exchange at par or in cash for the full amount thereof, at the option of the drawee bank. In case the drawee bank refused to pay such checks either in such exchange at par or in cash, the agents were to be instructed to have the check protested for nonpayment and thereafter return the check to the Federal Reserve Bank of Atlanta."

and the twenty-fifth of said interrogatories, together with the answer thereto, being in the following language, to wit:

Q. 25. If the purpose of the Federal reserve bank in sending checks on nonmember banks by special agent or agencies when they refuse to waive their rights to charge exchange in regular course of business is merely to collect the amount called for by such checks and there is no question of solvency of the payee bank, why should such agent or agency not accept the payment of such check in the bank draft of such payee bank convertible at par rather than in currency?

"A. 25. If there is no question in the mind of the Federal reserve bank as to the solvency of the paying or drawee bank, there would be no reason why such agent or agency should not accept, in payment for such checks, a bank draft drawn by such bank which is payable at par. Inasmuch, however, as one of the chief purposes of the collection system of the Federal banks is to expedite the collection and final payment of checks, it must have some discretion as to the kind of exchange which it will accept in payment of its cash letters, so that while the drawee bank would have the option of paying either in cash or exchange, nevertheless, when payment is made in exchange, it must be in the usual exchange not calculated unduly to delay final payment. In order that when payment is made in exchange, rather than in cash, the exchange will be that kind of exchange acceptable to the Federal reserve bank in the sense just described, it may be necessary, because of the difficulties always in employing agents who are unable to use a final discretion in this matter, to give specific instructions as to what general classes of exchange would be acceptable."

and the sixty-second of said interrogatories, together with the answer thereto, being in the following language, to wit:

"Q. 62. Is such demand not for the purpose of forcing that bank to agree to remit at par? If not, what is the purpose? State fully.

"A. 62. The sole and only purpose of the Federal Reserve Bank of Atlanta in the matter in question is to render to its member banks and to its clearing member banks depositing checks with it for collection the service of collecting the checks at par, as contemplated by the provisions of the Federal reserve act."

and the one hundred and eighty-ninth of said interrogatories, together with the answer thereto, being in the following language, to wit:

"Q. 189. If you say that your only purpose is to make collection for the amount called for by the check, why are you not willing to receive in payment of said check, draft of the payee bank on its Atlanta correspondent, or upon its New York correspondent, for the full amount of the check or checks presented?

"A. 189. The Federal reserve bank will be willing to accept in payment a draft of the drawee bank on its Atlanta correspondent or a draft upon any other solvent bank, which is collectible at par."

It was undoubtedly the case that the trial judge preferred to base his decision upon the present intention of the defendants as expressed in this disclaimer rather than upon the intention they were shown to have had prior to the rendition of decision in the case by the United States Supreme Court on May 16, 1921. The court did not include the disclaimer in the decision and we appealed.

Mr. STEAGALL. But the court accepted that plea filed by them as the best expression of their intention.

Mr. JONES. As the best expression of their intention; and since the Supreme Court has analyzed sections 13 and 16 of the Federal reserve act in the Georgia case, as well as the North Carolina case, we are perfectly satisfied with the situation. The nonmember State banks are not asking anything more for themselves in the par clearance matter. They have fully established their rights in the courts. We are not asking the Federal Reserve Board or Congress for anything for the nonmember banks in that particular. But we do suggest that if the board wants to make it attractive on this par clearance matter for nonmember banks to come in or member banks to stay in, they have got to see that the board does the thing that

the Supreme Court says that Congress intended them to do in the first place, allow member banks to charge exchange, and the board is not doing that, as we have pointed out.

The Richmond reserve bank waited until October, 1920, before advising the North Carolina banks that they would be forced to remit at par and sent such notice after having each nonpar remitting bank visited by an agent of the reserve bank to explain the situation and endeavor to persuade it to accept the reserve bank's viewpoint. The effective date of the order for par remittance was November 15 on which date all the banks of North Carolina were placed on the part list. A meeting was held in Greensboro on November 17 attended by nearly 100 bankers, at which resolutions were adopted denouncing the methods threatened and forming a protective association of North Carolina banks to combat in every proper way what they considered a usurpation of power on the part of the reserve bank. A defense committee was appointed which took up with counsel the matter of bringing a suit for injunction similar to the one pending in behalf of banks in the sixth district. While these negotiations were pending the Circuit Court of Appeals rendered its decision adverse to the sixth district banks and counsel advised against bringing such a suit. The North Carolina banks decided to remit at par until they could find some method of avoiding the usual unfair methods of collection employed by the reserve system to force banks to agree to par remittance. Shortly thereafter the North Carolina Legislature convened in regular session and what is known as the North Carolina law was promptly enacted. Something over 200 banks then notified the reserve bank that they would cease to remit at par for checks and would charge the exchange permitted under the terms of the North Carolina law. The Richmond reserve bank sent its agent to present checks on the North Carolina banks over their counters. As permitted by the new law the North Carolina banks tendered checks on their Richmond correspondents for the full face of the cash letters without deduction for exchange or otherwise. These exchange drafts were refused by the reserve bank agents who returned the checks on the local banks to the Richmond reserve bank which in turn returned them to their depositing banks with notices of dishonor attached. Restraining order against these practices was secured and the case went through various courts to the Supreme Court of the State and of the United States. On the trial of this cause the record shows the following testimony from Federal reserve bank officials:

> We gave our representatives authority to tell the various banks that if they held out we were going to put them on the par list whether they consented or not, and that unless they agreed to remit at par we would send out representatives with checks and present them over the counter for payment in cash.
>
> As a matter of fact, when the non-par banks refused to remit at par we did send checks out in the hands of collectors for presentation over the counter.
>
> Our immediate object in presenting these checks over the counter was not for the purpose of collecting the checks themselves, but for the purpose of forcing these banks to remit at par.

The Federal reserve act says that the Federal reserve banks must accept on deposit at par checks on other nonmember banks. They do not do it. They do not accept on deposit at all. They make no distinction between deposits and collections. That is in section 16,

the only place "par" occurs. If the Federal Reserve Board after the law provides it, and the Supreme Court has pointed out to them what the law is, declines to give member banks the privileges and rights that the Federal reserve act says they should have, do you not know that nonmember banks, knowing that, are not going to come into the system? They believe, and I think it is capable of proof from the Supreme Court decision I have here.

Senator GLASS. Do you not know, that the record shows, Mr. Jones, that more State banks and trust companies have joined the Federal reserve system since the par collection system was put in force than joined it for the five years when it was not in effect?

Mr. JONES. Yes, sir; I know that is true. There is this about it, Senator, and gentlemen of the committee——

Senator GLASS (interposing.) I respectfully submit that all of this is foreign to the investigation of this committee. The whole discussion has been. What we are directed by law to do is to ascertain why State banks have not joined the system and to ascertain what inducement may be offered by law to get them to join the system. Mr. Jones has said he does not want them to join the system; he does not think they ought to join the system; that it would cause centralizing banking in this country, and we are just threshing out now the old par collection system here.

Mr. STEAGALL. It has direct bearing on the question.

Mr. WINGO. He says that is one reason why they do not join.

Senator GLASS. They did not join for five years before the Federal reserve bill went into effect, and 17,000 of them have joined the voluntary par collection system, and only 1,600 have joined the Federal reserve banking system.

Mr. WINGO. That is one argument, but the other, contrary argument should be permitted in the record also. We ought not to have this one argument.

Senator GLASS. That is not one argument.

Mr. WINGO. You say the fact they did not join shows they would not come in anyway, and the fact they went in, as you say, voluntarily, shows it does not make any difference. Upon the other hand is a statement of fact, it is not hearsay; I have had bankers say that the reason why they did not go in was that they were waiting to see how it would work out with the national bankers. I have heard them say they did not like the decision of the board with reference to par collection of checks. They knew their national bank colleagues across the street were members, that they went into it because they were members of the national banking system, and that some of them themselves had gone into the par collection because they could not get around the coercive measures, and that they would not go into the system because it would cause irritation. Whether they finally came to the viewpoint of the board or not does not cut any figure, but it removes one cause of friction and one reason why they will not come in. That is my idea of the reason facts ought to be presented. I am not willing to tax country banks for the benefit of city banks, regardless of whether they come in or not, but any way both sides of the controversy should be permitted in the record.

Mr. STEAGALL. I do not think the Federal reserve system was established—though I would not put my opinion about the act up against you gentlemen who had so much to do with the preperation of it—I do not think the purpose of that act was to deal with any burden upon American commerce. I thought it was simply credits.

Mr. WINGO. Suppose it was, that might be a reason why a bank would not want to go in. I would be, if I was a country bank and thought it was the intention of Congress for the system to enter that kind of business.

Mr. JONES. The par clearance, I submit, of the Federal reserve bank is not a par clearance system at all.

Mr. WINGO. They mean par remittance.

Mr. JONES. But, so far as the public is concerned, it is not par. It is not any burden or saving on commerce, and if you had an open system like it was 10 years ago you would have half of the banks remitting at par anyhow, because it is an exchange of service, and so far as being a burden on commerce is concerned, that is just one of those things bankers know is all bosh, and they resent that kind of thing. They resent the statement.

Senator GLASS. Some bankers resent anything that interferes with profits.

Mr. WINGO. That applies to the city bank for whose benefit it is frankly admitted the par collection was put into effect. They also resent the other viewpoint.

Mr. JONES. A distinguished Senator of the United States and a member of this committee came down to Atlanta this summer and told a large association down there, nation-wide association, that "For God's sake, go ahead"—did not use that expression, perhaps, but "Go ahead and save the Federal reserve par collection system"—par collection system about which two days before the United States Supreme Court had used language which could properly be construed as having declared it illegal.

Senator GLASS. It never has been declared illegal at all.

Mr. JONES. I think it was and I think I can show it.

I would like, without reading it, to have presented to the committee in your record and let you read it at your leisure, a letter written by Mr. Adams to Governor Crissinger of the Federal Reserve Board on September 1, to which we have had no specific answer. We have had an answer in effect that the matter had been presented to the Federal Reserve Board, and that it is the Federal Reserve Board's intention to continue the par collection system of the Federal reserve banks in accordance with the Federal reserve act as construed by the supreme court. I would like to get into the record the letter, with these specific questions that were asked.

Mr. WINGO. Have you an answer to that?

Mr. JONES. I did not bring a copy of it.

Mr. WINGO. I do not think the letter ought to go in without your answer goes in with it.

The CHAIRMAN. I would suggest that both the letter and the answer of Governor Crissinger be placed in the record at this point.

(The letter and reply thereto submitted by Mr. Jones are here printed in full, as follows:)

NATIONAL AND STATE BANKERS' PROTECTIVE ASSOCIATION,
Atlanta, Ga., September 1, 1923.

Hon. D. R. CRISSINGER.
Governor Federal Reserve Board, Washington, D. C.

DEAR SIR: Six years ago, pursuant to its conception of its duties and powers, the Federal Reserve Board inaugurated a system of so-called "universal par clearance" and thus assumed in the Federal reserve system the sole responsibility for the policy in reference thereto which has governed all reserve banks in their operations up to this time.

Out of that policy has grown a controversy which for years has divided the banking fraternity into practically two opposing camps, and has resulted in long-drawn-out litigation between Federal reserve and nonmember banks; and apparently the end is not yet.

With all of this you are, of course, entirely familiar.

The reasons, aims, purposes, and motives of the Federal Reserve Board in adopting this policy have been much controverted and debated in banking circles and were officially announced from time to time by former Governor Harding, under whose administration this policy was adopted.

In a letter to Hon. Edmund Platt, chairman of the House Committee on Banking and Currency, dated May 5, 1920, Governor Harding stated:

"The board believes that it is charged with the duty and responsibility of inaugurating a complete check-clearing system throughout the United States, that the Federal reserve banks in compliance with the evident purpose of the law and in fairness to all their member banks must exercise their power to receive for collection from those member banks checks upon whomsoever drawn which are payable upon presentation. * * * While banks are still authorized to charge each other for such service, they are prohibited from charging the Federal reserve banks, which are required to receive from member banks at par all checks which are payable upon presentation."

Before the House Committee on Rules, on May 4, 1920, Governor Harding made the following statement:

"All the board is trying to do is to carry out the law as we understand it; and the point we want to make is that if the law should be amended so that nonmember banks may be permitted to charge exchange, that the law be amended in a way broad enough to permit member banks to make the same charge."

On May 5, 1920, at a hearing before the Federal Reserve Board on complaints of State banks of Nebraska and others against alleged methods of check collection of Federal reserve banks, Governor Harding made the following statements:

"We have no right, nor have we ever attempted, to manufacture the law. That is not our province. It is our duty, however, to carry out the provisions of the Federal reserve act, as we understand those provisions and as they have been interpreted to us. * * *

"Now, unfortunately, there is a difference of opinion as to what the law means. The Federal Reserve Board has considered that matter very carefully—not hastily in any way—and we have had it for three years now, and we are satisfied that what we are doing is along the line of carrying out the intent of the Federal reserve act; that is, there shall be a universal clearing house established for American checks. * * *

"The board does not feel that it has any option under the law as it now stands. We feel that we are bound to attempt to put that policy into effect, to put in effect a universal system, and if obstacles are thrown in our way to such an extent that we can not do it, then it is not our fault.

"* * * but the Federal Reserve Board can not be guided by sentiment. We have a duty to perform; we have taken a solemn oath of office to try to interpret the law correctly and administer it in accordance with the interpretation which we have conceived to be correct. If we are mistaken in that you have the court to appeal to on one side and the Congress to appeal to on the other."

These utterances still remain the last public statement of the board's aims, purposes, and policy in regard to this matter, and until superseded by some later official declaration must be taken as still representative of its position.

The suggested appeal to the courts was taken and since those statements were made not only has the personnel of the board largely changed but upon three occasions the Supreme Court of the United States has handed down opinions

and decisions on the law governing the clearing functions of the reserve banks and construing the Federal reserve act in relation thereto.

Inasmuch as these opinions differ widely in many material respects from the board's previously announced official construction of the law, it would seem that all interested banks (and that includes every bank in the United States) are now entitled to be specifically enlightened as to the present board's future policy on this matter, and we feel sure that the board will be glad to give us a full and frank reply to the many questions upon which the board's present position is now in doubt.

This association is composed of both member and nonmember banks, and is therefore interested in the whole subject of par clearance equally from the standpoint of both classes of banks.

These questions arise wholly apart from any consideration of the so-called Claiborne-Adams plan, and would not be wholly answered even in the contingency of that plan being adopted.

We regret the necessity of going into the matter to the extent of the unusual length of this letter, but must plead the great importance and complexity of the subject as justification.

Although it may be urged by some that the Supreme Court's opinion in certain particulars may be capable of divergent construction, yet it must be conceded that, for the most part, its findings are set out in language too clear and unequivocal to be misunderstood.

In view of the Supreme Court's statement regarding the alleged duty imposed by the law to establish a system of universal par clearance from which we quote as follows:

"Congress did not in terms confer upon the Federal Reserve Board or the Federal reserve banks a duty to establish universal par clearance and collection of checks; and there is nothing in the original act or in any amendment from which such duty to compel its adoption may be inferred. The only sections which in any way deal with either clearance or collection are 13 and 16. In neither section is there any suggestion that the reserve board and the reserve banks shall become an agency for universal clearance. On the contrary, section 16 strictly limits the scope of their clearance functions. It provides that the Federal Reserve Board 'may at its discretion exercise the functions of a clearing house for such Federal reserve banks * * * and may also require each such bank to exercise the functions of a clearing house for its member banks.'

"There is no reference whatever to 'par' in section 13, either as originally enacted or as amended from time to time. There is a reference to 'par' in section 16, and it is so clear and explicit as to preclude a contention that it has any application to nonmember banks or to the ordinary process of check collection here involved—"

we desire to inquire if the Federal Reserve Board still adheres to the view that it is under any duty or mandate to establish such "par clearance system" and to maintain and continue to operate that which it has established?

Or must we not assume that the board has adopted the opinion of the Supreme Court, that the law imposed no such duty, and contains nothing from which it might be inferred?

If, as the Supreme Court has stated, "the Federal Reserve Board may at its discretion exercise the functions of a clearing house for such Federal reserve bank * * * and may also require each such bank to exercise the functions of a clearing house for its member banks," is it not equally within its discretion to abolish such activity?

It has been claimed and seems to be conceded that it is the duty of the reserve board to construe the Federal reserve act for the system, to announce policies required by or permitted under the act and to provide regulations for putting same into effect, and to supervise the execution of such policies by the Federal reserve banks and their agents.

If it is the board's duty to see that policies properly promulgated under the terms of the act are carried out, is it not equally the board's duty to immediately abandon a previous policy that has been declared by the Supreme Court to be beyond the purview of the law and to see to it that all Federal reserve banks and their agents cease efforts to enforce such policy?

Is it not also the board's duty to supervise and prevent and force if necessary the discontinuance of unlawful and ultra vires acts of the agents of the reserve banks?

Again quoting from the court's opinion:

"The power of the Federal Reserve Board to establish par clearance was thus limited by the unrestricted right of unaffiliated nonmember banks to make a charge for exchange and the restricted right of members and affiliated nonmembers to make the charge therefor fixed as reasonable by the Federal Reserve Board."

How, when, and to what extent does the Federal Reserve Board now purpose to recognize and abide by the limitations upon its power to establish par clearance which the Supreme Court says the law placed upon it?

What power, if any, to establish par clearance does the board now claim to possess or undertake to exercise which to any extent renders nugatory or in any way act to abridge or to prevent the exercise and enjoyment of the rights of member or nonmember banks to charge exchange as thus described by the Supreme Court?

Not only is the power of the board to establish par clearance limited by the rights of banks to charge exchange as set out by the court to an extent which if recognized and observed would render its establishment impossible but the court also said:

"Moreover, the contention that Congress has imposed upon the board the duty of establishing universal par clearance and collection of checks through the Federal reserve banks is irreconcilable with the specific provision of the Hardwick amendment which declares that even a member or an affiliated nonmember may make a limited charge (except to Federal reserve banks) for 'payment of checks and * * * remission therefor by exchange or otherwise.'"

If its establishment is irreconcilable with the specific provision of the Hardwick amendment (to the Federal reserve act) as the Supreme Court says it is, how is it possible to reconcile the continued operation of the system as established and which defeats the purpose of the Hardwick amendment as interpreted by the Supreme Court?

The Supreme Court further said:

"The right to make a charge for payment of checks, thus regained by member and preserved to affiliated nonmember banks, shows that it was not intended or expected that the Federal reserve banks would become the universal agency for clearance of checks. For, since against these the final clause prohibited the making of any charge, then if the reserve banks were to become the universal agency for clearance, there would be no opportunity for any bank to make as against any bank a charge for the 'payment of checks.'"

The Supreme Court having said "it was not intended or expected (by Congress) that the Federal reserve banks would become the universal agency for the clearance of checks," and the present system avowedly having that object, what change, if any, does the board contemplate making in the present clearing system in order to comply with the intention and expectation of Congress as enacted in the law and pointed out by the Supreme Court, so as to cease to be "the universal agency for the clearance of checks?"

Quoting the Supreme Court further:

"The purpose of Congress in amending section 13 by the act of 1917 was to enable the board to offer to nonmember banks the use of its facilities which it was hoped would prove a sufficient inducement to them to forego exchange charges; but to preserve in nonmember banks the right to reject such offer; and to protect the interests of member and affiliated nonmember banks (in competition with the nonaffiliated State banks) by allowing also those connected with the Federal system to make a reasonable exchange charge to others than the reserve banks. The power of the Federal Reserve Board to establish par clearance was thus limited by the unrestricted right of unaffiliated nonmember banks to make a charge for exchange and the restricted right of members and affiliated nonmembers to make the charge therefor fixed as reasonable by the Federal Reserve Board.

The reasons which impelled the Supreme Court to conclude that this was not intended nor expected relate to member banks and affiliated nonmembers and not to unaffiliated nonmembers. And the Supreme Court points out that through the Hardwick amendment member banks regained "the right to make a charge for the payment of checks."

Is it then the purpose of the Federal Reserve Board to recognize that member banks have regained the right to charge exchange?

How will it be recognized?

When will the member banks be permitted to begin making such charge?

To what extent will this right be recognized?

On what classes of checks will members be permitted to make such a charge?

As reserve banks now clear all checks on member banks, and permit no charge, what classes or divisions of checks will the reserve banks discontinue handling so as to allow member banks to exercise the right to make the charge which the Supreme Court said they regained the right to make?

Through us, member banks are now saying to you:

"Due to a misinterpretation of the law by the Federal Reserve Board, which was charged with the duty and responsibility of interpreting and administering the law, we have for six years been wrongfully deprived of a large part of our rightful revenue which the Supreme Court has said Congress intended for us to have, and we now ask the board if it is going to still maintain a system and policy which will continue to deprive us of this revenue in the future as it has in the past?

"Or, on the other hand, will you change that policy and system so as to restore to us the enjoyment of that revenue?

"On June 11, 1923, the Supreme Court announced that by the Hardwick amendment member banks regained the right to charge exchange—the Hardwick amendment was enacted June 21, 1917, and yet six years later, we are still denied the privilege of exercising and enjoying the benefits of that right.

"A policy adopted by your board deprived us of our right, which we want—must we not assume that the board will now follow the Supreme Court's decision and restore it?

"The administration of former Governor Harding inaugurated this policy of par clearance, and was largely responsible for its operation up to June 11, 1923, but since the Supreme Court's decisions on that date does not the sole responsibility for its continuance in light of those decisions rest on the present board?

"Must we not feel that the present board will be responsible for whatever exchange revenue we way be deprived of since that date?"

What is the board's construction and application of that clause of the Supreme Court's decision in the Atlanta case, as follows:

"But the class of checks to which the reserve bank's collection service might legally be applied, was left by the amendment as those 'payable upon presentation within its district.'"

Is not this limitation upon the class of checks whcih may be legally received by the Federal reserve banks just as definite as though this sentence read: "But the class of checks to which the reserve banks' collection service may be legally applied are those payable within its district?"

To give force to this qualification must it not be held that the collection system of each Federal reserve bank is legally restricted to checks payable within its own district, and to receive checks payable in any other district save its own is an illegal application of its collection service?

It is undeniably true that there are to-day thousands of banks on the par list as a result of the statements and representations made to them by the Federal Reserve Board, and its then governor, and the Federal reserve banks and their officers and servants, that the law required the establishment of a universal par-clearance system, and that the law had deprived these banks of the right to charge exchange.

The Supreme Court having completely exploded both of these contentions and having held that there was no such duty imposed by the law, and nothing from which it may be inferred—that it was not intended or expected that it would become the universal agent for the collection of checks—that its power to establish such a system was limited to such an extent as to render it impossible of accomplishment, and finally that the establishment of its system is irreconciliable with the express provision of the Hardwick amendment—what expression or action is the board now going to take to correct these erroneous statements as to the law and its requirements?

As a result of these misinterpretations by the board of the law and its requirements millions of checks are being daily cleared at par, which would otherwise be subject to exchange charges. Is the board content for the system to remain the beneficiary of misplaced reliance on the correctness of the board's construction of the law?

Or will you say to these State banks in effect, "We were mistaken; we misconstrued the law and mistakenly stated its requirements to you; we are not required to inaugurate universal par clearance, and it was not expected or

intended that we should become universal agency for the clearance of checks.' Are you going to tell these State banks that the Federal reserve act did not and does not undertake to destroy the State banks' right to charge exchange, but on the other hand that the State banks are free to accept or reject the par-clearance system and to withdraw from the par list without fear of open or secret reprisals?

All of the questions which we have herein propounded being important and pertinent to a matter of public policy solely within the discretion and jurisdiction of the board, we trust it will be entirely convenient and agreeable for you to give us an early, full, and definite reply to each, as our immediate future conduct must necessarily be largely influenced thereby.

Respectfully,

L. R. ADAMS, *General Secretary.*

FEDERAL RESERVE BOARD,
Washington, September 5, 1923.

DEAR SIR: Your printed letter to me, dated September 1, 1923, has been received and brought to the attention of the Federal Reserve Board, which desires to state that it intends to continue the par clearance system under the provisions of the Federal reserve act as construed by the Supreme Court of the United States.

Very truly yours,

D. R. CRISSINGER,
Governor.

Mr. L. R. ADAMS,
General Secretary National & State Bankers
Protective Association, Atlanta, Ga.

Governor CRISSINGER. I just want to ask Mr. Jones if the board lays down the rule that a bank may par or not as they elect; would that be satisfactory; is that what they want done?

Mr. JONES. Yes, sir; we want the board to say that in so many words direct to the banks.

Governor CRISSINGER. At present, that is what we are doing.

Mr. JONES. At present. Here is the proposition, and it is not your fault. I want again to say that it is not the fault of the present governor that the banks of this country, on account of the things which I have recited, are still afraid of the evidence of their own eyes in the Supreme Court decision; they are still afraid they will be molested in their rights by the reserve banks. I had a letter from Kentucky a few days ago from a banker, and he said he had discussed this matter with a number of bankers in advance of their convention up there, and that those bankers in Kentucky were still afraid, in spite of all he could say and the evidence he could present, that they were afraid they would be accorded the same treatment that the Farmers & Merchants Bank of Catlettsburg had been subjected to, and that therefore they would not give notice to the Federal reserve bank, although we showed letter after letter in answer to notice to take them off the par list that such would be done.

Governor CRISSINGER. You have notified the State banks that are either parring or not parring that the banks are no longer using the method of collecting checks through agents, express companies, and things of that kind?

Mr. JONES. We have notified only banks which have recently contributed to our funds. We have not had enough funds to notify all the banks in the United States—we haven't had the un-

limited supply the reserve banks have had—and we have been waiting for an authoritative announcement from the board.

Governor CRISSINGER. You know, then, that the board or banks are not enforcing the collection of checks by agents or express companies?

Mr. JONES. Yes, sir; and I notified some of them if they would write to you they could get that information.

Governor CRISSINGER. And, further, that the banks are permitting banks to par or not just as they like; is not that right?

Mr. JONES. That is it; that is the fact, but it is not effective. In other words, they are afraid if they do not accept it——

Mr. WINGO. Let us be fair about this thing. I appreciate you are enthusiastic on your viewpoint. I have been known as being somewhat against the par collection system as interpreted, but I want to get all the facts in. We have got, if possible, for the good of the system and the banks and the public, to try to settle this controversy and get it settled in an orderly way, and find out what is best; and that being true, I can appreciate how the board feels it must proceed with caution in framing new regulations based upon a decision about which you and I as lawyers might find several bases of different construction.

Governor CRISSINGER. I might add that it was up for rehearing day before yesterday.

Mr. WINGO. It was up for rehearing day before yesterday. In other words, I think the record might show that the board handling a weighty matter like that, affecting the commerce and the credit exchanges of the country, naturally is not going, especially when the decision is adverse to them, to jump overnight and do something that might not be wise. Here is a possible cause of trouble that I had a very good lawyer call my attention to in reading it awhile ago. I want to get your idea about it, and I know it has worried the attorney of one bank. I am reading on page 4 of the Atlanta decision. It says:

By the amendment to section 13 of September 7, 1916, the class of checks receivable was extended to "checks payable upon presentation with the district." By the amendment to section 13 of June 21, 1917, the class of bank from which checks might be received "solely for collection" was extended. By the latter amendment the facilities offered by the Federal reserve banks were made available also to such nonmember banks as became affiliated with the Federal reserve system by establishing the required balance, "to offset items in transit."

Here is the thing I want you to think about:

"It is true, also, that in practice this amendment might result in excluding checks on particular banks from the class collectible through the Federal reserve banks."

This is the language of the Supreme Court. You ran across that same question in the record. I think maybe Senator Harrison, who was then in the House, made the point of order. That very question was raised, What is the latitude of the board under that? Maybe the board might be considering whether or not it could take advantage of that?

Mr. JONES. That is exactly what we want the board to do. We want them to comply with the letter and spirit of the Federal reserve act as construed by the Supreme Court.

Mr. WINGO. Maybe you and I have got a different idea about it.

Mr. JONES. It goes on and says—let us finish reading it:

For it enacted the clause which prohibits payment of exchange charges by Federal reserve banks.

They can not handle our checks at all—that is, banks that won't remit at par—not eligible for collection through the Federal reserve banks.

And as this prohibition would prevent reserve banks from using the usual channels in making collection of checks drawn on those country banks which insist upon exchange charges, the reserve bank might find it impossible, or unwise, as a matter of banking practice, to collect such checks at all. But the class of checks to which the reserve bank's collection service might legally be applied was left by the amendment as "those payable upon presentation within its district."

Now, the Federal reserve bank has no right under the Federal reserve act as amended in 1917 to accept for collection any check outside of its own district, except such check as may have been received at par, payable to itself, in payment of its own obligation or to build up a reserve.

Mr. WINGO. After all, the whole Supreme Court decision is epitomized by somebody as falling upon this, that the language of the law was permissive and imposed no duty that would carry with it the means that the board or the banks think were necessary.

Mr. JONES. Not only permissive, but in some cases the right of member banks to charge exchange were restored and it showed that the rights of the nonmember banks had never been given up; they always had a right to charge exchange.

Mr. WINGO. The decision of the Supreme Court was that they were authorized to do this purely voluntarily, but there was not any duty to go out and put this into effect whether or no.

I have already suggested that all three decisions ought to come in where we have this question, in order to show what the Supreme Court said.

Senator GLASS. Before Mr. Jones proceeds further, I want to very frankly correct an impression that I had, which appears to have been a wrong impression. I find from the record here that I stated on the floor of the House that the thing that immediately prompted this modification of the Hardwick amendment was the fact that the governor of the Federal Reserve Board addressed a letter to the chariman of the House Committee on Banking and Currency directing attention to the fact that under the terms of the Hardwick amendment should one-half of the banks only charge exchange it would cost the Government of the United States $1,000,000 to float the Liberty loan. I made that statement on the floor of the House.

What I meant, as I review the whole situation now, about being immediately prompted to this modification, was a statement from the governor of the New York Federal Reserve Bank to the Federal Reserve Board that that was possible under the Hardwick amendment, but, as a matter of fact, which I do not need to state because I imagine Mr. Jones knows it—I know my colleague here knows it—that from the very first conception of the Federal reserve act I was a very ardent advocate of a universal system of parring checks, because, I have always contended, 96 per cent of all the business is done not through the handling of currency but by checks, and in

practice checks constitute a subsidiary currency, and I thought they ought to be exchanged at par. So I want to make that frank admission that I was mistaken in my impression of what happened.

I want further to state that the record shows that in answer to an inquiry of Mr. Cannon, who was not Speaker at that time, I stated that—

> Congress has no control whatsoever over nonmember banks, can not regulate their charges, and will not regulate them if this Hardwick amendment should prevail. Many of them will continue to charge one-fourth of 1 per cent, and many of them will continue to charge 1 per cent, and many of them will continue to do what I can say to you banks have done, charge $5 for cashing a $75 draft. The House has no control over the nonmember bank in this manner; even the Federal Reserve Board has no control over their operations unless they voluntarily join the volunteer collection system established by the Federal Reserve Board.

Mr. WINGO. I think it might serve a useful purpose by letting the Senator's whole statement there go into the record, and in that connection, Senator, I hope I have not said anything that would intimate that I thought you were not always from the beginning an ardent advocate of par collection and always insisted on bringing it about.

Senator GLASS. That was the fight in the House, and Mr. Chairman knows perfectly well.

Mr. WINGO. Give the page in the record. It is 3526. I think it is one of the most ingenious features. It "brought home the bacon." [Laughter.]

Senator GLASS. And I may add that the whole contest, as the chairman here perfectly well knows, was one as to whether we should establish a universal par collection system or whether we should not.

The CHAIRMAN. That was the issue that was drawn very clearly.

Senator GLASS. That was the issue.

The CHAIRMAN. I remember it, as I led the forces of the country banks at that time.

Senator GLASS. Yes; you did.

The CHAIRMAN. I remember the effect of the speech which you made.

Senator GLASS. You led them admirably in the first charge and beat us, as I recall, by a majority of 117 votes.

The CHAIRMAN. The gentleman is correct.

Senator GLASS. In fact, you had more majority than we had votes.

The CHAIRMAN. Then a period of time intervened, six weeks, as I remember it.

Senator GLASS. Exactly; and the business men of the United States became aroused over the situation, and in the final contest I made this "ingenious" speech and we reversed the majority.

The CHAIRMAN. I remember during that period of time that elapsed one J. H. Tregoe, who is coming before the committee to-morrow, was very much in evidence.

Mr. WINGO. I want sincerely to repeat again, I have often paid tribute to the ingenuity of that speech. I have a very distinct recollection of the lobbying that the Senator refers to in that speech, but the lobby was made up of wholesalers and jobbers that brought pressure to bear upon me.

Senator GLASS. More wholesalers and jobbers than there are banks who want to charge exchange.

Mr. STEAGALL. I think if the House were as familiar with the acts with which it was dealing and the amendment they were adopting as the Senator from Virginia, the vote on the bill would have been more like at first.

(The part of the Congressional Record referred to by Mr. Jones was taken from the Congressional Record of the Sixty-fifth Congress, first session, volume 55, parts 2 and 4, as follows:)

(Part 2, May 10, 1917, p. 2074)

Mr. GLASS. Mr. Speaker, I ask to take from the Speaker's desk the bill H. R. 3673, disagree to all of the Senate amendments, and ask for a conference * * *.

The Senate amendment, being a substitute for the entire House bill after the enacting clause, was read, after which the following discussion and action was had (pp. 2077–2078):

Mr. GLASS. Mr. Speaker——

The SPEAKER. The gentleman from Virginia is entitled to an hour.

Mr. GLASS. Mr. Speaker, I do not care to discuss the matter. I move the previous question on the motion.

The SPEAKER. The question is on the motion of the gentleman from Virginia (Mr. Glass) to take this bill from the Speaker's table and disagree to the Senate amendments and agree to the conference. The question is on agreeing to that motion.

The motion was agreed to.

Mr. MCFADDEN. Mr. Spaker, I offer the following motion.

The SPEAKER. The clerk will report it.

The Clerk read as follows:

"Motion by Mr. McFadden:

"I move that the managers on the part of the House be instructed to agree in conference to the substance of the following provision in the Senate amendment, being the last five lines on page 8 and the first five lines on page 9, which read as follows:

"'*Provided*, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: *Provided further*, That nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise.'"

Mr. GLASS. Mr. Speaker, I make the point of order that that motion is not in order at this time.

The SPEAKER. Why not?

Mr. GLASS. The conferees have not been appointed.

The SPEAKER. I know; but if you are ever going to instruct them at all, you must instruct them before they are appointed.

Mr. FITZGERALD. The stage of disagreement has not yet been reached.

Mr. MANN. We have disagreed to the Senate amendment and the Senate has insisted on its disagreement. The stage of disagreement has been reached.

Mr. WINGO. That is the pending motion—to disagree.

The SPEAKER. The disagreement has been adopted.

Mr. WINGO. It has not been adopted. The previous question has been ordered.

Mr. MANN. The Speaker submitted the motion, and it was agreed to.

Mr. FITZGERALD. There is no doubt about the parliamentary rule. The stage of disagreement has not been reached until after a free conference and the two Houses have not been able to agree.

Mr. MANN. Oh, the gentleman is clear off his base.

Mr. FITZGERALD. Oh, well, I am not clear off my base. The gentleman may fool some people on that side, but he can not deceive me.

Mr. MANN. The gentleman will know better if he thinks, and he is foolish to talk in that way.

The SPEAKER. Only one at a time. The Chair will hear the gentleman from New York on this point of order.

Mr. FITZGERALD. Until after the managers on the part of the House and the managers on the part of the Senate have attempted to agree and have reached the stage of disagreement, it is not in order to instruct the conferees. The very same question came up on the Philippine bill. I made the motion, but nobody raised the question of order. The situation was the same. The gentleman from Illinois (Mr. Mann) and myself discussed it thoroughly and were in agreement as to what would happen if the point of order was interjected. The stage of disagreement has not been reached between the two Houses in this matter.

Mr. MANN. Now, Mr. Speaker, I will give the speaker information.

The SPEAKER. The Chair will be very glad to get it. [Laughter.]

Mr. MANN. On the Philippine bill, to which the gentleman from New York refers, I suggested to him to offer a motion to instruct the conferees before the stage of disagreement had been reached. There was a case where the House had amended a Senate bill and before the stage of disagreement had been reached the conferees were instructed by a motion, which was subject to a point of order; but that is not this cise. This is a case where there is a House bill with a Senate amendment, upon which amendment the Senate has made an insistence, and the House has disagreed to the Senate amendment, and we have reached the stage of disagreement. It is not conferees who disagree. It is the Houses of Congress which disagree. I have stated the case correctly.

Mr. FITZGERALD. The gentleman has not stated the case correctly.

Mr. MANN. I remember the circumstance, because in the immigration bill some years ago, when the House struck out all of the Senate amendments and inserted the House bill, a motion was made to instruct the conferees, and I made the point of order that the motion was not in order because the Houses were not in disagreement, and that the action of one House would no put the two Houses is disagreement. The Speaker sustained the point of order. That was what I called to the attention of the gentleman from New York on the Philippine bill; but here both Houses have acted and they are in disagreement.

Mr. FITZGERALD. They are not.

Mr. MANN. The gentleman, when he stops to think, will know that I am right about it. He is too good a parliamentarian to say that they are not in disagreement when both Houses have disagreed.

Mr. FITZGERALD. They have not.

Mr. MANN. The gentleman just happens to be wrong; that is all.

Mr. FITZGERALD. They have not disagreed in the present instance. There is no disagreement when the Senate sends an amendment over here with the request for a conference before action by the House.

Mr. MANN. When both Houses have ordered conferees they are in disagreement. Otherwise they could not order a conference.

Mr. GARDNER. Has the motion to disagree been agreed to?

Mr. MANN. It has been agreed to, and the Speaker will find in the Manual—not on this point—what the Speaker already knows, that the motion to instruct the managers should be offered after the vote to ask for or agree to a conference and before the managers are appointed. That is the present situation.

The SPEAKER. It is this way: If they can not be instructed now, they never can be.

Mr. MANN. That is correct.

The SPEAKER. All the Members who who have been here any length of time know that when a conference report is brought in here it is almost absolutely impossible to beat it. The Members hesitate about it, and therefore the point of order made by the gentleman from New York [Mr. Fitzgerald] is overruled. The question is——

Mr. WINGO. The disagreement has not yet been reached, because the Chair has never put the question on the motion of the gentleman from Virginia to disagree.

The SPEAKER. The gentleman is mistaken. The previous question was never moved on this, and was never put.

Mr. WINGO. If the Speaker will pardon me, I know the gentleman from Virginia moved the previous question.

Mr. MANN. It was not put.

Mr. WINGO. As soon as the Chair put it, the gentleman from Pennsylvania [Mr. McFadden] offered a motion, and the query at once arose in my mind as to whether he knew what he could do under that.

The SPEAKER. I do not know anything about what the gentleman from Pennsylvania knew. What I know is that the motion to disagree was put and carried.

Mr. MANN. Undoubtedly.

Mr. ADAMSON. A parliamentary inquiry.

The SPEAKER. The gentleman will state it.

Mr. ADAMSON. Then I was correct in my assumption a few minutes ago that after the disagreement was ordered and before the conferees were appointed they could be instructed.

The SPEAKER. That is exactly what the Chair has held.

Mr. ADAMSON. I am much obliged to you.

The SPEAKER. The gentleman is under no obligation. [Laughter.] The question is on the motion of the gentleman from Pennsylvania [Mr. McFadden] to instruct the conferees.

The question being taken, on a division (demanded by Mr. Glass) there were—ayes 111, noes 63.

Mr. GLASS. I demand the yeas and nays, Mr. Speaker.

Mr. BORLAND. I make the point of order that there is no quorum present.

The SPEAKER. The gentleman from Missouri makes the point of order that there is no quorum present. Evidently there is none. The Doorkeeper will lock the doors.

Mr. CRISP. Mr. Speaker, I ask unanimous consent that the motion of the gentleman from Pennsylvania be again read by the Clerk.

The SPEAKER. In a minute. Evidently there is no quorum present. The Doorkeeper will lock the doors, the Sergeant at Arms will notify absentees, and the Clerk will call the roll. Before he does that, without objection, the motion of the gentleman from Pennsylvania [Mr. MacFadden] will be reported again.

There was no objection.

The motion of Mr. McFadden was again read.

The SPEAKER. The Clerk will call the roll.

The question was taken; and there were—yeas 240, nays 118, answered "present" 4, not voting 69, as follows:

(Detail vote omitted.)

(Part 4, p. 3522, June 12, 1923)

(Leaving out authorities cited and quoted Mr. Harrison continued on page 3523:)

Mr. HARRISON of Mississippi. Mr. Speaker, I have raised the point of order on the conference report filed by the managers on the part of the House on the banking and currency bill because they have exceeded their authority.

The SPEAKER. What is the point of order?

Mr. HARRISON of Mississippi. Mr. Speaker, on May 10 the bill came back from the Senate and the House instructed the managers on the part of the House to agree in substance to what was known as the Hardwick amendment, which had been previously adopted by the Senate. I want to read the instructions given to the managers and which were passed by the House by a vote of about 246 to 117.

"Motion by Mr. McFadden:

"I move that the managers on the part of the House be instructed to agree in conference to the substance of the following provision in the Senate amendment, being the last five lines on page 8 and the first five lines on page 9, which read as follows:

"'*Provided*, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: *Provided further*, That nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or ohterwise.'"

The Speaker will see from the reading of that amendment that member banks might make certain exchange charges, for collecting and remitting drafts and checks, in no case to exceed, however, one-tenth of 1 per cent per $100, and the reasonableness of the charge up to one-tenth of 1 per cent per hundred was left to the member banks making the charges. Now, we tested

the sentiment of the House, and overwhelmingly instructed the conferees virtually to concur in that Senate amendment, and we expected that they would bring it in in substantially the same form as it had passed the Senate, but there have been two changes made in the amendment, two very vital changes. They alter the substance of the Hardwick amendment. The first change is in that these words are inserted:

"That nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges"—

And they added these words—

"to be determined and regulated by the Federal Reserve Board."

In other words, they change the Federal Reserve Board from its administrative capacity to one of judicial functions and give them the power to determine what shall be the reasonableness of the rates, giving them the power to say, for instance, whether or not the charges made by the member banks may be one-thousandth of 1 per cent or any other amount. In other words, the House said to the conferees, bring in substantially the Hardwick amendment allowing the country banks to make a reasonable charge, and they change it to say that the Federal reserve bank shall have the right to fix the charge that member banks may make; but they did not stop there, they went further and exceeded their authority. They also have this apparently innocent proviso to the Hardwick amendment which would destroy the purpose of the amendment and defeat the very intention of the House in giving to the member banks the right to make a reasonable charge, not to exceed one-tenth of 1 per cent. Here is that innocent amendment:

"But no such charges shall be made against the Federal reserve bank."

Under that provision the Federal Reserve Board—I do not think my friend from Virginia (Mr. Glass) would deny it—could undo everything we proposed to do by the amendment. They might say that these banks that clear through the Federal Reserve Board, when notified to remit, shall remit the checks in payment to the Federal reserve bank, and no charges can be made therefor.

There can be no doubt that the Federal Reserve Board wants the power to destroy the right of member banks to make these exchange charges, and it is wrong to give the Federal Reserve Board authority so broad that it may defeat the intention and will of the House. [Applause.] And that is what the managers on the part of the House have done.

(P. 3523)

So I submit, Mr. Speaker, that unless you want to change all these precedents and allow the managers to thwart the will of the House constantly, this point of order should be sustained, because otherwise the House can never rely in the future, when it has expressed its will and instructed its conferees as to what they shall do, on their following out those instructions; and the proper way to get at it is to sustain the point of order and let it go back to conference in order that the will of the House may be carried out. [Applause.]

Mr. HOWARD. Mr. Speaker, will the gentleman yield for a question?

Mr. HARRISON of Mississippi. Yes.

Mr. HOWARD. I want to ask the gentleman this question: The House instructed the House conferees to agree to the Hardwick amendment in substance. As a matter of fact, is not this the only difference between the instruction given by the House and the report of the conferees, the specific amount was stipulated in the instruction by the House to the conferees, and they have changed that in this respect, that they have permitted the Federal Reserve Board to fix the charge that may be made by the banks?

Mr. HARRISON of Mississippi. That is on of the changes. That is not the only change.

Mr. HOWARD. Is not that in substance agreeing to the proposition that the House instructed its conferees on?

Mr. HARRISON of Mississippi. Indeed, it is not at all.

Mr. HOWARD. What does the gentleman construe——

Mr. HARRISON of Mississippi. The other proposition was that this proviso that was brought in prevents the Federal Reserve Board banks from paying anything on their checks or remittances. It gives them power to defeat absolutely the intention of the House.

Mr. BURNETT. Mr. Speaker, will the gentleman yield?

Mr. HARRISON of Mississippi. Yes.

Mr. BURNETT. Would not the effect of this bill be to substitute, in the first place, the decision of the Federal Reserve Board for the member banks which was intended to fix the rates not exceeding 1 per cent?

Mr. HARRISON of Mississippi. Absolutely.

Mr. BURNETT. And next, would not that empower the Federal Reserve Board to fix that, if they desired to do so, at 1 per cent on the hundred, or anything else, so as to absolutely destroy the will of the House and the purpose of the amendment?

Mr. HARRISON of Mississippi. Absolutely.

(Pp. 3525–3529)

The SPEAKER. The Chair is ready to rule.

Mr. GLASS rose.

The SPEAKER. The gentleman from Virginia.

Mr. GLASS. Mr. Speaker, I feel pretty confident of what the ruling of the Chair will be, but I desire to present the position of myself and my colleagues to the House. A question of fact, as well as a question of parliamentary practice, is involved in this discussion. It is all very well for gentlemen to say that the conferees on the part of the House have "contemptuously" disregarded the action of the House in instructing the managers, but it is quite a different thing to plausibly explain that proposition to the House. I am not disturbed by the accusation, because it comes from the gentleman from Wyoming [Mr. Mondell], who is too much addicted to extreme adjectives to be seriously regarded when he undertakes to characterize a proposition. The conferees on the part of the House would be incapable of disregarding the plain instructions of this House, "contemptuously" or otherwise, and I would coifidently appeal to the Speaker if that were the only point involved in this question of order, and abide by his decision upon that point alone.

Let us see what happened. The House, without a word of debate or of explanation, without understanding the question—and I make that assertion advisedly because a score of Members who voted for these instructions have told me that they had a misconception of the proposition—adopted the motion of the gentleman from Pennsylvania [Mr. McFadden] to instruct the managers on the part of the House to "agree to the substance" of the so-called Hardwick amendment. If the House had desired to approve the Hardwick amendment as written into the bill, it was very easy for the House to have said so explicitly. Had the motion read that "the managers on the part of the House are instructed to agree to the Hardwick amendment," the managers would not have hesitated one moment to carry into effect the action of the House; but the very fact that we were not directed to accept the Hardwick amendment in toto, but were instructed to agree only to "the substance" of it, instantly and inevitably suggested to the managers that the House itself was not satisfied with this crude and utterly unjust exaction upon the commerce of the country, but relied upon the managers on the part of the House and Senate to alter the phraseology of the bill and, in substance, make it workable.

Mr. CANNON. Mr. Speaker, will the gentleman yield?

Mr. GLASS. Yes.

Mr. CANNON. The amendment known as the Hardwick amendment reads: "*Provided further*, That nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges."

And so forth. Then there is added by the amendment agreed to by the House conferees the following language: "to be determined and regulated by the Federal Reserve Board."

Another amendment at the close is inserted and agreed to by the House conferees that did not appear in the Hardwick amendment: "but no such charges shall be made against the Federal reserve banks."

That "the member banks" is entirely new and the other is new.

Mr. GLASS. The Federal reserve banks, I will say to the distinguished gentleman from Illinois, are not "member banks."

Mr. CANNON. Are not member banks?

Mr. GLASS. Why, no.

Mr. CANNON. Very well.

Mr. GLASS. The reference is to the 12 regional reserve banks.

Mr. CANNON. I put this question to the gentleman, even if that be correct. Why is it put in except for this reason, that Federal reserve banks would become a clearing house for all the member banks at once, and a great majority of banks, the State banks scattered throughout the length and breadth of the country, would be cut off from this business, and the object of the amendment would be, which appeared for the first time in this bill, that you would seek to drive the State banks into the Federal reserve system, and if they do not come a penalty would be that clearance would be through the member bank and through the Federal reserve bank.

Mr. GLASS. Mr. Speaker, I will in a moment reach that phase of the proposition and explain that amendment to the House fully. The managers on the part of the House have no concealments to make about the matter. They want to deal in the utmost frankness with the House. If the House thinks, after the matter has been presented, that the managers on the part of the House have exceeded instructions in any particular, it is within the power of the House to instruct the managers more specifically, and the managers will agree to any instructions that the House shall give.

But I repeat, Mr. Speaker, the very fact that the managers on the part of the House were not specifically directed to accept the so-called Hardwick "rider" inevitably prompted the suggestion that the House wanted, or in any event was willing, that the managers on the part of the House might rewrite the Hardwick amendment so long as they should adhere to the substance of it. Now, what is the substance of the Hardwick amendment? The substance of the amendment is that banks—not merely country banks but all banks—may charge for collecting and paying checks for remission. Let us no longer be swayed by the tyranny of a phrase, for that amounts in the end to demagogy. Gentlemen speak fervently and unctuously about "struggling country banks" without letting it be known that all banks in the United States outside of the 52 reserve and central reserve cities are embraced in the classification of "country banks." When people talk to you about these "struggling little country banks" they mean, in some instances, banks with $3,000,000 of capital. One of the men behind this agitation, who has helped to lobby this rider onto this bill, to which it is not germane, is the president of a "country bank" with $3,000,000 capital and one of his first lieutenants is the president of a bank with $1,000,000 capital and $1,000,000 surplus and $24,000,000 assets. So when they talk about the "little country banks" they mean practically the entire banking community of the United States outside a few large money centers. What is the substance of the Hardwick amendment? It is that all banks may make a "reasonable charge," not only for collecting but, mark you, for paying their own checks across the counter for remission.

Mr. MONDELL. Mr. Speaker, will the gentleman yield?

Mr. GLASS. Mr. Speaker, I hope I will not be interrupted. I have no reputation as a parliamentarian to lose, and, therefore, I may speak with more freedom than some gentlemen who have earned a great reputation as parliamentarians, but who are utterly wrong on this proposition. [Applause.]

Mr. MONDELL. Mr. Speaker——

The SPEAKER. Does the gentleman from Virginia yield?

Mr. GLASS. No; I do not.

Mr. MONDELL. Mr. Speaker, I make the point of order that the gentleman is not discussing the point of order. He is discussing the merits of the question. He is discussing the question as to whether or no the conferees did exceed their authority and on that he is discussing the merits of the proposition.

The SPEAKER. Well, the point of order is overruled. [Applause.]

Mr. GLASS. Mr. Speaker, the point of order——

The SPEAKER. The gentleman from Virginia seems to be laying a foundation and expressing an opinion about the point of order raised by the gentleman from Mississippi [Mr. Harrison] and the gentleman from Wyoming [Mr. Mondell].

Mr. GLASS. Precisely. The substance of the Hardwick amendment was that all banks should make a reasonable charge on collecting—and, one of the most extraordinary things that was ever suggested in national legislation—paying their own checks for remission. The rider did not say who should determine the reasonableness of the charge. It fixed a maximum charge which, in thousands of cases, all must know would be utterly excessive and unreasonable. My distinguished friend from Mississippi [Mr. Harrison] ex-

pressed amazement that the House managers should have presumed to write into the bill the suggestion that the Federal Reserve Board shall determine the reasonableness of the charge.

He urged that we were conferring "judicial powers upon an administrative board," but he is perfectly willing that the banks may determine the reasonableness of this tax which they are to exact from the industry and commerce of the country. He is not willing to delegate to the Federal Reserve Board—an altruistic and disinterested body that derives no benefits from the operations of the system, some members of which have given up large incomes to serve the public—he is not willing to confer judicial authority upon this distinguished board to determine what is a fair and reasonable charge by these banks, but serenely expresses a willingness to delegate to the banks themselves, the party largely in interest, the right to determine the charges which they may exact from commerce. The managers on the part of the House think that in that particular they have adhered——

Mr. CANNON. Will the gentleman yield to that point?

Mr. GLASS. In a moment. That they have adhered to the substance of the Hardwick amendment, because the amendment itself left open the question as to what, in thousands of cases, would be a reasonable charge, and left undetermined the question as to who should determine the reasonableness of the charge. Now I yield to the gentleman.

Mr. CANNON. At that point the Hardwick amendment reads as follows, fixing the amount of charges that may be made: "but in no case to exceed 10 cents per $100 or fraction thereof."

And that applies not only to the State banks but applies to member banks.

Now, then, that is nullified by the last amendment.

Mr. GLASS. The gentleman from Illinois [Mr. Cannon] would, I am sure, upon a moment's reflection, agree with me that there never was a greater absurdity on earth than the insertion of those words "nonmember banks" in this Hardwick amendment. The Congress has no control whatsoever over nonmember banks. It can not regulate their charges and will not regulate them if this Hardwick amendment should prevail. Many of them will continue to charge one-quarter of 1 per cent; many of them will continue to charge 1 per cent; many of them will continue to do what I can show you banks have done—charge $5 for cashing a $75 draft. This House has no control over the nonmember bank in this matter. Even the Federal Reserve Board has no control over their operations unless they voluntarily join the voluntary collection system established by the Federal Reserve Board.

Mr. CANNON. Will the gentleman yield further?

Mr. GLASS. Yes.

Mr. CANNON. Under the Hardwick amendment a member bank could charge not to exceed one-tenth of 1 per cent.

Mr. GLASS. Precisely so; but I was pointing out the fact——

Mr. CANNON. Under the last clause practically a member bank could not charge anything.

Mr. GLASS. I am coming to that. The gentleman is entirely mistaken about it. What I was pointing out was that in thousands of cases the charge of one-tenth of 1 per cent is extortionate. I can present letters of trustworthy merchants, and even of bankers themselves, showing, particularly in the State of Minnesota, that the charge of one-tenth of 1 per cent is 100 per cent greater than the express charge for the actual shipment of funds from various points. So that I say in a thousand cases the charge of one-tenth of 1 per cent is excessive and in some cases it is extortionate.

Now, then, who is to determine what the charge shall be? The managers on the part of the House thought it was up to them to say. Accepting the text of the Hardwick amendment without the crossing of a "t" or dotting of an "i" we felt, from the wording of the motion under which we operated that we had the right to say who should determine that charge. And who could better determine it than a disinterested party, rather than the banks themselves?

Now, as to the other alteration made by the managers. I will tell the House frankly what prompted that modification. It was suggested by the managers on the part of the Senate, and the managers for the House having no desire, "contemptuously" or otherwise, to disregard in any respect the instructions of this House, accepted it. The thing that immediately prompted this modification of the Hardwick amendment was the fact that the governor of the Federal Reserve Board addressed a letter to the chairman of the

House Committee on Banking and Currency directing attention to the fact that, under the terms of the Hardwick amendment, should one-half of the banks only charge exchange, it would cost the Government of the United States $1,000,000 to float the Liberty loan. Therefore the managers on the part of the Senate added these words to the proviso: "but no such charges shall be made against the Federal reserve banks."

That, of course, has reference to 9 of the 12 regional reserve banks.

There was another reason for putting that modification in the bill. The existing law explicitly provides that Federal reserve banks shall receive at par checks and drafts of member banks. How much justice, how much equity, is there involved in requiring the reserve banks to par checks of member banks and then permitting, as the Hardwick amendment would permit, member banks to make charges agaist Federal reserve banks—to use the Federal reserve banks on bank checks cleared through them?

Mr. REAVIS. Will the gentleman yield to me?

Mr. GLASS. Yes.

Mr. REAVIS. Does the gentleman consider the Hardwick amendment as granting authority to make the charge against Federal reserve banks?

Mr. GLASS. I undoubtedly do.

Mr. REAVIS. Do you think——

Mr. GLASS. I construe the Hardwick amendment as granting authority to your bank to exact a charge on your checks, on your deposits, taken in person, and collected across the counter.

Mr. REAVIS. If the Hardwick amendment grants authority to make the charge through the Federal reserve bank, is it a substantial compliance with the amendment to say that the charge shall not be made against the Federal reserve bank?

Mr. GLASS. We think so, or we should not have put it in there.

Mr. WINGO. Will the gentleman yield to a question right there?

Mr. GLASS. I will.

Mr. WINGO. Is it true that under the present existing law, and in a way together with other provisions that are in the pending bill, the Federal Reserve Board has authority to establish a compulsory clearing system?

Mr. GLASS. Yes; but it never has exercised the authority.

Mr. WINGO. What I want to get at is whether they have authority to say that the compulsory clearing system can use the banks as a clearing house?

Mr. GLASS. That is a disputed legal question; and, not being a lawyer, I do not undertake to decide it. The Board has not established a compulsory system, but has established a voluntary system. No bank, whether a member bank or nonmember bank, is compelled to join.

Mr. WINGO. But the provisions of this bill will accomplish that purpose, will they not?

Mr. GLASS. I hope so.

Mr. WINGO. It is intended by the provisions of this bill to do what Congress thought it had done before, to establish a clearing-house system, using the 12 regional reserve banks as a clearing house.

Mr. GLASS. I do not agree to that proposition.

Mr. WINGO. The gentleman does not think that has been done by this measure?

Mr. GLASS. No; I do not.

Mr. PLATT. Mr. Speaker, will the gentleman yield?

Mr. GLASS. Yes.

Mr. PLATT. I wanted to bring out again the fact that the Hardwick amendment is a Senate amendment, and the managers on part of the Senate have put in this phrase: "but no charges shall be made against the Federal reserve banks."

Mr. GLASS. They did.

Mr. PLATT. And that is acceptable to the Senate?

Mr. GLASS. Yes.

Mr. HARRISON of Mississippi. Mr. Speaker, will the gentleman yield?

Mr. GLASS. Yes.

Mr. HARRISON of Mississippi. Referring to the letter of May 10 addressed to the chairman of the committee, by Mr. William P. G. Harding, governor of the Federal Reserve Board, I notice that at the bottom of the letter is this language:

"This, I think, would give you the opportunity that you desire to handle the matter in conference."

The letter in full is as follows:

FEDERAL RESERVE BOARD,
OFFICE OF THE GOVERNOR,
Washington, May 10, 1917.

Hon. CARTER GLASS,
House of Representatives, Washington, D. C.

DEAR MR. GLASS: Since you were in my office this afternoon, Mr. Delano tells me that he just had a talk over the telephone with Governor Strong, of the Federal Reserve Bank of New York, who calls attention to the possibility, if not strong probability, of the Government having to pay bankers a million dollars exchange charges in connection with subscriptions to the Liberty loan, assuming that the Hardwick amendment, which the House has instructed its conferees to agree to, becomes a law.

This estimate is based upon the assumption that one-half of the total issue of bonds will be placed outside of New York. Subscribers are permitted to make payment by their checks upon local banks properly certified, and, under authority given by Congress, many of these banks would undoubtedly avail themselves of the opportunity to charge one-tenth of 1 per cent. Should this exchange charge apply to one-half of the subscriptions, the expense to the Government would be $1,000,000.

I would suggest, therefore, that you call the attention of Senator Owen to this, and suggest that he ask the Senate to reconsider the Hardwick amendment, with a view of changing it so as to prevent it from applying to transactions connected with Government bonds. This, I think, would give you the opportunity that you desire to handle the matter in conference.

Very truly yours,

W. P. G. HARDING, *Governor.*

Now, when he said in that letter, "This, I think, would give you the opportunity you desire to handle the matter in conference," is that the question you wanted to get into conference on, that was spoken of by Mr. Harding?

Mr. GLASS. What question?

Mr. HARRISON of Mississippi. The one that the gentleman from New York [Mr. Platt] refers to?

Mr. GLASS. No. As a matter of fact, the conferees had met twice before the Senate conferees suggested this proposition that no charge should rest against the Federal reserve bank.

Mr. TOWNER. Mr. Speaker, will the gentleman yield?

Mr. GLASS. Yes.

Mr. TOWNER. If the House voted down the conference report, how would the conferees feel about again taking up the matter in conference? What would be their action in regard to the Hardwick amendment?

Mr. GLASS. Why, the conferees on the part of the House would ask for further instructions, and would literally obey them, as they think they have done in this case.

Mr. TOWNER. Would the conferees not feel, the House in view of the present situation not agreeing to the conference report, that the conference agreement as to the Hardwick amendment was not a compliance with their instructions?

Mr. GLASS. The House managers would not feel that they had exceeded their instructions. No vote of this House would make me believe that we have exceeded instructions. But, in case the House should reject the conference report, the managers would feel that the House was not in agreement with the alterations that the managers had made.

Mr. TOWNER. That is what I had in mind.

Mr. GLASS. And would ask the House to give more explicit instructions. Whatever those instructions might be, the managers would obey them.

Mr. TOWNER. I am not trying to probe the gentleman on the matter, but now I would like to know—and I think the House would like to know—if voting down the conference report would be considered by the conferees as an indication that the changes made by the conferees were not satisfactory?

Mr. GLASS. Were not satisfactory? Undoubtedly. But the conferees would want to know whether both alterations were objectionable, or merely one. The conferees would want to know whether the House would be willing to leave the determination of the "reasonableness" of the charges to the Federal Reserve Board or to the banks. The conferees would want to know which one of the two, if either, of the alterations appeals to the House.

Mr. McFADDEN. Mr. Speaker, will the gentleman yield?

Mr. GLASS. Yes.

Mr. McFADDEN. I would like to ask my colleague whether or not as a matter of fact all the members of the conference committee are opposed to the Hardwick amendment?

Mr. GLASS. Yes; opposed to the Hardwick amendment, but not opposed to a reasonable charge.

Now, if I may proceed, I want to apologize to the House for having detained it so long; but——

Mr. FESS. Mr. Speaker, will the gentleman yield?

Mr. GLASS. Yes.

Mr. FESS. I was interested in the statement of the chairman of the committee that nonmember banks would not be in any way affected, even though the language "nonmember banks" were used in the bill. I do not understand the force of that statement.

Mr. GLASS. I did not say they would not be affected in any way. I said Congress has no authority whatever over charges made by nonmember banks, so that the use of those words there is inept.

Mr. FESS. I want to ask whether the chairman is speaking advisedly when he says that the Congress has no control over the charges of the nonmember banks?

Mr. GLASS. Absolutely none on earth; and yet most of this furore has arisen from nonmember banks. Would the gentleman like to know why? It is because they could not stand the competition of banks that would not make the charge.

Mr. FESS. I would like to know whether the chairman would state if we would write in the bill that no charge shall be made on the Federal reserve banks that that does not apply to nonmember banks?

Mr. GLASS. Absolutely no. No nonmember bank that does not voluntarily join the collection system established by the Federal Reserve Board will be specifically affected. No law that we pass here can directly affect them. The only way they can be affected is incidental. They find that patrons, the merchants and depositors generally, will not stand for this charge and patronize in preference banks that agree not to make the charge. Two-thirds of the commercial banks in the United States have voluntarily joined a clearing system, representing 85 per cent of the banking business. Banks doing 15 per cent of the banking business have organized this propaganda. [Applause.]

Mr. FESS. It is a new view to me.

Mr. GLASS. It is a correct view, though——

Mr. FESS. It is a new view to me, if we write in the bill that no member bank shall charge; that nonmember banks will not be controlled.

Mr. GLASS. The nonmember banks are the State banks. They derive their charters from the States.

Mr. FESS. I will accept the gentleman's statement.

Mr. GLASS. My opinion may not be good, because I am not a lawyer, but I have heard good lawyers state that. [Laughter.] One reason why the House managers readily agreed to the suggestion of the Senate managers to exclude the 12 regional reserve banks from this charge was that the Secretary of the Treasury is authorized to constitute the 12 regional reserve banks the fiscal agents of the United States Government.

The thing had in view was that ultimately we might abolish some of the subtreasuries, carry the funds of the Government in the regional reserve banks, and transact all the business of the Government by checks on Federal reserve banks. That was an additional reason for embodying that modification in the bill and in the report.

Mr. Speaker, I think I have covered, as well as I can in a brief statement, the question of fact as to whether or not the managers on the part of the House have either "contemptuously" or otherwise disregarded the instructions of the House. On that point I want to conclude by saying that your managers, whatever may be their preconceptions and their individual judgment, are incapable of deliberately violating the instructions of this House. I would be distressed to have any Member of this house think otherwise. We are willing to obey the instructions of the House if the House will give its instructions deliberately and unmistakably; but when a "rider" is put on a bill here that threatens to gravely impair the usefulness of the voluntary collection system established by the Federal Reserve Board without one word of explanation or debate the House managers had a right to assume that there was no deliberation, but only

misconception. With a score of Members telling me personally that they did not know what they were voting for; that they were misled by Members standing at the doors and telling them that "our vote is yea," as if there was some party division in the House, the managers, taking the peculiar wording of the instruction into account, had the right to understand that the House wanted some modification of the so-called Hardwick amendment, which is an atrocity as well as a monstrosity in its original form. [Applause.]

Mr. Speaker, upon the question of parliamentary procedure it is frank termerity on my part that leads me to have a word to say upon that, because although I have been a Member of this House for 16 years, I know as little about parliamentary processes as a cat. [Laughter.] It is a misfortune which I realize every time I have a bill to present, but I have not had time from other duties to get a knowledge of parliamentary law. On the point of order I need not call the attention of the Speaker to pertinent cases in Hinds' Precedents. That has already been done by the gentleman from Mississippi [Mr. Harrison] and the gentleman from Wyoming [Mr. Mondell], where it is stated that—

"Although a conference report may be in disregard of instructions given the managers, yet it may not be ruled out on a point of order."

And I want to emphasize, as my colleague from Mississippi [Mr. Harrison] emphasized for a different purpose, what Mr. Speaker Carlisle said on the subject. He said:

"They have now brought it back to the House in order that the House may have an opportunity to recede from its action if it desires to do so, or further insist upon it if it desires to do so."

Is not that precisely what your managers have done? You framed your instruction in a way to suggest that the Hardwick amendment should be altered, its phraseology modified, and that we have done, not interfering with its substance. We have brought it back here for you to determine whether or not you approve the change of terms, whether you want to adopt it with the modifications that we have made. So I emphasize what Mr. Speaker Carlisle said upon the subject. We are willing to obey the instruction of the House, if the House will state its instructions so that men of ordinary average intelligence may understand. What do you mean? Do you mean that my bank shall confiscate a part of my deposits by exacting a fee for paying my checks? That can be done under the Hardwick amendment. Any one of you can have one-tenth of 1 per cent of your deposits confiscated under the Hardwick amendment. Does the House want that? I do not believe that the House wants it, and therefore we are back here to have that very question determined. [Applause.]

Mr. LENROOT. Will the gentleman yield for one question?

Mr. GLASS. Yes.

Mr. LENROOT. I should like to ask the gentleman if he thinks the House did not understand the situation when it gave its instructions; could not the conferees have reported to the House a disagreement and then have asked for such modification of the instructions as the gentleman thought ought to be given?

Mr. GLASS. We were instructed not to disagree but to agree to "substance." We not only agreed to the substance; we agreed to the text. We have not crossed a "t" nor dotted an "i." We have brought the Hardwick amendment back with just such a modification as the text of the instruction would seem to sanction.

Mr. LENROOT. My question was prompted by the statement of the gentleman that they had brought the matter back to the House, where the House could have full opportunity to act upon this specific matter, while now it can not do so without rejecting the report.

Mr. GLASS. The House could, in the first instance, have moved—I do not know whether I am right, but it seems to be good sense—the House could, in the first instance, have agreed to the Hardwick amendment without reference to the conference.

Mr. LENROOT. No; it could not.

Mr. GLASS. Why not?

Mr. LENROOT. Because it was a part of the Senate substitute.

Mr. GLASS. I do not know as to that, but one thing the House could have done. One thing the proposer of this motion could have done. He could have moved that the managers on the part of the House be instructed to agree to the Hardwick amendment. He could have done that. He did not do it.

Mr. MCFADDEN. I should like to point out to the gentleman right there that when the word "substance" was introduced and the House voted on it, it was not voting on the word "substance". It was the intention of the House at that time that the conferees should maintain the Hardwick amendment.

Mr. GLASS. How could we tell that? Not voting on the word " substance!" Why, the gentleman himself proposed that very thing when he put in the word " substance." I am not a mind reader. I could not tell what the gentleman wanted except by the words he used. Now, Mr. Speaker, one other quotation from Hinds' Precedents——

Mr. MCFADDEN. Will the gentleman yield again?

Mr. GLASS. Yes; although I am sure the House is impatient.

Mr. MCFADDEN. I want to point out to the gentleman that the words which the conferees have added to the Hardwick amendment nullify that amendment entirely. The very purposes of it are defeated.

Mr. GLASS. Oh, we do not agree to that at all.

Mr. PLATT. Will the gentleman yield?

Mr. GLASS. Yes.

Mr. PLATT. As a matter of fact the American Bankers' Association suggested that first amendment themselves, that the charges should be regulated by the Federal Reserve Board.

Mr. GLASS. Absolutely. And not only that, but the only two bankers' associations that have met since this Hardwick amendment was proposed have voted, one of them unanimously and the other overwhelmingly, against the Hardwick amendment. One of those associations was the Bankers' Association of the State of Pennsylvania. [Applause.]

Mr. MCFADDEN. Will the gentleman yield?

Mr. GLASS. Yes.

Mr. MCFADDEN. We might say, in explanation of that——

Mr. GLASS. I do not wish the gentleman to explain that now. He can explain that when we come to discuss the merits of the proposition. I want to get through with this point of order.

Now, let me call the attention of the House to the fact that Hinds' Precedents says:

" Where one House strikes out all of the bill of the other House after the enacting clause and inserts a new text, and the differences over this substitute are referred to a conference the managers have a wide discretion in incorporating germane matters, and may even report a new bill on the subject."

Now, I deny, in the first place, that the conferees have disregarded the instructions of the House. I am perfectly willing that the Speaker may determine that point and may make his ruling exclusively upon that, but when we come to parliamentary processes it is clearly set forth that where one House strikes out all after the enacting clause of a bill and substitutes a new bill the conferees have almost unlimited discretion and may report an entirely new bill.

We have not reported an entirely new bill. We have simply reported two reasonable modifications of a crude and barbarous amendment put on in the Senate as a " rider " to a bill dealing with quite different problems. This " rider " was thrown out of the House as not germane. It was put on as a " rider " in the other body and sought to be thrust through here without a word of debate or a moment's intelligent consideration.

So, Mr. Speaker, I contend that the facts have not been correctly stated by our adversaries, and, further, that their point as to the form of procedure should be overruled.

Mr. Mondell rose.

The SPEAKER. The Chair will hear the gentleman from Wyoming, for two minutes.

Mr. MONDELL. Mr. Speaker, while the gentleman from Virginia [Mr. Glass] has modestly claimed that he is not a parliamentarian, he has, as a matter of fact, wonderfully clarified the situation, first, by declining during his long argument to discuss the question as to whether or not a point of order lies against the refusal of the conferees to follow instructions. He has not argued that proposition at all. He virtually admits by his failure to do it that a point of order does lie in such a case. Second, his entire argument is a confession that the conferees did not carry out their instructions. Whether or not I was justified in saying that they were contemptuous in their disregard of instructions I leave it to the House to judge. The gentleman from Virginia referred to the instructions of the House as instructions to agree to a contemptuous form of

graft. His entire discussion indicates contempt of the attitude and instructions of a majority of the House.

Mr. GLASS. Will the gentleman yield?

Mr. MONDELL. Yes; I will yield to the gentleman although he would not yield to me.

Mr. GLASS. I did not characterize the instructions of the House as graft; I interpreted the instructions to the managers of the House as instructions to eliminate the draft feature of the amendment.

Mr. MONDELL. He so interpreted the instructions of the House as to nullify them.

Mr. GLASS. No; to eliminate and regulate the draft.

Mr. MONDELL. The gentleman says the instructions of the House constituted and provided for a contemptible form of graft and he so interpreted them as to entirely modify them with a view of removing what he believed to be a form of graft. In other words, Mr. Speaker, he admits by his failure to discuss it that a point of order does lie in a case like this, and, second, his entire argument is an admission that the conferees did disregard their instructions.

The Speaker ruled against the point of order.

(P. 3532)

The SPEAKER. The gentleman from Virginia [Mr. Glass] is recognized for an hour and a quarter.

Mr. GLASS. Mr. Speaker, the statement filed by the managers on the part of the House is a brief and distinct presentation of the report of the conferees. The chief points of difference are familiar to the House. The real points of difference were, first, as to the reserve section. The Senate accepts the House provision in toto on the reserve section. Secondly, on the question of the so-called Hardwick amendment, relating to charges on the collection and payment of checks, the House fully understands what has been done with respect to that. The Senate accepted practically all of the other provisions of the House bill, including those provisions relating to empowering the Federal Reserve Board to compel Federal reserve banks to establish branches abroad, and also empowering the Federal Reserve Board to compel Federal reserve banks to establish branches of the reserve banks in this country where needed. Then, one other provision is comprised in the conference report, to which my colleague, the gentleman from Arkansas [Mr. Wingo] has once or twice alluded.

(Pp. 3533, 3534, 3535)

Mr. MCFADDEN. Mr. Speaker, I yield 5 minutes to the gentleman from Iowa [Mr. Towner].

Mr. TOWNER. Mr. Speaker, I think most of the Members of the House have regarded the McFadden amendment as a protection to those who dealt with the banks, as a limitation on the power of the banks to charge exorbitant rates for exchange. It provided that banks should under no circumstances charge unreasonable rates of exchange, and that in no case should a charge be exacted of more than 10 cents per $100. A charge of one-tenth of 1 per cent certainly can not be considered as unreasonable.

The chairman of the Banking Committee tells us of instances of unreasonable charges. This provision would prevent such unjust exactions. It is surely as efficacious to bring the individual banks under such restrictions by direct enactment as it would be to allow the Federal Reserve Board to fix rates of exchange at its discretion.

The chairman of the Banking Committee characterizes the McFadden amendment as an atrocity which the House conferees seek to remedy, and yet at the same time he tells the House the conferees have endeavored to carefully follow the instructions given them by the House.

The McFadden amendment which was given as an instruction to the conferees, provided the banks which were members of the Federal reserve system should not be prevented from charging reasonable exchange, but fixed a maximum charge of one-tenth of 1 per cent. The conferees have changed this by providing that the rates of exchange shall "be determined and regulated by the Federal Reserve Board." This constitutes a vital and material change in the instructions given. It takes from the banks the right, in the first instance, to make exchange rates and confers such right upon the Federal Reserve Board.

Besides this, the conferees have inserted a further provision that no charges for exchange shall be made against the Federal reserve banks. This is a further

and important change and violation of the instructions given by the House to the conferees. It exempts the Federal reserve banks from any exchange as against their paper, but permits the Federal Reserve Board to fix the rates which shall be charged against the member banks.

It must be clear that the conferees have not followed the instructions given them by the House.

It is claimed by the chairman that because the instructions given directed the conferees to agree "to the substance" of the McFadden amendment that they were thereby authorized to depart from it with large discretion and wide latitude. I do not so understand the instructions. To agree "in substance" means to the same effect; not changing materially the substance and meaning. It means with reasonable construction that the words may be different, the verbiage unchanged. Such interpretation would exclude the inserting of new matter entirely. It would without doubt exclude new matter which would vary or contradict the language of the original. The changes which I have referred to would not be an agreement "in substance" with the McFadden amendment.

Mr. GLASS. Mr. Speaker, will the gentleman yield?

Mr. TOWNER. Yes.

Mr. GLASS. Will the gentleman be kind enough to point out in the McFadden amendment the language which commits to the banks the right to determine the reasonableness of the charge?

Mr. TOWNER. I think I can. The language of the McFadden amendment is that nothing in the act shall be construed to prohibit a bank from "making reasonable charges," in no case to exceed one-tenth of 1 per cent. There is committed to no other person or bank the power to determine what is a reasonable charge except the bank. As to whether or not it is reasonable is a matter between the person interested in the transaction and the bank. The bank is restrained by law from making unreasonable charges, and, besides, there is a limit fixed by the restriction that it shall not be more than one-tenth of 1 per cent.

Mr. GLASS. Why may it not be just as reasonably inferred that the proponents of the proposition intended that the man who pays the exchange charge might fix it by agreement with the bank?

Mr. TOWNER. I think the gentleman must see that that is an unreasonable interpretation.

Mr. GLASS. Not at all. It is not any more unreasonable than the suggestion of the gentleman that the bank may have the right to solely judge. The bank is the one in the first instance to fix the charge. The gentleman must know that. The power is in the banks now without any legislation to fix the rate of exchange.

Mr. TOWNER. There is no legislation on the subject now.

The chairman is right in saying that in the first instance the bank fixes the charge. The customer does not do it. The customer may pay or not, as he chooses, the charge made. It is true also that the rate may be agreed upon between the customer and the bank. The McFadden amendment was intended to prevent two things: First, that the charges for exchange should not be fixed for the member banks by the Federal Reserve Board; and second, that only reasonable charges within safe limits should in any case be made. The conferees' report changes that materially. It gives the power to fix the rates of exchange to the Federal Reserve Board, and it exempts the Federal reserve banks altogether from exchange charges as against them. That, in my judgment, is both unwise and unfair.

Mr. GLASS. Mr. Speaker, I ask that the gentleman from Pennsylvania [Mr. McFadden] yield some of his time.

Mr. MCFADDEN. I prefer that you use more of your time now.

Mr. GLASS. I yield 10 minutes to the gentleman from New York [Mr. Platt].

Mr. PLATT. Mr. Speaker, it seems to me that gentlemen who voted to instruct the conferees of the House to agree to the Hardwick amendment, many of them, voted under misapprehension and misunderstanding of just what that amendment is.

I have not always been opposed to part of the amendment. That is to say, it has generally seemed to me that some charge for check collecting was reasonable, and many times I have argued in the committee along those lines. But I do not believe the people have understood that this amendment is a matter not only of check collecting, but of paying checks, of making a charge for paying checks drawn on a bank's own deposits. It is the country banks that are

advocating this thing, though claiming that the charge was for collecting the checks or for exchange. If I come down here to Washington with a check on my home bank, and I go in a bank in Washington to get that cashed, it may look like a reasonable thing for a bank here to make a moderate charge for collecting that check. It has got to send it to another city several hundred miles away. But what reason is there why my bank up home, that has my deposit and has enjoyed that deposit all the while that the check was out, and has no way of knowing it was drawn until the check gets back to it—what earthly excuse has that bank for making a charge for paying the check?

Mr. WINGO. The gentleman knows that under the laws of his State they can not charge you for paying the check. If they did any creditor could put it in the hands of a receiver.

Mr. PLATT. I know that they have done it, and that it is exactly what some of them are claiming a right to do.

Mr. WINGO. I beg the gentleman's pardon.

Mr. PLATT. As a matter of fact, the banks of my town have not generally done it, but there are some banks in my district that have.

Mr. WINGO. Is not this what they do? Do not they charge an exchange charge for remitting proceeds after it is paid?

Mr. PLATT. That is, of course, a subterfuge.

Mr. WINGO. It is not a subterfuge, because under the law of your State if they charge for your check or charge less than par, that is the ground for asking for a receivership.

Mr. PLATT. How much more service does that bank render for paying a check that is not cashed, merely by drawing a draft, than if somebody presents a check over a counter, when it has to pay cash for it?

Mr. WINGO. Does the gentleman wish me to tell him?

Mr. PLATT. Yes.

Mr. WINGO. When the check is paid across the counter, when the paying teller pays it—in other words, if you were to give me a check on your bank and I walk into that bank and get it through the paying teller's window, he stamps it "Paid" and sticks it on the file. At the close of the day the individual bookkeeper comes along and gets the batch of checks and charges them up. When it comes in by mail from a correspondent, either the collection or discount or exchange clerk, as we sometimes call him, takes all these checks and lists them in a separate book kept for that purpose. Then he turns to the exchange register and he figures up the total amount that comes from one correspondent. He then writes a piece of exchange. He credits that particular correspondent with that item. Then he fills out a remittance slip that is perforated and double-sided. He puts a piece of carbon paper on top of it, turns it over, fills it in——

Mr. GLASS. I would suggest that if you are going into the process of the banking business, the gentleman will not have any time remaining.

Mr. WINGO. The gentleman asked for it, and I will give it to him.

Then he fills that out, tears off the slip, puts it in an envelope that has a 2-cent stamp, and there is the cost of that envelope. Then he takes those checks and turns them over to the individual bookkeeper. This is the difference in the two transactions.

Mr. PLATT. He pays all the checks that come by mail with one draft and a 2-cent stamp. It is a simpler proposition than paying over the counter. It costs him less money, because that draft is balanced up with other drafts, and remittances of actual cash are seldom made.

Mr. WINGO. They have all got to go through the same process.

Mr. PLATT. He makes a charge for doing something that costs him not much of anything.

Mr. WINGO. Does the gentleman think that a 2-cent stamp is not anything or the cost of this registry book is not anything?

Mr. PLATT. The 2-cent stamp is rather trifling, considering the fact that the bank has had the benefit of the deposits while all those checks were out.

Mr. HAUGEN. You might add express—for expressing money to the bank.

Mr. PLATT. Occasionally; yes. The gentlemen who are interested in banks can not find much in the way of defense of this practice, and they have themselves shown that the question is not of charging for collecting checks on distant places, but the question is whether you are going to allow a certain number of banks to take out something for paying checks on their own deposits. I do not think that is a thing that will appeal to very many Members of this House when they fully understand it.

Mr. HARRISON of Mississippi. Mr. Speaker, will the gentleman yield?

Mr. PLATT. Yes.

Mr. HARRISON of Mississippi. I want to ask the gentleman this question: Does the Federal Reserve Board now charge anything to the member banks for clearing their checks to them?

Mr. PLATT. In some cases they have charged, I understand, a cent and a half an item.

Mr. HARRISON of Mississippi. Is it not the rule that the Federal Reserve Board charges from 1½ cents to 2 cents on each check they clear?

Mr. GLASS. Mr. Speaker, if the gentleman will permit, as a matter of fact, the cost has been found to be from one-half to a fiftieth of 1 per cent. It is so infinitesimal that they have to hire an actuary to figure it out.

Mr. WINGO. Mr. Speaker, will the gentleman yield?

Mr. PLATT. Yes.

Mr. WINGO. Does the gentleman think that 2 cents is infinitesimal?

Mr. PLATT. The Federal Reserve Board are performing this service practically for nothing. So why should the banks make this fuss over something that is not costing them anything? This is a charge not for collecting the checks at a distance, but a charge for the payment of the checks when they get back home, and I do not believe that 1 man in 10 has exactly understood what it meant.

(P. 3541, 3542.)

Mr. GLASS. Mr. Speaker; may I inquire how much time has been used by each side?

The SPEAKER. The gentleman from Virginia has 53 minutes remaining and the gentleman from Pennsylvania 48 minutes.

Mr. GLASS. I yield five minutes to the gentleman from Missouri [Mr. Borland].

Mr. BORLAND. Mr. Speaker, I want to speak for a few minutes in favor of the conference report as now drawn, and especially as presenting the view of the business men and the merchants toward this so-called Hardwick amendment.

I am going to support this conference report because I feel that the conferees have in a difficult situation done the very best thing under the circumstances; that is, they have committed this subject to the order of the Federal Reserve Board, a flexible method of controlling the subject which can be changed and modified as business conditions warrant. I regard that as a very much better amendment than the Hardwick amendment standing alone.

Mr. DUPRÉ. Will the gentleman yield?

Mr. BORLAND. Yes.

Mr. DUPRÉ. Is the gentleman aware that the membership of the Federal Reserve Board is absolutely opposed to the Hardwick amendment?

Mr. BORLAND. I do not think the membership of the Federal Reserve Board in the event of a duty being imposed upon them by law would be governed by their own private wishes. If it appears that the banks ought to have this charge in certain cases or at a certain time I feel disposed to think that they would authorize it. But I have never been convinced in my own mind that the banks are entitled to it. I feel that the banks are losing a source of revenue they formerly had, and in some banks it was a considerable source. In some small banks it paid or helped to pay the clerk hire of the bank. But the banks must remember that the Federal reserve system as a whole has been the most beneficial measure to the banks that has ever been passed. We all saw here in the House that there was a continued opposition on the part of the banks, who are now acknowledging the benefits of the system, to almost every essential feature of the system. Yet to-day I think there is scarcely any bank in the country that would be willing to abolish the system as a whole. They have objections to particular provisions of the system as it affects their particular profits and particular line of business. They overlook the fact that at the time and before this Federal banking system went into force banks were under the moral and commercial necessity of keeping on hand in their vaults or keeping a credit with some city bank of a sufficient sum to tide them over a run. This was a great restriction on their earning power. Not only has their legal reserve been reduced, but the necessity for keeping an extra reserve on hand in critical times is avoided.

Before the passage of the law they had no other source or reservoir of supply than the money in their vaults or the accommodation of other banks. I have seen the case frequently where banks retained an extraordinary amount of de-

posits in their own vaults to avoid danger of a run, or tied themselves up with some city bank by rediscount or large deposit or otherwise so that they could have accommodation in case of need. We must not overlook the fact that the banks in being relieved of that constant fear of a run have a very much larger amount of depositors' money available for lending out and thus making profit by the bank. It is true that some of the profits of the bank have been curtailed, and I think properly so, because the business public is entitled to its share of the benefits and advantages of the cheapening of commerce through the instrumentality of this law. One of the purposes of the law was to take the tollgate off commerce. It was to make checks of member banks par all over the United States. We can not affect the business of nonmember banks, except so far as they desire to submit themselves to the control of this system because of the advantages they hope to gain, but as far as member banks are concerned, we ought to make their checks par everywhere in the United States. While this controversy has been going on I have been flooded with letters and telegrams from the most responsible business men in my district insisting upon the one point that they wanted these checks to be par, and that they had a right to ask that at the hands of the Federal reserve system.

Mr. HARRISON of Mississippi. Mr. Speaker, will the gentleman yield?

Mr. BORLAND. In a moment. They point out the immense advantages the banks are enjoying, which the banks freely confess, and the great profits which the banks are getting from this system in the freedom from panics which the banks freely admit, and they say the business men of this country are entitled to their advantage, which is freedom of exchange and removal of these artifical restrictions on commerce. I yield now to the gentleman from Mississippi.

Mr. HARRISON of Mississippi. The gentleman says that he has received a great many letters and telegrams about this matter protesting against exchange charges. Does the gentleman know that the Simmons Hardware Co., big wholesale people, sent out telegrams to their various customers telling them that they would pay the expenses of telegrams to Congressmen?

Mr. BORLAND. I do not know that, but I do know that the banks have carried on an active campaign through their organization, as brilliant business men can do. One of the greatest influences in this country is organized public opinion. I do not think Members of Congress will be influenced by anything but the truth. I never refuse to allow any man to communicate with me by letter, telegram, or in person in behalf of himself or of a client. I assume that I have the right and the ability to weigh what he says in the light of his interest in the matter.

Mr. WINGO. Mr. Speaker, will the gentleman yield?

Mr. BORLAND. Yes.

Mr. WINGO. The gentleman, in opening his statement, said he was going to speak for the business men. The gentleman has seen the circular which has been handed to us, in which circular these business men say that the small bank is entitled to this, but that they think the country merchants, the patrons, ought to pay, and not the wholesaler.

Mr. BORLAND. I am not sure that I have seen that circular.

Mr. WINGO. That is the reason I am calling it to the gentleman's attention.

Mr. BORLAND. How is this going to affect the village bank if it does not in some way connect itself with the reserve system, either as a member or a nonmember depositing a credit with a member bank?

Mr. WINGO. I presume the gentleman is familiar with the clearing system established by the board?

Mr. BORLAND. Yes.

Mr. WINGO. Which is a voluntary system. The gentleman knows that nonmember banks are in that?

Mr. BORLAND. Yes.

Mr. WINGO. The gentleman understands how nonmember banks are compelled to join these clearing-house systems. The gentleman from Virginia [Mr. Glass] says that it is by competition. It makes no difference what you call it, they have to go into it.

Mr. BORLAND. That is my understanding. The nonmember banks can not be forced into this system nor into the voluntary clearing houses except by the pressure of competition to provide their patrons with facilities equal to those of other banks.

Mr. HOWARD. Mr. Speaker, will the gentleman yield?

Mr. BORLAND. Yes.

Mr. HOWARD. There is one great benefit that accrues to these small banks by virtue of the establishment of the Federal reserve system. Every country bank

in my section of the country has a Federal reserve bank correspondent in some large city, through which they refinance their loans. They take their paper. Here is the advantage the country banks of the United States, and especially the South, to-day are getting. They are getting their money at a lower rate of interest from their correspondent banks than they ever got it, and yet they have not changed their rate of interest to borrowers from them.

The SPEAKER pro tempore. The time of the gentleman has expired.

Mr. WINGO. If the gentleman from Missouri will permit, he does not want that statement to go in the Record. That is not permitted under this law.

Mr. HOWARD. But they are doing it.

Mr. WINGO. This act prohibits it. They can not handle the business of a nonmember bank.

Mr. BORLAND. Mr. Speaker, my judgment about the position of the village bank is, and my experience has taught me, that every small bank keeps a deposit in a city bank for its own convenience, and it must necessarily do so. Under the old law every country national bank did that as a part of its reserve. Now it does it for its own convenience. If a check comes into that city bank, let us say Kansas City or Omaha, drawn on some country correspondent, that check is charged to that country bank's account. That is all that happens, and there is no reason on earth why those checks should not circulate at par. The checks do eventually go back to the bank on which they are drawn, but they are charged in the first instance on the books of the member banks in the big city. That is where they first light. I have never been able to discover anything more than bookkeeping connected with the payment by a bank of its own checks, whether paid by a correspondent or over its own counter. The banks, as I say, undoubtedly lose a source of profit which they have made, but, as the gentleman from Georgia pointed out and as I have endeavored to point out, this is simply compensating the business men, who are entitled to it. The little business men, the retail merchants—the big business men, the wholesaler, the jobber, already have—are entitled to have as easily as possible the collection of funds throughout the country, to have the tollgates removed from commerce and let commerce be as free as transportation ought to be in this country. Let every avenue be open to commerce and let a man's check be good with the merchants he buys goods from in the cities or wherever he desires to send it. That is what this system does; that is what this whole system of Federal banking does, reducing to the minimum the bookkeeping and clerical part of banking.

Mr. GLASS. I yield five minutes to the gentleman from Georgia [Mr. Howard].

Mr. HOWARD. Mr. Chairman, I presume the gentleman from Virginia [Mr. Glass] has put me in the attitude of a long-haired fanatic that was attending a country funeral. After the preacher had gotten through with his funeral oration he asked, "If there are any friends of the deceased brother present who would like to say a few words about the life and character of the deceased brother, we will be glad to hear from them.' Nobody seemed inclined to rise, and finally this old fellow got up and said, "Well, brother, if nobody else would like to say anything I would like a few minutes to say a few words about the free and unlimited coinage of silver." [Laughter.] And so I presume that Brother Glass, having nobody else to say anything about this bill, has yielded five minutes to me for the purpose of "filling in."

I could discuss the free and unlimited coinage of pig iron about as intelligently as some gentlemen have discussed this proposition before us. Now, there is one thing I want to say about this exchange proposition. I have had a good deal of dealings with banks, on the outside looking in, but never from the inside looking out. I know a good deal about the banking business from that standpoint only. But I want the attention of these gentlemen that are talking about these poor little country banks and what a hardship it is on them to cut them off from the right to charge exchange that is unreasonable. And my good friend from Mississippi [Mr. Harrison], who is always looking out for the common people, wants to give these "little country banks" a right to ride the people again on collecting exchange and amounts of money for which they do not render any commensurate service that is anything like the charge made.

Since the Federal reserve system has been established in the cotton-growing States—the statement of the gentleman from Arkansas [Mr. Wingo], who knows as much about this bill as anybody else, to the contrary notwithstanding—here is the situation: A good many of the bankers in the Southern States are not bankers; they are pawnbrokers. Two-thirds of them to-day, with this

country staring a food panic in the face, are charging the farmers in my State and in other Southern States usurious rates, and they would do it in the State of the gentleman from Mississippi if in 1914 that State had not passed one of the best and most regulatory State banking acts in existence in the United States. I will admit that the gentleman from Mississippi has an ideal banking law, but there were just as many of the other kind I was describing in Mississippi as there are in any other State.

Mr. WINGO. Will the gentleman yield?

Mr. HOWARD. I can not yield to the gentleman.

Mr. WINGO. You referred to me, and I can not see the connection, as I did not even mention the matter you are discussing. I confined my remarks to the pending bill.

Mr. HOWARD. I was talking about the gentleman a moment ago, and I am coming back to him presently. But I am talking now about the gentleman from Mississippi [Mr. Harrison] and about his being excited here over these "poor little country banks" being put out of business—these "poor little country banks!"—and the stock of 9 out of 10 of them to-day is worth 2 for 1. [Laughter.]

Mr. WINGO. I know the gentleman wants to be fair. I was not discussing that.

Mr. HOWARD. I can not yield to the gentleman to make a speech. Let me make this statement, and I will clear you in half a minute. [Laughter.]

Mr. WINGO. I want to try to give the gentleman some information.

Mr. HOWARD. I can not take time to get it. [Laughter.]

Mr. WINGO. I thought the gentleman wanted information.

Mr. HOWARD. No; I do not want it. [Laughter.] I want to argue something now that the gentleman injected into this discussion by asking the gentleman from Missouri [Mr. Borland] a question.

Mr. WINGO. I did not ask the gentleman a question. I challenged a misstatement of the law.

Mr. HOWARD. The difference between what I said and what the gentleman said is the difference between "Stephen, come down," and "Come down Stephen." [Laughter.]

Now, here is what I want to say: You are not exciting any sympathy with me for these "poor little country banks." I say that these banks to-day are profiting more by the Federal reserve system than they ever profited before in their history, and by virtue of their not charging a nickel exchange—suppose they did not do it—they would make more money by the manipulation of the Federal reserve system than they ever made before in their lives, and they do it in this way, and that is what I am coming to: For instance, the country bank in your city in Arkansas, when it loans its resources to the farmer, charges anywhre from 8, 12, to 20 per cent interest on growing crops, mules, milch cows, and any other securities, and when their resources are exhausted they go to the reserve bank and they make over to the national bank all their notes and borrow from the national bank on those notes properly transferred.

The SPEAKER. The time of the gentleman has expired.

Mr. HOWARD. Mr. Speaker, may I have a few minutes more? I want to explain this little transaction.

Mr. GLASS. I yield to the gentleman five minutes more.

The SPEAKER. The gentleman is recognized for five minutes more.

Mr. HOWARD. They borrow money on their notes, and the national banks loan it at the very lowest rate of interest—between 1 and 2 per cent of what the regional bank is charging the reserve bank—and in turn they take that money and go out in the country and loan it at anywhere from 8 per cent to 20 per cent per annum to the farmer to make a crop with.

Mr. WINGO. The gentleman knows that that is prohibited by statute.

Mr. HOWARD. I know it is not. I have read the law. Let us see if that transaction is prohibited. It is not an asset of the country bank that is discounted; it is the asset of the national bank that is discounted. Do you mean to tell me that the country bank of that little town of yours, Mena——

Mr. WINGO. The gentleman does not even know where I live. [Laughter.]

Mr. HOWARD. The gentleman from Ohio [Mr. Longworth] and I had that proposition up once, and we all, as I take it, understood that you live at Mena, or at least we so decided.

Mr. HARRISON of Mississippi. The gentleman himself lives at Atlanta, where there is a Federal reserve bank.

Mr. HOWARD. Yes. Everybody knows that I live in Atlanta. I hope the gentleman will come through there some day and see a great city. [Laughter.] Now, the proposition is that that little country bank at Mena will take its resources and transfer them to the national bank at Little Rock, which is its national-bank connection, and that bank can take them to the Federal reserve bank and discount them in that bank as the assets of the national bank—not the assets of the nonmember or country bank.

Mr. WINGO. That is contrary to law. If the gentleman will read section 17——

Mr. HOWARD. Then, all the little bankers in the United States ought to be in the penitentiary, and all the gentleman's State ought to be there, because, as the gentleman says, that is in violation of the law. That is the way they are reaching these small banks with a low rate of interest.

Mr. WINGO. They do not do it in my State. The gentleman and I do not agree as to the law.

Mr. HOWARD. Go to every Federal reserve bank, and what will they tell you? They will tell you that 70 per cent of all the paper is in their bank along about July of a given year, which is all predicated upon farm loans.

Mr. WINGO. That is a different proposition.

Mr. HOWARD. The farmer has gotten the money, and they are rediscounting it. That is what they are doing. I tell you, gentlemen, we ought to agree to this conference report. It is right that it should be agreed to. These banks are making enough money now, and you do not hear anybody complaining of low interest, do you? I know one bank which keeps me sweating all the time paying into it, and heaven knows it looks like it was getting higher and higher instead of lower and lower. [Laughter.] I tell you there is one regular thing; it comes around mighty regularly, and that is this big interest that they are charging, and they always charge as much as they can get. You can take all these bankers here, and I could go through this house and point them out. Look how well groomed they are. See how well kept they are! See how many automobiles they have! See how much society they indulge in! There is my friend from Pennsylvania [Mr. McFadden] and there is my friend from South Carolina [Mr. Ragsdale] just a president of an ordinary country bank. Why, the evidence is all against them. [Laughter.] They make profert of themselves in this House, and then they come in and say, "Poor little country banks! Help us, we need the money." I hope this conference report will be overwhelmingly agreed to, and that the people of the United States will have this unnecessary and unjustifiable charge taken off their shoulders.

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Mr. MCFADDEN. I yield 15 minutes to the gentleman from Illinois [Mr. Cannon].

Mr. CANNON. Mr. Speaker, I think the gentlemen of the House are fairly aware of what the matter is that now pends for their consideration. We all understand in a general way, at least, the Federal reserve system. Perhaps it is only in a general way that I understand it, but I understand it to be a new system, that is composed of all the national banks and a very few State banks which are its sole stockholders, who contribute the only capital, through a requirement that they must keep a certain reserve fund in the Federal reserve bank on which there is no interest. I believe they are entitled to 5 per cent or possibly 6 per cent interest if it is earned on the stock that they hold in the Federal reserve bank; but, in the main, I think there have been no dividends and I believe there will be no dividends. Now, it is not necessary that I should discuss the propriety of the Federal reserve system, and perhaps it is not proper that I should do so. In any event I have not the time. Naturally the Federal reserve banks and the city national banks in the great financial centers like New York and Chicago, and including Atlanta, as they are in this condition, not receiving any interest upon their balances in the Federal reserve banks are a little bit like the fox in Æsop's fable that, having its tail cut off, was in favor of the tails of all the other foxes being cut off. Naturally they are anxious to have additional members, and I state only what is an open secret. It has been the desire of the people controlling the Federal reserve bank to force every bank in the country into that system. Now, the State banks do not want to go, and I will tell you why they do not want to go.

If you will pick up the report of the Comptroller of the Currency, you will find that in 1916 there were 27,513 banks in the United States. Those banks—and that included all of them—had resources in round numbers of $32,000,000,000 plus. Now, of those banks there were 19,934, according to this report, which were other than the national banks and the 12 Federal reserve banks. Now, most of the country natonal banks do not want this provision, but we have a situation where banks having resources of $14,000,000,000 are undertaking to coerce banks having resources of $18,000,000,000 into the Federal reserve system. Now, it was said some time ago, I think largely in an interview given out by the gentleman from North Carolina [Mr. Kitchin], that they would so conduct their business as to force the banks into the Federal reserve system. I think I have stated substantially what is desired upon the one part and not desired upon the part of the other banks that have almost two-thirds of the resources of all the banks of the United States.

Well, now, the Senate adopted an amendment to the House bill in substance that member and nonmember banks of the Federal reserve bank might receive not exceeding 10 cents on each $100 or fraction thereof for collecting drafts or checks and remitting the proceeds to the payee or indorsee of the same; this covered full payment for the trouble of collecting and expense of remitting, including stationery and postage.

The House instructed its conferees to agree in substance to the Senate amendment. The House conferees instead of obeying the instruction agreed to provisions nullifying the instruction.

Now, what is the result? I do not have to argue it. If this conference report is agreed to, it will drive the greater portion, if not all, of these 19,000 banks out of their organizations under the State banking laws and will compel them, whether they desire it or not, to become members of the Federal reserve bank. Well, why? Because the Federal reserve bank controls the national banks, and those national banks must either go out of the system—their circulation is secured by the 2 per cent bonds, etc., and if you will stop to think a minute, you will see that they can not go out under existing conditions. There they must remain. Now, if you clear through these Federal reserve banks all the checks, all the bills of exchange that have to be sent for collection, in a country of 100,000,000 people, scattered from one ocean to the other, if you clear through the Federal reserve bank you clear for nothing. Well, that means that it puts these 19,000 banks out of business, because if they keep the accounts of their customers, they must make a charge, or organize a clearing house of their own, which would be difficult if not impossible to do. Now, that is what will happen. I will not say that the action of the conferees was dishonorable. I will not say that by any manner of means. I have too high regard for the gentlemen who were the House conferees, but I say it was not fair. They violated the instruction of the House in modifying the amendment of the Senate contrary to the instruction of the House. They may attempt to explain their action, but the explanation does not justify their action; and while I do not want to give offense, the explanation is mere pettifogging and not worthy of the high character of the House conferees.

Mr. HAMILTON of Michigan. I will ask the gentleman what those banks are doing now?

Mr. CANNON. These 19,000 banks clear through State banks in the large centers. They do their business with either national banks or State banks in the commercial centers. And just let me tell the whole story. They have got to keep their accounts good; but they get 2 per cent interest from the State banks in the commercial centers or from the national banks on their daily balances. Of course, they must always keep their balance good, but that comparative pittance, which barely more than pays the expenses of maintaining it, would be gone, because if this conference report is sustained by the House they must clear through the Federal reserve banks, where they receive no interest, and they can not receive any compensation for the work they do in making collections upon paper sent for collection.

Mr. GLASS. Will the gentleman submit to an interruption?

Mr. CANNON. I can not. I have only 15 minutes. If I had a little more time, I would be glad to be interrupted. Now, I want to say—and say it now—that I live in the country. A pretty considerable little city is Danville, Ill. It has 40,000 people, 4 national banks, 2 State banks, with 20 or 30 banks scattered over the county, 2 or 3 of which are national banks and the balance under State organizations.

We had a bankers' convention last fall at Danville, attended by from five to seven hundred people. At the banquet there was a large attendance—somewhere from four to seven hundred. John Temple Graves made a speech and Colonel Buckingham also. They called upon me to make a few remarks, and I did. I said: "I want you men that have got country banks and you men who are from settlements where small national banks exist"—and that included pretty much all of them, 96 or 97 per cent—"when you get away from commercial centers," I said, "I want every man that indorses the Federal reserve act, that desires to become a member of it, to rise up." I glanced over that audience of bankers, in the main country bankers, and I said: "No man rises, not one."

Now, what is this? Why, a round robin comes in. The Simmons Hardware Co., the Federal reserve bank's people that they can control, nearly all of it comes from the Federal reserve and from men like my eloquent friend from Atlanta, the gentleman that calls himself the long-haired crank. Well, he is, is he not? He is a bright one, if he is, although he talks about the infernal little country bankers, and so on. They come with a round robin. We all know what a round robin is. God help the man if he has convictions as to the propriety of legislation to be scared about public sentiment that comes from a round robin! I have got them by the score. You have got them. They do not represent one-quarter—no, not one-fifth—of the banking capital or the banking interests of this country or the people of the United States.

Now, let me tell you something, and I want to talk to you Democrats a minute. It is wonderful how fast you are centralizing. Good Lord! I want to keep you and I want to keep myself so that we can get a little decentralization. In the history of this country there was a great contest under the leadership of General Jackson against one central national bank. The national bank went to the wall. I will not stop here to say whether it ought to have been so or not.

The SPEAKER pro tempore (Mr. Byrnes of South Carolina). The time of the gentleman from Illinois has expired.

Mr. MCFADDEN. Mr. Speaker, I ask unanimous consent that the time for general debate be extended five minutes and that that time be given to the gentleman from Illinois.

The SPEAKER pro tempore. The gentleman from Pennsylvania asks unanimous consent that the time be extended five minutes, to be given to the gentleman from Illinois. Is there objection?

There was no objection.

Mr. CANNON. The legislation that has been had in the last decade commenced under the Republican Party, but you adopted the child and it has grown until it is a giant. What has happened to your little village with one preacher, sometimes two, with its banker, with its little churches, the little center for the township? They are everywhere in the State of Illinois. It was the center for what? For churches; yes. With the little newspaper, several little retailers, a little distributing center, and rents were cheap. Why, gentlemen, inside of a decade they will dwindle and dwindle, and we will all be journeying at breakneck speed to the great centers of population. Stop and think a minute; and I am not throwing stones. I am just calling your attention to the fact. Under our postal system you can take a great newspaper like the Chicago Tribune and lay it down at the door before breakfast or before noon in two-thirds of the State of Illinois every day for $3 a year. That would not pay one-quarter of the cost of the print paper. I am not abusing the Tribune, am not taking up any other question; but I want to say that practically of these 19,000 banks, representing eighteen thirty-seconds as against fourteen thirty-seconds of the resources of the banking interests of this country, nine-tenths of them have no representatives here. They have not been sending round robins. I have not had one. They are too busily occupied with questions touching this great struggle that we are in; but the other round robins from the great centers come galore, and I want to call upon Members of this House who represent small cities of 40,000, cities of 20,000, villages of 1,000 or less—I want to call upon you to see that you do not vote to-day to confirm this conference report and drive these 19,000 banks out of business or drive them into the Federal reserve organization. That is all I want to say. [Applause.]

Mr. MCFADDEN. Mr. Speaker, I yield 15 minutes to the gentleman from Mississippi [Mr. Harrison].

Mr. HARRISON, of Mississippi. Mr. Chairman, the country bank facilitates trade and is the most valuable aid to the wholesale merchants and manufacturers in the city. It not only expedites the settlement between the wholesale merchant and his customers in the rural sections but the country bank furnishes information for him that will help to safeguard his business. The free and easy movement of trade without delay and congestion is due largely to the functions performed by the country bank.

I want to present to you in the few minutes I have at my disposal this question removed from the mystifying influence that my friend from Virginia [Mr. Glass] has placed around the subject. I know that so far as my own mind is concerned it is as clear as glass [laughter], not the mystifying smoky kind that comes from Virginia. A merchant in a rural section buys a bill of goods from a wholesale merchant in a distant city. This merchant has his money in his home bank. He has to pay that bill, and he must do it either by transferring or remitting the money. He must either go to the express office and buy an express money order or go to the post office and buy a post-office money order or get on a train and take his money to the far-away city or send his check there. Let us see how the check system works. This country bank, that seems to have few friends in some high places to-day, has created and maintained balances in certain centers of business throughout the country against which its checks and drafts can be drawn that settlements may be effected between its customer and the seller without an actual transfer of funds. The money which the country bank takes from its depositors removes it from the amount of money that it may loan to the patrons of the bank in the rural sections, and upon which it may derive 6 or 8 per cent interest. Formerly these banks could obtain 2 per cent interest upon their balances maintained and kept in the distant city solely for the purpose of meeting and paying these checks that go from the rural patrons to the far-away city wholesale dealer, but now, under this law, these banks are to keep all of this money in the Federal reserve banks and without interest. Oh, no. The little country banker will not get any interest upon his money kept there as a balance in order to take care of these clearances as formerly it did, but under the law it must increase its balances there in order to take care of these clearances.

I submit to you, Is it fair, is it right, that the country bank must be compelled to take money away from its patrons, which it could loan at interest at 6 or 8 per cent, assist and encourage thrift and industry in its locality, and place it elsewhere in order to meet these checks, and then be prevented from making a reasonable charge for the services performed? The entire overhead expenses of the country bank enter into the creation and maintenance of these balances. If you go to the Post Office Department you must pay for a post-office money order, not one-tenth of 1 per cent, but you must pay approximately 1 per cent for it. Is there any difference in the bank-check system than in going to the post office in my town and buying a post-office money order and sending it to the wholesale merchant in New York City or Chicago in payment of a bill? Does the Post Office Department actually transfer the funds to Chicago or to New York? No; because the money i staken out in Chicago and New York and balances maintained at both places. It is kept there by the Post Office Department. Last year the Post Office Department made approximately $7,000,000 out of exchange charges alone upon post-office money orders. The Post Office Department handled in that way about $700,000,000. Not one cent of that was actually transferred, but the charges were made for the service rendered. Practically the same charge is made by the express companies. I submit this to you: Is it right, when the country bank makes such arrangement that expedites settlements and aids trade and business, incurring thereby substantial expenses, even though money is not actually transferred, that it should perform that service without pay?

Mr. HAMLIN. Mr. Speaker, will the gentleman yield?

Mr. HARRISON of Mississippi. Yes.

Mr. HAMLIN. Under the gentleman's system who would pay the exchange?

Mr. HARRISON of Mississippi. The wholesale city merchants. I can not yield further.

Mr. PHELAN. Mr. Speaker, will the gentleman yield for a question?

Mr. HARRISON of Mississippi. No. I have only 15 minutes. If the gentleman will give me some time, I will be glad to answer his question.

Mr. PHELAN. Just one question.

Mr. HARRISON of Mississippi. No. The gentleman from Missouri has asked me who paid it. Let me read to you from a circular that was gotten out the other day by the association of wholesale clothiers, jewelers, hatters, manufacturers, and every other kind of wholesale merchant, signed by W. B. Simmons, of the Simmons Hardware Co., and others. They are against the Hardwick amendment, and here are the reasons for it: These wholesale houses do not want to pay it, but they want somebody else to pay it. Here is what they say. They say that they—

"share thoroughly the conviction that the bankers should have adequate compensation for all services which they render to their patrons, and that their compensation should cover not only any direct outlay involved in rendering that service, but should cover also indirect or overhead charges, and a profit besides."

And then follows this language:

"However, that compensation should be charged to and paid by the patron of the bank to whom the service is rendered."

They want the little merchant who keeps a deposit in your town and in every other small towns in the country to pay the exchange charge, and they want to be relieved of the payment of it, and that is the question here, whether or not you are going to stand by your people back home, your merchants and business people, who are patrons of the bank, or whether you are going to stand by the large wholesale merchants of the city?

Mr. HAMLIN. Mr. Speaker, will the gentleman yield for one question?

Mr. HARRISON of Mississippi. I can not yield any further.

Mr. HAMLIN. Does not the merchant who draws the check pay it, as a matter of fact?

Mr. HARRISON of Mississippi. Absolutely he does no pay it at all.

Mr. GLASS. Mr. Speaker, will the gentleman yield?

Mr. HARRISON, of Mississippi. Will the gentleman give me some more time?

Mr. GLASS. No; I shall not give the gentleman any time.

Mr. HARRISON of Mississippi. Mr. Speaker and gentlemen of the House, the check system of this country has grown until to-day $900,000,000,000 worth of trade is done through checks. Ninety-five per cent of all the trade of the country is done through the checking system, but there seems to be a desire by the Federal Reserve Board and certain men in this House to show favors to the big city banks as against the little country banks. I received a letter the other day from a banker in my district and he said that under an order passed by the Federal Reserve Board in respect to the Liberty loan bonds that were to be sold, unless the banks sold $100,000 worth of the bonds they must remit the money to the Federal reserve banks and could not keep it as a deposit in the vaults of the bank. Why should these efforts be put forth to discourage and strangle the little banker in this country? I submit if there were ever a time to popularize the Federal reserve system and give impetus to patriotism in this country, it is now. A great many of the little banks have earned a substantial per cent of their earnings out of exchange.

You ought not to take it from them at one fell swoop. The gentleman from Virginia [Mr. Glass] will cite you in his closing argument possibly where some banks charge too much, way up beyond what they ought to charge, but that is prevented by the Hardwick amendment. They shall not, in the future, charge over one-tenth of 1 per cent. I submit when you buy a bill of goods and send a check and you have only to pay $1 a thousand that that is not too much, that that is a legitimate charge, and the business people of the country will not oppose it and should not oppose it. This is a question, after all, between the seller and the purchaser. The collection system should not be interwoven with the Federal reserve system. It may be said that this does not affect the State banks, but let me suggest to you that that board has no jurisdiction over State banks; the Federal Reserve Board has done everything in its power to drive the State banks into the par collection system.

Mr. MEEKER. Will the gentleman please yield?

Mr. HARRISON of Mississippi. No; I will not yield to the gentleman; I have not the time. The State banks have not come into this system, in my opinion, because they can not make this reasonable, this legitimate, charge for services that they have rendered. You remember a year or two years ago, the Federal Reserve Board was very anxious to drive the little State banks into that system, and they requested the Postmaster General to issue an order. That order stated, in substance, that in these country towns where the State banks did not collect and remit at par the post office would collect the check and

make no charge thereon. A protest immediately arose in this House and over the country. The leader of the Democratic party on this floor arose in his place here and called the attention of the country to it, and the Postmaster General withdrew the order. I am informed that in New York City the Clearing House Association passed an order that the banks in that State that did not remit at par would be compelled to remit in actual money through the express companies. That is the kind of tactics that have been employed to drive the little State banks into the system.

The State banks that have come into it for the most part have been forced into it. Now, let me submit this proposition to you: Say you have got in a small town in your district four banks, two national banks and two State banks. If you compel the national banks to clear their checks at par, take away from them this legitimate charge for exchange, and the State banks can continue to charge that exchange, is it fair, is it right to the stockholders of the small national banks? You are discriminating there, gentlemen, and the gentleman from Virginia [Mr. Glass] knows that that is wrong. It is a species of discrimination for which you have to answer to your people when you go back home.

Mr. GLASS. Will the gentleman yield?

Mr. HARRISON of Mississippi. If the gentleman will give me some time. Oh, the gentleman has 48 minutes remaining. He can smile, but he can not dodge the issue in that way. That reminds me that here is a letter the gentleman from Virginia [Mr. Glass] received from Mr. Harding, of the Federal Reserve Board, but first I want to recall to the minds of Members here that after we passed this proposition through the House by 246 to 117 instructing the managers to agree to the Hardwick amendment, and appointed the distinguished gentleman from Virginia and the gentleman from Massachusetts and the gentleman from New York as managers upon the part of the House, skipping over, may I say, the gentleman from Iowa, who is entitled to a place on the conference, why I do not know, but I do know that the gentleman from Iowa was in favor of the charge by the country banks and the gentleman from New York was not in favor of the proposition. [Applause.] I know, too, in appointing conferees that the Speaker appoints those who are suggested by the chairman of the committee in charge of the matter. [Applause.]

If the gentleman did not suggest those names, I wish now he would arise in his seat and say that he did not suggest those names. The gentleman does not rise. [Applause.] Yet they go out and absolutely disregard the will of this House and bring in an amendment here that destroys the very character of the Hardwick amendment. It is a defiance to this House. But back to the letter written by Mr. Harding, governor of the Federal Reserve Board, to Mr. Glass. It was evidently written immediately after the action of the House on May 10. The gentleman from Virginia went up to see Mr. Harding—had a conference with him. They talked about things, I do not know what—I have not heard; but here is the evidence that they had a talk. Listen to it, gentlemen. He says:

"Dear Mr. Glass—"

I am surprised he did not say "My dear Carter." [Laughter and applause.] He said:

"Since you were in my office this afternoon Mr. Delano tells me that he has just had a talk over the telephone with Governor Strong, of the Federal Reserve Bank of New York, who calls attention to the possibility, if not strong probability, of the Government having to pay bankers a million dollars exchange charges in connection with subscriptions to the Liberty loan, assuming that the Hardwick amendment, which the House has instructed its conferees to agree to, becomes a law."

That is an outrage, that is an insult to the patriotic bankers of this country. [Applause.] May I say to the gentleman from Virginia [Mr. Glass] that these bankers have come forward and have spent their money to advertise the sale of these Liberty loan bonds, and if as much patriotism were shown by some other people in this country as has been manifested by the country bankers we would have to-day more patriotism in the country. [Applause.] This letter closes by saying:

"This, I think, would give you the opportunity that you desire to handle the matter in conference." [Applause and laughter.]

This will give you the opportunity you desire to handle this matter in conference! [Laughter.] What was his desire? I do not know, but the effect of their action is to defeat the will of this House.

Mr. Speaker, I know some banks in some sections of the country do not make this charge. But you can not apply a universal parring system any more than you can apply the same passenger rates to every section of this country, or the same price of newspapers and advertisements in every town and city throughout the country. In the East, where the population is dense, the railroads make large revenues by charging 2-cent rates, but in the West and South, where population is sparse, the railroads in many instances lose money in charging 3 cents a mile.

In this city and other large cities newspapers sell for 1 cent a copy. In New Orleans and other cities and towns 5 cents a copy is charged. There is as much justice in compelling a uniform price for papers or a uniform 2-cent rate or no rate at all for passengers over the railroads as to compel the banks of the country to render this clearing service without charge. A bank in an old section, where the value of industries is fixed, can judge with accuracy its assets in advance, but in new and undeveloped sections, where securities are uncertain and deposits vacillating, dividends are less assured and the business more hazardous. And so I submit that any rule that will apply the same to every section of the country, where conditions along business lines are so different, will be unwise as well as unfair. The custom of charging a reasonable exchange for collecting and remitting on checks and drafts in many sections of the country is firmly established, and to deprive the banks of it at one blow might be disastrous in many cases.

Gentlemen, there is a principle involved here. If you vote to adopt this conference report you say to the managers in the future, "Go and exercise your own judgment; ignore the will of the House; because we will reverse ourselves when you come back."

Are you going to do it? I do not believe you will. I hope that the motion that will be offered by the gentleman from Pennsylvania [Mr. McFadden] to recommit this proposition to the conference committee will carry. [Loud applause.]

(P. 3608)

Mr. McFADDEN. Mr. Speaker, the discussion of this conference report—and, in fact, the whole reference to the so-called Hardwick amendment—has produced a very interesting situation.

I intend, because of this, to review very briefly the various stages of this bit of legislation, and I am prompted to do this because of the statements made day before yesterday by my colleague [Mr. Glass], chairman of the Banking and Currency Committee of the House, when he said, in substance, that the Members of this House voted ignorantly and without knowledge when they instructed the conferees to accept the Hardwick amendment which was added to the bill in the Senate.

The history of this legislation briefly is this: When House bill 3673 first came up for discussion in the House I offered this amendment and lost on the point of order. The bill then went to the Senate, and Senator Hardwick offered the same amendment, which was accepted. The next morning my colleague [Mr. Glass] asked to take from the Speaker's table the Senate bill, and asked that the House disagree to the Senate amendments and that conferees be appointed. I then moved that the managers on the part of the House be instructed to accept the Hardwick amendment. This was the first time the House had had an opportunity of passing on this amendment.

A roll call was had, and the vote to instruct the conferees stood 240 in favor and 117 against. The Speaker appointed the conferees on May 10 upon the suggestion of the chairman of the committee.

On May 11, following a letter written by Governor Harding on May 10, after the instructions to the conferees, Senator Martin attempted to get a reconsideration of this amendment in the Senate, but failed.

I desire to have you note this fact, which was confirmed by the chairman of the committee yesterday in answer to my question if it was not a fact that the conferees were all opposed to the Hardwick amendment as passed by the Senate and are still opposed to it, that immediately after the decisive vote of the House instructing the conferees on May 10, the managers deliberately set about to devise some plan whereby they could defeat the instructions of the House. As proof of this I call attention again to the letter of Governor Harding to Chairman Glass, written on the same day that the conferees were instructed and following an interview, the last paragraph of which reads as follows:

"I would suggest, therefore, that you call the attention of Senator Owen to this, and suggest that he ask the Senate to reconsider the Hardwick amendment, with a view of changing it"—

And so forth. And then says:

"This, I think, would give you the opportunity that you desire to handle the matter in conference."

Inasmuch as this was the only matter under discussion, I consider this to be sufficient proof that the violation of the instructions of this House was deliberate, and it might be construed as malicious, when you consider that only one side of this question was represented in the conference committee.

The gentleman from Mississippi [Mr. Harrison] has pointed out, in support of this argument, and I desire to point out again to the House, that the sacred rule and practice of ranking members and priority were absolutely ignored in the selection of the conferees, and I believe deliberately so, because if the usual precedent had been followed the minority member of the conferees would have been one who favored this amendment. The present minority member is opposed to the Hardwick amendment.

Mr. Speaker and gentlemen of the House, it strikes me that when the House by a vote of almost 2 to 1 instructs its conferees, and a condition arises such as we are confronted with to-day, and partisan conferees are selected, that the course and action of this House should be perfectly plain and clear.

They should vote down this conference report and vote for a motion to recommit the report to conference, and the conferees should either be compelled to obey the instructions of the House or a new set of conferees should be appointed representing both sides of the question in controversy.

I would point also the fact that there has been conducted and is being conducted to-day one of the greatest lobbies and propagandas for the purpose of defeating this piece of legislation that I believe has ever been carried on here. I would further point out to you that this lobby and propaganda has been carried on with the cooperation and assistance of the Federal Reserve Board, the Federal reserve banks, and here I will place in the record a telegram as proof:

PHILADELPHIA, PA., *June 8, 1917.*

LOUIS T. MCFADDEN,
Care House of Representatives, Washington:

We are advised that the Pennsylvania Bankers' Association, in session at Bedford Springs, voted their disapproval of the Hardwick amendment to the Federal reserve act.

FEDERAL RESERVE BANK OF PHILADELPHIA.

The governors of the Federal reserve banks, in connection with the National Credit Men's Association, organization of jobbers, mail-order houses, including the large financial institutions in the big cities of the country, and that thousands of telegrams and letters have been sent to the Members of the House and many personal interviews held, all of which has taken place since the House instructed the conferees to accept the Senate amendment on May 10. These people, mark you, who are back of this propaganda are satisfied with the amendment as reported by the conferees, and are not all satisfied with it as it was originally.

That ought to be conclusive proof for anyone here that the managers on the part of the House have so changed this amendment as to completely nullify and destroy its original purpose, and should be convincing proof that this report should be returned to conference. Let it be made perfectly clear that the opposition to the original Hardwick amendment, which is the one the House voted for, and not as now reported by the conferees, is backed by the big city banks, the big jobbing and mail-order houses, and that the other side is for the country banks who are claiming the right to make a reasonable charge for actual services performed, and that these banks are owned and controlled by thousands of stockholders who are your constituents and are thus affected by this legislation. I insert as further proof the following letter, which explains itself:

CARLETON DRY GOODS CO.,
St. Louis, May 30, 1917.

Mr. F. E. WALKER, *Milan, Tenn.*

DEAR SIR: Since our country has been at war, the attention of all of us has been more or less diverted from matters of ordinary business interest, and some legislation has been proposed in Congress that is decidedly unfavorable to the merchants of the country, both wholesale and retail. I now refer particularly

to the Hardwick amendment to the Federal reserve act, which, if passed, will permit the banks in the Federal reserve system to resume their former practice of charging for the collection of country checks, which works quite a hardship on the commerce of the country. This amendment may be defeated by prompt action, and we ask that you sign and send the enclosed telegram to your Senator or Congressman, or better still word a message in your own phraseology, urging them to oppose the bill. We herewith inclose the money to prepay the telegram. Will you kindly advise on the inclosed card that you have sent the message and to whom it went.

Thanking you in anticipation of this action on your part for our mutual good, we are

Very respectfully,

CARLETON DRY GOODS CO.,
J. R. CURLEE, *Secretary.*

But to get down to the real merits of this matter, which have been so misrepresented and misunderstood, I beg to make the following concrete explanation of the question involved at this time.

Let us get down to the bottom of this proposition.

In the first place, the charters granted for banks, whether granted by a State or the United States, place upon the banks certain restrictions and obligations. At the same time the charters provide certain privileges and functions which the banks may enjoy and perform.

Everyone who knows anything about banks, their duties and functions, will admit that the purchase and sale of exchange and the transfer of funds to liquidate debts or settle trade balances are primary and legitimate functions of banking. In performing these functions the banks render the commercial and industrial interests a most valuable service. This service calls into play the resources of the banks and entails labor, risk, and expense. Why should the banks be required to render a valuable service without compensation?

The opponents will tell us that the Federal reserve act does not require the banks to render this service without pay, but I desire to impress upon you the fact that the law, as interpreted and applied under the rulings of the Federal Reserve Board, does require the thousands of country banks scattered throuhout this land to render this service, from which the jobbers, big manufacturers, mail-order houses, wholesalers, and merchants in the large cities get the full benefit, and further requires that they do so at a heavy expense and without compensation whatsoever. It not only puts the banks to a heavy expense, but takes away a considerable revenue they have heretofore enjoyed, and passes it to the profit accounts of the big mail-order houses, jobbers, wholesalers, manufacturers, and merchants.

In a letter dated April 13, 1917, addressed to Senator Owen, Gov. W. P. G. Harding, of the Federal Reserve Board, stated:

"The board realizes that the operation of the Federal reserve check clearing system has in a number of cases deprived banks of an income from exchange on checks which they have hitherto enjoyed."

The president of one of the largest banks in the United States said in a letter to me yesterday:

"We quite agree with you that the country banks are entitled to some consideration in the collection business. We have never approved of the Federal reserve bank going into the collection business at all; collection arrangements have been disturbed and reserve agencies have been upset by the Federal reserve act." '

In considering this question we must not overlook the fact that three-quarters of the people of America are served by the so-called country banks. These country banks are the backbone of production, and to jeopardize their existence will stifle production, which would be a serious menace to the Nation.

The so-called country check is here, and here to stay. It is the most valuable instrument that serves the commerce of the country. It was not originated, as the opponents would have us believe, merely for the purpose of affording a means through which the country banks might levy a toll upon commerce in the way of exchange charges. It came into being to meet a situation arising from a faulty and inadequate currency system. It was designed for local use only, but the rapid development of business and the conveniences the check afforded to the farmers, merchants, and business people throughout the country soon led to a tremendous expansion in its scope. It spread from

community to county, from county to State, and finally to the length and breadth of the land.

Some fifty-odd years ago the national banks of America held deposits aggregating slightly over $400,000,000. At that time the national-bank note circulation was about $239,000,000, or 60 per cent of the deposits held by the national banks.

The national banks now hold deposits aggregating over $13,000,000,000; the national-bank note circulation is but slightly over $700,000,000, or less than 6 per cent of the deposits. Other specie, currency, and coin are in like proportion.

The personal or so-called country check has come in to make up a vast part of the difference. We must not be misled into the idea that the personal check is currency because it has taken care of a trouble arising from a defect in the currency system and has become popular as a means of settling balances, transferring of credits, transferring of funds, and liquidating obligations; the personal check is not currency. It is merely an order to pay or to liquidate an obligation upon certain terms. Law and custom drive it back home over the shortest route. It does not pass by delivery, as does currency, but must be properly indorsed, properly recorded, and, further, is subject to many legal defenses and conditions that do not apply to currency. There is the question of the solvency of the makers and other risks that must be considered and assumed by banks in handling checks that do not attend the handling of currency.

There is a liberal profit in national-bank note circulation. It arises from the interest upon bonds that are deposited with the Treasury Department to secure the circulation. Some of the members of the Banking and Currency Committee of the House would have you believe the country banks can afford to stand the burden of the expense of remitting for all checks at par because of the profits they derive from the deposits of the people who draw the checks. I want you to know there is not a bank in Washington, or in any city, town, or hamlet in America, but what has upon its books a large number of accounts that are carried at a loss to the bank. In thousands of instances the only profit that is yielded to the country bank from the accounts of many of their small customers comes from the exchange charged by the banks when remitting for the checks these customers have sent to distant points. The banks take such accounts and nurse them along in hopes that they may later become profitable, and with the broader view of developing ideas of business among all classes of people in their respective communities.

The banks of America are now confronted with the task of collecting annually over 723,000,000 of the so-called country checks. These aggregate $30,000,000,000, and are handled at an annual expense of about $10,000,000,000. The exchange charged on these $30,000,000,000 worth of checks aggregated for the year prior to the inauguration of the present Federal reserve collection system $20,000,000.

The question is, Shall the country banks that have been and are the greatest factors in productive life of this Nation be called upon to surrender this revenue heretofore termed "exchange" and still be required to serve as the means of collecting all these checks at a tremendous expense, or shall the big jobbers, packing houses, manufacturers, mail-order houses, and wholesalers who get the benefits be called upon to pay it, or demand from their customers exchange that will be furnished by the local bank in the regular course and which will be available on the day it is received in the center at its face?

You say the merchants would have to pay for the exchange. Why should not they have to pay for it? It costs money to produce the exchange. Labor, risk, and expense are involved in every transaction where exchange is used, whether the exchange is issued for direct sale or given in payment for checks that have been sent to distant points.

This is a matter between the buyer and seller. They are the ones who are benefited, and as to which of the two should pay the exchange is a matter they should settle between themselves—in the same manner as they settle the proposition as to who shall pay the freight. It should not be shouldered onto a third party, but as the collection system of the Federal reserve banks now operates the whole burden is thrown upon the country banks. It is not fair or just that a system shall be maintained which requires a lot of country banks to render a valuable service at a heavy expense in order that a few large mail-order houses, manufacturers, packing houses, jobbers, wholesalers, and merchants shall enjoy increased profits.

More than 75 per cent of the banks of America, State and national, are opposed to the present collection system, because it is inefficient, inadequate, and places unwarranted burdens upon the banks. It hinders the development of the more important functions of the Federal reserve system.

The banks have expressed the earnest desire to cooperate in evolving and developing a collection and clearing system which will give the public the best possible expense. They are willing that the public shall receive the full benefits from the saving that may be effected by any plan that may be operated, whether operated by the Federal reserve banks, by the clearing houses, or otherwise; but the banks are not willing that a system shall continue which does not facilitate to any appreciable degree the handling of the vast volume of checks and which saddles upon the banks unnecessary and unwarranted expense.

Let me make the position of the merchant and manufacturer clear to you. We will suppose that a small merchant at Canton, Ohio, purchases a bill of goods from a manufacturer in New York City. The bill falls due. How can the Canton, Ohio, merchant pay it? Here are the means that are open to him.

(*a*) He can send the cash by mail or express. If he sends it by mail, the registration fee will be 10 cents; this, coupled with the postage and insurance, will make the cost greatly in excess of what any bank would charge in the way of exchange. Should he ship the cash by express the cost would also be greater than exchange. These two agencies exist by virtue of law, and are regulated by departments of the Government.

(*b*) He can purchase an express company or post office money order. The charges for express money orders are more than three times what the banks charge for exchange. The average charge by the post offices of the United States for money orders last year was $9.10 per $1,000, while the average charge made by banks for remitting to cover the so-called country checks was 66⅔ cents per $1,000.

(*c*) He can make the trip personally, or send an agent to pay his bill. This is prohibitive.

(*d*) He can transmit it by telegraph at great expense.

(*e*) He can buy exchange that is immediately convertible at its face from his local banker by paying a small fee therefor.

(*f*) He can, if his creditor will accept it, send his personal check. This is the least expensive and most convenient way to pay the bill. But when the creditor takes the personal check good only in Canton, Ohio, he should assume with it the burdens of expense, and so forth, that attend its liquidation. If the New York manufacturer is not satisfied, and does not want to stand the exchange costs, let him pass it back to the buyer.

Many of the merchants, manufacturers, jobbers, mail-order houses, and other concerns in the large centers who sell their wares over a widely distributed area include in their overhead expense their costs in the way of exchange; in this way the buyer has in many instances paid it, and continues to pay even where no exchange is charged by the country banks when remitting. This means an increased dividend for these big city concerns; but what about the buyer and the country bank? The country bank performs the service, and does not get the exchange; the seller collects the exchange, but is not required to pay it.

One merchant in a middle western town writes that he is against this amendment allowing a reasonable charge, and gives as his reason that he has saved $5,000 this year because the country banks were not permitted to collect pay for their services. Do you suppose that merchant has reduced the prices upon the goods he sold to the country merchants accordingly? No; not by any means.

What is there to the statement made by a certain Member of this House to the effect that the exchange charges made by country banks are "a tollgate upon the highway of commerce?"

It has been shown that checks were originated to serve a definite need; they have served that purpose, and served it well. Checks have been so useful and so convenient that they have become the means through which more than 95 per cent of the business of this country is being transacted. The check has reached this stage, even though it carried with it the charges which one of the opponents has been pleased to term "a tollgate upon the highway of commerce." Is not it a little strange that the check would become so popular if the exchange has been such a tremendous burden? There

is not a country in the world where the check has reached the degree of efficiency and usefulness that it has attained in America.

Th average charge made by the country banks during the year prior to the inauguration of the Federal reserve clearing system was only 66⅔ cents per $1,000. Is this small charge to be construed "a toolgate" when the Government itself makes an average charge of $9.10 per $1,000 upon post-office money orders, without having any capital invested, does not pay any taxes, and does not render many of the valuable little services that are rendered by the country banks free in their relations with jobbers, wholesalers, merchants, and others located in the big cities?

There is not a representative banker in America who would countenance the practice or defend the few small banks that make unreasonable charges. The amendment which has been offered for your approval prohibits exorbitant charges; it leaves the matter of exchange to be governed by the flow of business to and from different sections of the country by competition and other natural elements. If this amendment becomes a law the charge would fluctuate from par to 10 cents per $100 or fraction thereof.

The language of sections 13 and 16 of the Federal reserve act is confusing, but it is evident from the records of the discussions in the House and Senate at the time the law was passed that it was not the intent of either the House or Senate that the clearing and collection feature should be so operated as to deprive any bank from receiving compensation for its service and the expense it might incur in collecting and remiting for checks and drafts. Any law that requires any citizen to work without pay is un-American and should be corrected or eliminated.

This amendment is designed to correct an unjust provision of the law: it does not introduce any element that has not heretofore existed; banks had the right to make an exchange charge prior to the establishment of the present Federal reserve clearing system; the charges which they were privileged to make were unrestricted, yet, as stated before, the charges did not exceed 66⅔ cents per $1,000 on the averag; in fact, only 15 per cent of the banks charged in excess of 10 cents per $100; 17 per cent of the banks remitted without any charge; a large number remitted at 25 cents per $1,000; another large number at 50 cents per $1,000; still another at 75 cents per $1,000, and so forth, the charges being based upon the flow of business between the communities involved, competition, and the other natural elements.

The statement made that banks will charge their own customers exchange on checks drawn against their own accounts and presented over the counter is entirely erroneous and is not justified, and the proof of this is the last sentence in this amendment, which covers this situation completely:

"For collection or payment of checks and drafts and remissions therefor by exchange or otherwise."

This can not be construed as meaning that a bank will charge on its own customer's checks presented in the regular course over its own counters.

It has been intimated that if the pending amendment becomes law banks might make a charge against local people who are not bank customers but who happen to receive checks from their neighbors and present them at the local banks for payment. This suggestion can best be answered by stating that the banks have always had that privilege, yet no banker has been foolish enough to exercise it. Should any bank undertake such a practice, competition would very soon force it out of business; people would refuse to take checks upon any bank that undertook to amke such a charge. There is no business that depends so much upon the good will of the people and upon public opinion as does the banking business.

Some of the opponents would have you understand that through some mysterious means the Federal reserve banks have provided that all checks from all sections of the country meet at certain points and offset each other daily; that time and distance have been eliminated; and that the personal check is as good as currency and should be recognized upon practically the same basis. For instance, they would have you believe that a check on the First National Bank at Black Gulf, Mo., should have exactly the same standing in New York City as a check drawn upon the Federal reserve bank at New York. A merchant in New York City receiving acheck drawn upon the Federal Reserve Bank of New York City can immediately deposit that check in his local bank and get the use of the funds instantly, but should the same merchant deposit a check in his local New York bank drawn upon the First National Bank of Black Gulf, Mo., does he get immediate use of the funds? He will get credit immediately and

use of the funds if he is willing to pay for the use of the money for a period of five or six days, that being the time required for converting the check drawn upon the First National Bank of Black Gulf, Mo., into actual cash or available funds.

In addition to the elements of time and distance, there is the element of cost, of physical handling of the checks; they must be properly indorsed, properly recorded, sent out through the mail; the returns must be received, checked up, and proper entries made. There is also the expense of postage involved.

The Federal reserve banks in handling the so-called country checks have recognized the existence of the expense of the physical handling of checks. They have fixed a charge to be made against the bank that deposits the checks with the Federal reserve bank averaging from 1¼ to 1½ cents per check.

To prove the correctness of this charge of 1¼ cents, I called a national bank in the city of Washington on the telephone, and they advised me that that is the price per check they pay to the Federal Reserve Bank at Richmond, Va., for the collection of checks which they ask that bank to collect for them.

This charge covers only the cost of the handling within the offices of the Federal reserve bank. The Federal reserve banks are presumed to have the most modern equipment and most efficient methods. Granting that they have such equipment and methods, the charge of 1¼ to 1½ cents per check is justified because of the expense incurred within the offices of the Federal reserve banks.

Is it not then fair to assume that a like expense is incurred in the physical handling of checks in the bank in which they are originally deposited, also in the bank upon which drawn, and which is required to remit to the Federal reserve bank to cover the checks. The cost in the Federal reserve bank, coupled with the cost in the bank in which deposited and with the cost in the bank upon which drawn, would make a minimum of 4½ cents per check. Country checks average slightly over $40 each, or about 25 checks to the $1,000. Figuring on the basis of the charge made by the Federal reserve banks, without any allowance for expense and for the creation of exchange, it would be $1.12½ per $1,000, but, fortunately, the commercial banks have been able to evolve methods whereby they can handle checks at a cost of less than 1½ cents each.

The average cost prior to the inauguration of the Federal reserve collection system was $1 per $1,000—exchange, 66⅔ cents; handling cost, 33⅓ cents. There were in operation at that time 12 country clearing houses. These were located in many of the most important centers. They were merely cooperative organizations, formed by the banks in those centers for the purpose of reducing the collection cost to a minimum, eliminating all waste of time, stationery, and labor. These country clearing houses were, and are still, the most efficient collection agencies of the country.

I merely cite these facts to let you know that the banks were making every possible effort to render satisfactory service, and to do so with the least possible expense to their patrons. One of these country clearing houses collects items on more than 6,000 banks.

Before going further into this discussion I want to clear up a few points which have been clouded because of misrepresentations and erroneous statements.

The gentleman from New York [Mr. Platt] during the debate the other day gave expression to these words:

"As a matter of fact, the American Bankers' Association suggested that first amendment themselves, that the charges should be regulated by the Federal Reserve Board."

I desire now to contradict this statement of the gentleman from New York and say that the American Bankers' Association did not make this suggestion.

It was stated by a Member of this House that the present Federal reserve clearing system is a success, as is evidenced by the fact that more than 8,000 nonmember banks are in the clearing system and are happy and satisfied because of its operations.

A letter addressed to five representative banks in each State, whose names appear upon the par lists of the Federal reserve banks, brought 156 immediate responses, every State in the Union save one being represented. Seventy-five of the responding banks had arranged to remit direct to the Federal reserve bank; of the 75, 36 stated in strong terms that they were coerced into making the arrangement through fear that their items would be sent through the express company, post office, or some other channel detrimental to their interest; 17 others claimed their arrangements prior to the inauguration of the Federal

reserve clearing system was to remit at par, and that the operations of the system had not, therefore, affected them in any way; 70 banks reported that they had no option in the matter, as their items were sent through some member bank, through the express company, or some other agency.

Deducting from the 75 banks that made arrangements to remit direct the 36 that were coerced and the 17 that previously remitted at par leaves a total of 22 banks out of 156 that actually agreed to remit at par and are satisfied with the plan.

SPECIAL REFERENDUM

A letter written to five representative banks in each State appearing upon the par lists of the Federal reserve banks, requesting that they advise—

(*a*) Whether items coming through the Federal reserve bank of their respecive districts are presented direct, or through a member bank, or through the express company;

(*b*) Whether these institutions agreed to remit to the Federal reserve bank of their respective districts at par, voluntarily, or whether they were induced to do so because of fear that checks and drafts drawn upon them would be presented through the post office, express company, or other channels, with results detrimental to their business—

Brought replies, to April 3, 1917, showing results as follows:

(Tabulation by States omitted.)

Number of banks responding	156
Presented direct	75
Presented through member bank	79
Arrangments made voluntary	49
Arrangements made through coercion	36
Previously remitted at par	17
Not satisfied with arrangement	59
No option (not consulted)	70

Seventy-five banks out of one hundred and fifty-six have arranged to remit direct; 36 of this number state in strong terms that they were coerced into making such an arrangement; 17 others claim their arrangements previously were to remit for all items at par, and the law has had no effect on them; 70 banks had no option or privilege to decide as to whether or not items drawn upon them would be handled by the Federal reserve banks.

Deducting from the 75 having made direct arrangement, the 36 coerced and the 17 previously remitting at par, leaves a total of 22 banks out of 156 that have actually agreed to remit at par and are satisfied with the plan.

It has further been stated that the Federal reserve clearing and collection system provides a means whereby the country bank can cover by remittance or otherwise all checks without cost, this being effected by the Federal reserve banks agreeing to pay the transportation costs of shipping currency to cover checks presented through the Federal reserve banks. Coupled with this provision there is a further provision that the banks must first exhaust all other means of paying the checks, that is, if they have checks upon banks whose names appear upon the par lists of the Federal reserve banks, they must use them; at the same time they are required to pay 1¼ cents to 1½ cents per check when using such checks in offsetting checks received from the Federal reserve banks; if they do not have sufficient items to offset, they are then permitted by the ruling of the Federal Reserve Board to ship money at the expense of the Federal reserve banks, but are required to include in such shipment only lawful money—Federal reserve notes or Federal reserve-bank notes. This ruling excludes national-bank notes from use in paying checks. Such notes have always been good so far as a bank's relations with an ordinary customer are concerned, and it is to be regretted that the Federal Reserve Board recognized with greater favor a check of any unknown individual than a national-bank note.

The Federal reserve banks take the position that they have met the contention of the country banker that his customers' checks are payable at the bank's own counter. The facts are that the country banker makes no such contention and the customers do not want their checks paid at the counter. What they do want is their indebtedness at distant points liquidated. Were the cash paid over the counter the customers would then, in the usual course of business, find it necessary to employ some agency to transfer the funds to the distant point where the debt is to be liquidated. There is no agency that

will perform this service without charge; furthermore, to base a collection system upon the premise that all checks are payable in lawful money at a bank's counter is not within reason. Ninety per cent of the deposits made with banks consist of checks on other banks. It can readily be seen that if all demands were made that checks be paid in lawful money when the deposits include only 10 per cent cash, such demands would not be met.

In the Senate Report No. 11, Calendar No. 2, pages 6 and 7, there appear two letters, one written by the governor of the Federal Reserve Board to Senator Owen, the other written by J. W. Butler, president of the Texas Bankers' Association, bearing the date of April 10, 1917, addressed to the Federal Reserve Board. Attention is called by Governor Harding to a statement made by Mr. Butler in this letter, from which the conclusion is drawn that a change in sentiment has come over the country banks of Texas and they are willing to forego their exchange charges. I quote for your information the following from a telegram sent by J. W. Butler, president of the Texas Bankers' Association, to the secretary of the committee of twenty-five of the American Bankers' Association, New York City, N. Y.:

JEROME THRALLS,
Secretary of the Committee of Twenty-five:

Am sorry the Federal Reserve Board misunderstood my letter of the 10th urging that State banks be permitted to enjoy larger loan limitations and more nearly like the limitations provided by various State laws. Have wired Senator Gronna thus:

"I am convinced that equally important is this, the necessity of the adoption of the recommendation of the committee of twenty-five of the American Bankers' Association providing for reasonable remuneration for the movement of money. In behalf of the 90 per cent of the 1,500 members (banks) of the Texas Bankers' Association, I would urge you to support the amendment proposed by the American Bankers' Association. If adopted the effect would be to immediately make popular membership in the Federal reserve system; it would be a potential factor to bring in the State banks and make a majority of the national banks contented and happy."

This clearly shows that the impression left in the minds of those who have read the report above referred to is erroneous, and the Texas bankers are still as strong as ever in their opposition to the Federal reserve clearing system and in their demands that this feature of the law be corrected.

On May 10, 1917, Governor W. P. G. Harding, of the Federal Reserve Board, addressed Hon. Carter Glass as follows, portions of which have been previously reported in this debate:

FEDERAL RESERVE BOARD,
Washington, May 10, 1917.

HON. CARTER GLASS,
House of Representatives, Washington, D. C.

DEAR MR. GLASS: Since you were in my office this afternoon Mr. Delano tells me that he just had a talk over the telephone with Governor Strong, of the Federal Reserve Bank of New York, who calls attention to the possibility, if not the strong probability, of the Government having to pay bankers a million dollars exchange charges in connection with subscriptions to the Liberty loan, assuming that the Hardwick amendment, which the House has instructed its conferees to agree to, becomes a law.

This estimate is based upon the assumption that one-half of the total issue of bonds will be placed outside of New York. Subscribers are permitted to make payment by their checks upon local banks, properly certified, and under authority given by Congress many of these banks would undoubtedly avail themselves of the opportunity to charge one-tenth of 1 per cent. Should this exchange charge apply to one-half of the subscription, the expense to the Government would be $1,000,000.

I would suggest therefore that you call the attention of Senator Owen to this and suggest that he ask the Senate to reconsider the Hardwick amendment, with a view of changing it so as to prevent it from applying to transactions connected with Government bonds. This, I Ithink, would give you the opportunity that you desire to handle the matter in conference.

Very truly yours,

W. P. G. HARDING, *Governor.*

The implication in this letter that the banks might charge the Government $1,000,000 in the way of exchange upon checks arising from the sale of the Liberty bonds is an injustice to and is keenly resented by the many thousands of bankers who did not wait to be drafted, but who patriotically volunteered to give their services and the services of their organizations over to aiding the Government in the flotation of the Liberty loan. In doing this every bank in America has incurred heavy expense, and the officers of the banks have given their personal services to this proposition. This has been done without any thought of compensation or profit whatsoever. I challenge the opposition to prove where any member bank has ever charged the United States exchange.

The American Bankers' Association has enlisted its entire machinery and has been conducting for many days a nation-wide campaign to aid the Treasury Department, the Federal Reserve Board, and the Federal reserve banks in the effort to make the Liberty loan of 1917 an emphatic success, thereby winning for Amrica the first victory in this great war. That association has sent out from its general offices over 1,000,000 pieces of literature; it has provided every bank in America with a plan book giving directions as to how to form local organizations, as to how to get existing organizations into action, detailed information, and instructions down to and including the consummation of the sales of the bonds; it has had at its command the best advertising specialists in America; through these men has furnished the banks with suggested copy, and has sent talented speakers into all the important cities of America; it has put a supply of slides in more than 15,000 moving-picture theaters, through which there is thrown upon the screens at every performance a patriotic appeal to the people to buy Liberty bonds. All this the American Bankers' Association has done at its own expense, voluntarily, and with the view of rendering a patriotic service to the Government.

It was therefore unfortunate that such a letter as the one written by Governor Harding should have emanated from a high official in the employ of the Government.

The Georgia, Mississippi, Texas, and Wisconsin Bankers' Associations have adopted strong resolutions resenting this statement and agreeing to refund any charge made by any bank in their respective States upon any check issued in connection with the sale of the Liberty bonds.

The following is quoted from a message sent under date of May 14, 1917, by the President of the Texas Bankers' Association:

"Referring to protest of Governor Harding urging reconsideration of your amendment and his representation that the amendment would cost the Government $1,000,000 in selling first installment Liberty loan bonds. This argument is a great injustice and keenly resented by the banks. Every financial institution clamors for privilege to serve the Government in handling Liberty loan without compensation. Please do not allow our patriotism to be assailed and go unchallenged. We confidently count upon the Senate to firmly stand for American principles and democracy as against bureaucracy. We pledge the banks of Texas, more than 1,600 in number, to handle settlements for bonds without charge. This association will refund to the Government any exception. An unnecessary assurance, but to emphasize our sincerity."

The Georgia and Mississippi resolutions were equally as strong.

The following is taken from telegram of J. R. Wheeler, president of the Wisconsin Bankers' Association:

"The Wisconsin Bankers Association agrees to reimburse the Government for any exchange which Wisconsin banks might charge in the distribution and sale of Liberty bonds. We do not believe that there is a Wisconsin bank that would make a charge, even though it had been right, but since this is being advanced as an argument for defeating the Hardwick amendment, the Wisconsin Bankers' Association, representing practically every bank in the State, agrees to refund any such charges should they be made."

The suggestion has been made that the right to fix the charges should be in the hands of the Federal Reserve Board, and that no charge should be permitted to be made against the Federal reserve banks. Why, then, should they not have the same right to fix the rate of interest charged by banks below the legal rate fixed by law? To give the board this power would be placing the board in the position of a judicial body, as has been already stated. The functions of the board should be kept within administrative lines. The banks insist that exchange, like commodities should be governed by supply and demand, flow of business to and from the different sections of the country, competition, and

the other natural elements. The banks want the cost of production of exchange reduced to the minimum and are willing that the public shall receive the full benefits of any reduction that is made in this cost. The Federal reserve banks have not provided any means whereby exchange can be produced without expense; in fact, their operations in some instances increased the expense of producing exchange. Exchange rates can not scientifically be fixed upon an arbitrary basis; the individual bank can best determine as to what is the cost of producing the exchange which is furnished to its patrons and which it remits to distant points.

The maximum fixed by this proposed amendment will, as stated before, prohibit exorbitant charges, and under this provision will allow exchange to fluctuate, as it should, from par to 10 cents. Any merchants who are not willing to pay the exchange can refuse the country checks and let them go back to the parties who draw them, with the suggestion that those parties go to their local banks and pay for exchange which will be available at its face on the day it reaches the center.

The suggested provision that no charge be made against the Federal reserve banks would defeat the purpose of this whole amendment. If a channel for collecting the checks at par were thrown open the banks would not then be able to collect any exchange. It is a natural law that bank checks will flow through the channel that affords the least resistance in the way of expense or which affords the best service. Any clearing or collection system that is operated by the Federal reserve banks should be operated on a self-sustaining basis and should develop and endure because of merit only; that is, because of its ability to render the greatest possible service at the least possible expense. If the Federal reserve banks will develop a system of collecting which is more efficient and more economical than is afforded by clearing houses or commercial banks the business will naturally flow to the Federal reserve banks. It costs a member bank just as much to furnish exchange to the Federal reserve bank as it does to any other bank. It should therefore be entitled to receive the same pay for furnishing the exchange to the Federal reserve bank that it would receive for furnishing it to another bank.

It is unfortunate that the Federal reserve banks have undertaken, through the use of the express company, to force nonmember banks to remit at par, without regard to the expense and labor that might be involved in making such remittances. It is not unusual for a country bank carrying in its vaults actual cash, including lawful money and Federal reserve notes, not to exceed $6,000 to receive for payment by remittance, through the mail, in a single day checks aggregating $10,000. It is customary to pay these checks by darwing upon a balance in some central city created there through direct credit arrangements, discounting of bills, shifting of credit, or the accumulation of available exchange, all of which is done at an expense to the small bank. It will be seen that the use of this club is because of the injuries and dangers that are possible to the small banks against which it is wielded. It may not be designed to injure these small institutions, but has in it the possibilities of even causing them to close their doors.

Where is there a bank that can receive deposits, day in and day out, 90 per cent of which consist of checks and like credits, and at the same time pay all demands in lawful money? It can not be done.

It has been suggested that section 16 provides that the Federal reserve banks shall receive checks on deposit at par, and under this provision the Federal reserve banks would be compelled to absorb the tremendous amount of exchange which they would be required to pay under the terms of the amendment providing for reasonable charges.

It will be remembered that the Federal Reserve Board has interpreted this section of the law to give the Federal reserve banks the right to make a charge of 1¼ cents to 1½ cents per check. This establishes clearly the principle that the Federal reserve banks have, under this construction placed on the law by the Federal Reserve Board, the right to assess against the depositing member banks the expense which the board has seen fit to term "service charge," amounting to 1¼ cents to 1½ cents per check. Following the same line of reasoning, the board might readily authorize the Federal reserve banks to assess against the members 10 cents per $100 or fraction thereof if that amount of expense be incurred.

The gold-settlement fund is one feature of the Federal reserve system that has not been criticised. The operation of this fund has been entirely satisfactory.

This proposed amendment will not affect the operations of the gold-settlement fund in any way. This fund, however, can not be safely used as a basis for collecting the ordinary run of country checks. It is a splendid means of settling the balances weekly or semiweekly, but the settlements for checks must be made daily. Checks do not offset each other; in fact the flow of exchange and trade runs in certain directions over a period of months. During that time readjustments must be made through shipments of currency or through credit arrangements, rediscounting, or some other means which involve expense to the banks.

The system operated by the Federal reserve banks is misnamed. It is not in any sense a clearing system; it is a collection system. It contemplates the division of all items through one center in each district. By reference to the tenth Federal reserve district it can readily be seen as to how unscientific this proposition is. There are 11 reserve cities in that district; each of these cities is a commercial center of considerable importance; the products and raw materials are marketed and the supplies and finished goods are purchased principally through these 11 different centers. If the exchange and checks are all handled through one of these centers there remains the necessity of transferring the accumulated credits from the 10 other centers to the eleventh center. This can not be done without expense.

As stated before the banks are willing to cooperate and assist in every way possible to work out a clearing and collection system that will be fair and equitable to the general public, but at the same time the banks are entitled to the consideration in the way of law that will permit them to receive treatment that is fair and equitable. Any law that requires the thousands of country banks throughout this land to create exchange at an expense, and to contribute that exchange free, to the commercial and industrial interests does not recognize the elements of fairness and equity, and it should therefore be changed.

The burdens that have been imposed through the operations of the Federal reserve clearing system have aroused antagonism and opposition not only on the part of nonmember State banks and trust companies, but has been the cause of creating an intense feeling against the system on the part of the small national bank members, which has been a hindrance to the development of the more important functions of the Federal reserve act.

The passage of this amendment will sweep aside this opposition and antagonism, and will substitute in lieu thereof a spirit of friendly cooperation, and will make it possible to bring into the system thousands of State banks and trust companies that will not otherwise join.

Cooperation is the greatest factor in modern business, and it must be recognized in the Federal Reserve System.

It is imperative that the banking system shall be unified if it is to meet in an adequate way the increased demands that will be occasioned because of the entrance of this country into the world war. When this and the other amendments to the Federal reserve act have been passed, and all the eligible banks have entered the system, we will then have a banking system that has no superior, and very few, if any equals. [Applause.]

Mr. GLASS. Mr. Speaker, I yield three minutes to the gentleman from Ohio [Mr. Longworth].

Mr. LONGWORTH. Mr. Speaker, I am glad of the opportunity afforded me through the courtesy of the gentleman from Virginia [Mr. Glass] to explain my vote on this conference report, because the course I intend to pursue to-day is not entirely consistent with that which I pursued on the occasion when the conference report was last voted on. I am one of those who believe that consistency, if a rare one, at least is a notable political virtue. In fact, I have on this floor and elsewhere rather vigorously criticized a certain gentleman high in official power in this country for repeated acts of inconsistency, but I never have, nor do I now, believe in carrying consistency to a point which will force me to persist to the end in a course begun, possibly, under a misapprehension of its effect, when I, after consideration, have become convinced that it is unwise. I voted for the so-called Hardwick amendment upon a previous occasion but the gentleman from Pennsylvania [Mr. McFadden] himself has admitted that it was never debated and has never received up to now any real consideration in this House. At the time I voted for it I was not as familiar as I think I now am with the probable effect of its adoption. I do not know of any round robins or lobbies that have appeared here

upon this matter, but I have myself had correspondence and conversations with gentlemen, Members of this House and otherwise, in whose opinion upon matters of this sort I place great reliance. Because of this further consideration and discussion I have been forced to the irresistible conclusion that the passage of the so-called Hardwick amendment in its original form would result in putting a great burden upon American commerce, commerce already burdened and about to be further burdened by new war taxes which will soon be passed. I have, in short, come to the conclusion that the adoption of the Hardwick amendment at this time would be particularly unwise. I intend, therefore, to support the conference report, and I believe that this course may be followed with propriety by other gentlemen who find themselves in the same situation. [Applause.]

Mr. GLASS. I yield to the gentleman from New York [Mr. Husted] for five minutes.

Mr. MCFADDEN. If the gentleman will yield for a moment, I understood the gentleman had only one speech.

Mr. GLASS. After this.

Mr. HUSTED. Mr. Speaker, I know I can not add anything to the clear, able, and exhaustive discussion of the Hardwick amendment which was made by the gentleman from Virginia [Mr. Glass] on Tuesday. I would not take one moment of the time of this House except that I happen to be a director of and somewhat interested in one of these "struggling country banks" which happen to be absolutely opposed to the Hardwick amendment in its original form, and it is opposed to it on three grounds: First, that no adequate service is rendered by the banks to justify the one-tenth of 1 per cent charge on the collection of its checks; second, on the ground that it is not necessary—the country banks are making enough money without it [applause]—and this is no time to impose this charge upon the commerce of the country unless it is necessary; the country banks can get along without its imposition—and, third, because it is one of those services which I believe the country bank should render without any charge in consideration of handling its customers' accounts. [Applause.]

Mr. GORDON. Will the gentleman yield?

Mr. HUSTED. I will.

Mr. GORDON. Is your country bank in the Federal reserve system?

Mr. HUSTED. It is.

Mr. GORDON. What right has Congress to legislate in the interest of these country banks that are not in the Federal reserve system?

Mr. HUSTED. I do not think Congress is legislating in the interest of banks that are not in the Federal reserve system.

Mr. GORDON. As to those small country banks that we have heard paraded up and down here, are not most of them in the system, as a matter of fact?

Mr. HUSTED. The State banks are not in the system.

Mr. GORDON. How could any legislation of Congress affect them at all?

Mr. HUSTED. It does not affect them directly. It might affect them indirectly in this way: I know that if a State bank should charge for collecting checks in my town and the national bank did not charge, the national bank would very soon drive the State bank out of business.

Mr. BATHRICK. Will the gentleman yield?

Mr. HUSTED. Yes.

Mr. BATHRICK. I would like to have the gentleman put this side of the matter before the House. We have all been talking about one-tenth of 1 per cent. But if there is less than $100 deposited, it is 10 cents a hundred, is it not, and lots of small business men will be obliged to pay 10 cents a day or $30 a year for the privilege of banking their money in that bank?

Mr. HUSTED. It would be 10 cents on the smallest checks.

Now, I am opposed on those grounds to the Hardwick amendment in its original form; but if I believed a reasonable charge was justifiable, I could find no fault with the changes made in the Hardwick amendment by the conference committee, because that amendment in its present form does permit a reasonable charge for collecting checks. [Applause.] And to say that the changes made by the conference committee absolutely deprive the country banks of the power of making a collection charge is absolutely untrue.

There is a specific declaration in this amendment in favor of a rate, and it only says that the Federal Reserve Board shall determine the reasonableness of that rate. I have enough confidence in the disinterestedness and in the ability and in the fairness of the members of the Federal Reserve Board to

believe that they would consider it their duty under this legislation as it now stands to fix what in their opinion was a reasonable rate. The only thing it does is to provide that the member banks shall not make any charge for collection or any charge for payment against the Federal reserve banks. I do not think there is a Member of this House who would contend that such charge would be justifiable. [Applause.]

Mr. GLASS. Mr. Speaker——

The SPEAKER. The gentleman from Virginia [Mr. Glass] is recognized for 20 minutes.

Mr. GORDON. May I interrupt the gentleman before he begins? [Laughter.]

Mr. GLASS. I will be pleased to be interrupted by the gentleman before I start, because after I start I shall ask not to be interrupted at all.

Mr. GORDON. I wish to direct the attention of the gentleman to the remarks of the gentleman from Pennsylvania [Mr. McFadden]. The whole burden of his plea was in behalf of these small country banks that are not in the Federal reserve system. To what extent has this Congress power, in amending the Federal reserve law, to affect at all legally the banks not in the Federal reserve system?

Mr. GLASS. The gentleman knows possibly better than I that the Congress has not one particle of power to regulate the banks that are not in the Federal reserve system. Nonmember banks, which are State banks, are not directly affected by this legislation. They are concerned in this legislation only by reason of the competition incident to a collection system which the Federal Reserve Board has established. That is to say, if member banks refrain from making charges for paying and collecting checks, and State banks persist in exacting this toll, business men will prefer to keep their accounts with the banks that do not charge; hence nonmember banks would like to have member banks authorized by law to make these charges.

Mr. SWITZER. Will the gentleman yield for just one question?

Mr. GLASS. I can not yield any more.

Mr. SWITZER. I would like to ask a question. Does your amendment permit, or does it allow, the Federal Reserve Board to give authority to a bank to make a charge for this collection?

Mr. GLASS. To make a "reasonable" charge; yes.

Mr. SWITZER. With the argument made here that there should not be such a charge made, why do you recognize it?

Mr. GLASS. Because the managers on the part of the House were instructed to do it. That is all the reason for it; but for that instruction the conferees would have authorized no charge at all.

Mr. SWITZER. You do not intend to allow anybody to assert that privilege?

Mr. GLASS. I hope not and believe not. That is precisely why we propose these modifications of the so-called Hardwick amendment. We do not want the banks to determine whether the charge is "reasonable," if made at all, or what the amount shall be when made. We want the Federal Reserve Board to regulate these questions strictly; to say in what circumstances it is reasonable to charge and what amounts shall be charged.

Mr. Speaker, as to the ethics involved in this legislative procedure, especially with reference to the appointment of the managers on the part of the House, I want to say that the chairman of the Committee on Banking and Currency followed the usual procedure. When the conference was asked he conferred with the senior Republican member of the House committee, the gentleman from California [Mr. Hayes]. That gentleman was ill at his home in Washington, and notified me over the phone that he would be unable to act and readily acquiesced in a suggestion that I designate Mr. Platt, of New York, as a Republican manager on the part of the House. As a matter of fact, I momentarily assumed that Mr. Platt was the next ranking member of the Banking and Currency Committee.

Mr. MONDELL. Will the gentleman yield?

Mr. GLASS. I will not.

I say I momentarily supposed that Mr. Platt, of New York, was the next ranking member, and I handed his name to the Speaker as one of the conferees. This I explained in detail to the gentleman from Mississippi [Mr. Harrison] some days ago, and went in person and apologized to my colleague, the gentleman from Iowa [Mr. Woods], who accepted the explanation. With that statement I will leave it to the House to determine just exactly how fair

and precisely how frank the gentleman from Mississippi [Mr. Harrison] was in his statement of the incident to the House to-day. [Applause.]

I prefer not to believe, and yet I candidly suspect, that my colleague from Pennsylvania [Mr. McFadden] was fully aware of the fact I have just stated, and the House may thus judge from the frankness of his criticism also. I may add that had the senior Republican member of the Committee on Banking and Currency [Mr. Hayes] been in good health he would have been one of the conferees and would have stood unyieldingly with the chairman of the committee in resisting the attempt by a Senate "rider" to impose this tax on the commerce of the country. [Applause.] Therefore the effort to make it seem that some advantage was sought or obtained in the designation of the House managers is manifestly a quibble, designed to shift the issue from one of fact to one of resentment.

As to the talk about "the lobby that has beset this House" and the "round robins" that have disturbed the membership, the only lobby we have had was the committee of 25 bankers which settled down in Washington soon after Congress convened, with headquarters at the Willard Hotel. This bankers' committee, dining and wining the proponents of this proposition, sought to influence the action of the House by as thoroughly organized a propaganda as was ever known in legislative annals. [Applause.] This committee was in ceaseless communication with the banks of the country and had Congress flooded with letters and telegrams.

The only word of hearing upon this proposition to delegate the power of taxation to banks by a Federal statute was secured by a transparent trick. Letter after letter and wire after wire came to the chairman of the Committee on Banking and Currency from the business men of the United States asking to be heard against this proposition. My invariable answer was that the proposition was not germane to the amendments that were being considered and that, therefore, there would be no committee hearings on the bill H. R. 3673. But under the pretense of wanting to be heard upon the major provisions of H. R. 3673, a subcommittee of this committee of 25 bankers was presented to the Committee on Banking and Currency. These bankers spent about two minutes talking about the real provision of this bill and nearly two hours discussing this check paying and collection charge "rider" which had been proposed by their committee. Thus, the only hearing had on the subject was obtained in the way I have indicated by this famous "committee of 25" without opportunity to the business men of the United States to be heard in rebuttal.

There has been no lobby so far as the opponents of this measure are concerned. Naturally the whole business community of the United States, except a small group of bankers, is opposed to this proposition to authorize certain banks, by law, to tax commerce. It required no lobby; it required only a sense of justice and a comprehension of the injustice that was sought to be perpetrated by this Hardwick amendment.

It is pretended that only the mail-order houses and jobbers oppose the scheme. I hold in my hand a resolution adopted by the Farmers' Educational and Cooperative Union of America, which says:

"We the National Convention of the Farmers' Educational and Cooperative Union of America, assembled in Palatka, Fla., earnestly and strongly protest against any change in the Federal reserve act with reference to charges on collections on checks and drafts."

I have here also the resolution of the National Grange of the United States, representing more than 1,000,000 farmers, which says:

"Whereas it has come to the knowledge of the National Grange that a concerted effort will be made this winter to have Congress amend the Federal reserve act so as to restore to certain banks throughout the country the privilege of indiscriminate taxation taken from them by the system of check collection established by the Federal Reserve Board in pursuance of the act of December 23, 1913: Therefore be it

"*Resolved by the National Grange,* That we protest against the proposed change of the law and that Congress be, and hereby is, earnestly petitioned by this body in behalf of the farmers of the United States to disregard this organized attempt to so alter the Federal reserve act as to enable certain banks to exact unjust tolls from the commerce and industry of the country, 90 per cent of which business is transacted by drafts and checks rather than by the use of currency."

I have here a dispatch, dated at Peach Bottom, Pa., May 19, from J. A. McSparran, one of the most intelligent and patriotic farmers in the United States, chairman of the legislative committee of the National Grange, in which he says:

"BANKING AND CURRENCY COMMITTEE,
"House of Representatives, Washington, D. C.:

"In the name of the National Grange we desire to protest against the adoption of the Hardwick amendment to the reserve act, which gives to the banks of the country the right to levy an unjust tax on the checks of the entire business community of the United States. The National Grange, representing 1,000,000 organized farmers, passed resolutions protesting against this form of extortion."

"Oh," they say, "only the jobbing houses of the United States are opposed to the Hardwick amendment." That is not the fact, as I have already indicated, Mr. Speaker. But suppose it were true. Is there any reason why the men, who have millions of dollars invested in that branch of commerce, should not have their side of a controversy heard here? True, they have not given any dinners to anybody. They have not wined or dined anybody. But have they not a right to be heard? Suppose it were true that only the jobbers of the country were opposed to this form of special taxation. Let us see if, numerically, they do not overwhelmingly overtop the banks, even if all the banks were in favor of the proposition. There were in the United States, according to the census returns of 1919, 51,048 jobbing houses. There are but 7,500 member banks of the Federal reserve system, all told. The most progressive of these are opposed to the Hardwick amendment. But if all were in favor of it, and the jobbers only opposed, there are 51,048 jobbing houses against the 7,500 banks.

But, Mr. Speaker, I have here on the table resolutions from the retail merchants' associations in every line of activity in this country, from the National Association of Retail Hardware Merchants, from the National Association of Retail Grocery Merchants, from the national associations of nearly every line of commerce in the United States, opposing this tax. The National Association of Credit Men, representing a body with an actual membership of 25,000 in every line of trade conceivable, has gone on record time and time again in opposition to this unjust species of taxation. Nearly all the manufacturing associations of the United States have presented resolutions against this proposition.

There are more jobbing houses in the single State of Illinois opposed to this proposition than there are member banks in the United States in favor of it. There are as many jobbing houses in the State of Massachusetts opposed to the Hardwick amendment as there are member banks in the entire United States in favor of it. There are three times as many jobbers and retail merchants and manufacturing establishments, not to mention farmers, in the State of Mississippi opposed to this Hardwick amendment as there are members banks in the United States in favor of it.

Take the State of Pennsylvania, the State of the gentleman who proposes this recommittal [Mr. McFadden], and there are 4,783 jobbing houses—more jobbing houses in Pennsylvania opposed to this unjust tax than there are member banks in the United States in favor of it. There are in Pennsylvania 107,134 retail merchants, every one opposed to this form of taxation. The opposition to it is so overwhelming that I offered a colleague my entire year's salary as a Representative in Congress if he could produce a telegram or a letter from any living soul in favor of it unless from a banker. [Applause.]

Then they talk about an "anonymous propaganda." Perhaps I have a misconception of what an "anonymous" thing is. This circular which is exhibited here presenting reasons why this form of delegated taxation should not be sanctioned, expressly states that the group issuing it included the official representatives of the Button Manufacturers' Association of the United States, the National Association of Clothiers, the National Association of Credit Men, the National Association of Hosiery and Underwear Manufacturers, the National Glass Distributors' Association, the National Hardware Association, the National Retail Dry Goods Association, the National Shoe Wholesalers' Association, the National Dry Goods Association, the National Wholesale Jewelers' Association, the St. Louis Chamber of Commerce, and the Southern Wholesale Grocers' Association. It gives the names of the gentlemen who prepared and issued this "anonymous" circular. In addition to that, boards

of trade and chambers of commerce from one end of this country to another have passed resolutions against this rake-off. Nobody is for it except this group of bankers represented by this committee of lobbyists that took up its headquarters weeks ago at the Willard Hotel. [Applause.]

I present to the House for its discriminating judgment a tabulated statement of three classes of business concerns opposed to this legislation, in contrast with the number of banks in the Federal reserve system directly affected by this amendment. It will be noted that this statement does not take account of the millions of farmers and professional men who are in opposition, but merely enumerates three classes whose representative bodies have declared their antagonism to this check-paying and collection-charge scheme. It must also be considered that not one-third of these banks exact these charges from the business men of the country, and therefore that the fewest number of them would care to see the collection system established by the Federal Reserve Board wrecked, as inevitably it would be should this Senate "rider" prevail.

	Manufacturers	Jobbers	Retailers	Member banks
Alabama	3,242	475	15,383	90
Arizona	322	60	2,467	12
Arkansas	2,604	366	12,471	66
California	10,057	2,174	47,097	264
Colorado	2,126	509	12,163	121
Connecticut	4,104	395	16,824	70
Delaware	808	77	2,966	24
Florida	2,518	375	8,226	54
Georgia	4,639	829	20,640	102
Idaho	698	74	4,162	59
Illinois	18,388	3,420	80,508	469
Indiana	8,022	985	33,330	256
Iowa	5,614	834	29,337	349
Kansas	3,136	505	21,209	223
Kentucky	4,184	866	21,477	133
Louisiana	2,211	688	16,899	33
Maine	3,378	362	10,354	66
Maryland	4,797	1,013	20,244	95
Massachusetts	12,013	3,275	48,761	151
Michigan	8,724	1,308	35,448	106
Minnesota	5,974	990	25,099	287
Mississippi	2,209	238	11,513	35
Missouri	8,386	1,647	43,413	131
Montana	939	129	4,697	82
Nebraska	2,492	447	15,527	191
Nevada	180	41	1,497	10
New Hampshire	1,736	177	5,367	56
New Jersey	9,742	2,635	44,189	203
New Mexico	368	86	2,944	37
New York	48,203	10,869	180,151	675
North Carolina	5,507	598	14,912	81
North Dakota	699	76	846	157
Ohio	15,658	2,666	64,806	371
Oklahoma	2,518	436	18,565	335
Oregon	2,320	381	10,433	80
Pennsylvania	27,521	4,783	107,134	834
Rhode Island	2,190	337	8,208	17
South Carolina	1,885	288	9,237	76
South Dakota	898	118	7,461	125
Tennessee	4,775	863	19,878	112
Texas	5,084	1,150	43,362	534
Utah	1,109	185	4,154	24
Vermont	1,772	119	4,208	48
Virginia	5,508	758	18,845	144
Washington	3,829	629	17,137	77
West Virginia	2,749	392	10,266	115
Wisconsin	9,104	985	26,321	140
Wyoming	337	24	1,530	36
District of Columbia	514	211	5,926	14
Grand total	275,791	51,048	1,169,592	7,571

Now, Mr. Speaker, I want the House to understand how it was sharply misled upon this question. There was not a word of debate. There was not one word of explanation of this Hardwick amendment prior to the adoption of the motion to instruct the House managers. The whole event was sudden and surprising.

Mr. THOMAS. I just want to know about that wining and dining. I have not seen any of it, and I should like to get there. [Laughter.]

Mr. GLASS. I am surprised that the gentleman was not invited. He should indicate his indignation by voting against this proposition.

Mr. THOMAS. I am going to look into this proposition.

Mr. GLASS. Mr. Speaker, I must decline to yield further.

Mr. THOMAS. The gentleman has got to yield; I am with him on this. [Laughter.]

Mr. GLASS. No Member of the House should permit himself to be troubled by any consideration of consistency, because not a word of debate or explanation was had on this Hardwick amendment. A similar "rider" was proposed in the House and thrown out on a point of order as not germane; and it is not germane. It is a legislative thorn in the flesh. It is utterly incongruous, considered with respect to this great and momentous legislation proposed here for the advantage of commerce and industry and to help the banking business of the United States better to meet impending difficulties. Not only was there no explanation of this "rider," but, on the contrary, when the vote was being taken gentlemen who now are very critical about the ethics of the case, affecting great concern for the proprieties, stood at the door and told Members as they came in, "Our vote is aye," as if there were some party division. More than a score of Members have come to me in person, or have told me over the telephone, that they were misled into voting for the amendment, and that they were utterly opposed to it, and that their constituents were utterly opposed to it. I do not want to be unpleasant. It is too easy, under provocation, to be unpleasant and too hard to be agreeable; but I do feel some degree of resentment, in the circumstances, at the criticism of the gentleman from Mississippi [Mr. Harrison] and my colleague of the committee from Pennsylvania [Mr. McFadden] about the ethics of this case, and their talk about a lobby.

Now, Mr. Speaker, a word as to the merits of this proposition. From what source does a bank, whether it is a country bank or a city bank, derive its revenue? From its capital? Why, in the rarest instances a bank that is prosperous enough to pay a dividend merely by the use of its own capital would be a wonder. Then, how do banks manage to pay dividends? Why, by loaning out the money of their depositors at interest, and some of them at too high a rate of interest, particularly in the territory of the gentlemen who are advocating this check-paying amendment. [Applause.] They derive their profits from loaning out the deposits of their patrons; and anybody familiar with banking processes knows that banks ordinarily require their patrons to keep a certain "line" of deposits to pay for trouble and expense in handling their accounts. I have here a written statement of one of the leading bank examiners of the United States saying that both city and country banks, as a rule, insist that the borrower, who in nine cases out of ten is a depositor, shall maintain an average balance of 2 per cent. In other words, if you are a business man and want to borrow $10,000 from your bank with which to conduct your business, the bank does not actually let you have $10,000. On an average it lets you have $8,000 and requires you to leave the other $2,000 there to be loaned to some other business man at a profitable rate of interest. In this way and by other legitimate devices banks derive their revenue from interest on money loaned them by their patrons. There are few well-conducted banks, either country or city banks, that would care to have the business of any merchant who did not keep a line of deposit with it sufficient to far more than cover all costs and trouble of the account of that business house. The gentleman from New York [Mr. Husted], a banker himself, has stated that last year all the banks, country as well as city, made a greater profit than they had made in an average of 47 years before, and they do not need this form of graft. [Applause.]

The banks have the use of their patrons' money, and it is vastly less expensive to remit on balances than it would be to pay funds actually across the counter. Pending the dispatch and return of checks the accounts on which they are drawn are available to the banks in the discount operations, and from these accounts the banks derive more profit than is involved in the proposed charge of one-tenth of 1 per cent on out-of-town checks. As for having to "ship funds," that is a myth largely—a figure of speech. The Federal reserve banks explicitly agree to pay all cost of shipping currency, so no charge for that can be assessed against any remitting bank.

It is idle to infer that the obligation of banks to business men is not as distinctive or as great as that of business men to banks. The accommodation is reciprocal; and, with the vast majority of banks, the deposits of their

patrons are accepted with no other purpose than to pay checks at their face value. There never was any statutory sanction for anything else; but under specious and illusive pleas of compensation for "constructive interest" loss, and for the expense of "shipping currency to distant points," and for "service rendered in transferring credits," the practice of deducting charges, varying from one-tenth of 1 per cent to 1 per cent in some cases, became firmly established in some sections. It got to be not only a burden but an abuse—in many instances a scandal—which the more progressive business communities of the country long since refused to tolerate. None of the banks of the New England group exacts these charges; few of the eastern group make the charge; the practice in the Middle West has been greatly abated; the abuse persists in its flagrant form chiefly in parts of the South and the far West. It should be stopped everywhere; and the par-collection system instituted by the Federal Reserve Board will put an end to it ultimately, if not tampered with by vicious legislative interference, such as this Hardwick amendment in its original draft proposes.

Bank notes issued under authority of the national bank act signifying the indebtedness of the bank to the holder are required by law to be received everywhere at par. Why should not a merchant's check on his deposit account, duly indorsed by a responsible person or concern, be accepted by common consent of the banks at its face value? What is there extraordinary about the suggestion to standardize checks and drafts? They constitute 92 per cent of the currency of the country in paying accounts and adjusting balances. And the banks themselves adjust their own balances through this very medium.

The talk about the "great expense" of collecting and paying out-of-town checks is in great degree rubbish. The cost is negligible, as any frank banker will tell you. It is so inconsequential that the Federal Reserve Board has been unable to get an actuary with enough skill to figure it out. The collection costs of the Federal reserve system itself have been less than one hundred and fiftieth of 1 per cent. I have a letter from a Tennessee banker which furnishes a very definite illustration of the difference between the old system of check-collection graft and the new system of inexpensive collections. This Tennessee banker writes:

"The thought has occurred to us that you would like to know how the new collection arrangement is working with member banks. We give you the following example:

"At ———, N. C., there are three banks—two National and one State. They were evidently in a combination prior to July 15, 1916, on the question of exchange. Most of the checks of their customers had stamped on them, 'Not collectible through the express company,' or some such wording. This is out of our territory, but we could not collect the items through any of the ordinary channels, and were forced to send them direct, only taking the checks for collection and giving our customers all the money we received.

"For five days in June we sent them $5,956.85, on which we paid exchange at the rate of 25 cents per hundred, or a total of $15.16. We are handing you herewith one of their remittance letters, which shows they charged us $9.96 on items aggregating $3,985.76.

"Taking five days in July, or since the collection arrangement was entered into by the Federal reserve banks, we have sent on the same town through the Federal Reserve Bank of Atlanta a total of $7,176.63 at a total cost of 12 cents.

"The time the items were in transit was greater when sent direct than when sent through the Federal Reserve Bank of Atlanta.

"This is not so much a saving to us as it is to our customers, and more people will be benefited by this system of collection, 10 to 1, than will be harmed by a loss of revenue to these banks who have been so outrageous in their charges."

This case is typical. It reveals the vice of the old system as clearly as it exhibits the efficiency of the new. Under the new collection system these Tennessee merchants had checks aggregating $7,176.63 quickly collected at a cost of 12 cents, while under the old system, with its roundabout routing, it cost these merchants $15.16 to collect $5,956.85—the difference between the obsolete stagecoach and the modern steam railroad facilities! But it is contended this transaction deprived three "struggling" country banks of the difference between about $18, which they would have received for paying the larger amount of checks under the old system, and 12 cents actual cost under

the new system. Leaving out of question the moral obligation of these banks to pay their depositors' checks without deduction, the fact is that two of these "struggling" banks have accumulated a surplus almost equal to their capital; they pay an annual dividend of 10 per cent, and their stock sells for nearly twice its par value. This illustration could be multiplied indefinitely in an even greater aggravated form. However, I would repeat and accentuate the statement that bankers of vision with a progressive spirit do not engage in this practice. They long ago discarded it.

The thing is pursued chiefly by those who fail to comprehend the advantages of modern methods and who in their petty acquisitiveness refuse to adapt their business to a system pregnant with larger success and a higher spirit. The case was tersely put the other day by Mr. Pierre Jay, of the New York Federal Reserve Bank, when he said:

"The banks which are now endeavoring to have the deduction of exchange legalized do not seem to recognize that a new country-wide system to facilitate domestic settlements by both checks and transfers has been created and in process of development. Instead of looking ahead they are endeavoring to stand squarely across the path of progress and seek to turn back the hands of the clock. With minds focused on the barrier which the law desires to move, they do not see the situation in its proper perspective. They fail to grasp the advantages to business of economical and scientific methods of making settlements; they fail to understand that every move toward making local checks more acceptable away from home enables the local bank to keep more local money at home."

There is the crux of the matter. That is a happy phrase, "More local money at home." Country bankers—which means all bankers outside 51 central reserve and reserve cities—in order to clear their own checks "free of charge," as they vainly imagine, have for years shipped away the funds of their local depositors to the money centers at a 2 per cent interest rate, to be used for stock speculative purposes, instead of "keeping more local money at home," as Mr. Jay says, to loan to local merchants and industries at a reasonable yet profitable discount. There is no telling, Mr. Speaker, of how many hundreds of millions of dollars country communities have been drained nor computing the commercial distress and industrial deprivations they have endured by reason of this practice of country banks sending local funds away from home. There was little rational defense of it under the old system; there is absolutely no excuse for it since the passage of the Federal reserve act. When the required reserve of country banks was 15 per cent, the combined figures show that they actually carried 29 per cent.

The average interest rate on these excess reserves carried largely for the purpose of securing the par collection of their out-of-town checks is 2 per cent. With money worth 5 and 6 per cent, and in many localities bring 8 and 10 per cent, the cost of 3 or 4 per cent or 6 and 8 per cent on excess reserves of 14 per cent would very much reduce the income side of the exchange accounts. The establishing of the Federal reserve banks makes it in most cases unnecessary for the banks to carry excess reserves and thereby increases their earning capacity.

Moreover, the reserve requirements of country banks were lowered by the Federal reserve act for the express purpose of covering this paltry 2 per cent, which they received for local funds transferred, and which never should have been transferred, to money centers—a fact which they seem always to ignore. A trained banker from Minnesota states the case with great perspicacity in a letter from which I quote two paragraphs:

"It should be realized by all that any saving in the expense of collecting checks will be to the advantage of all the banks in the country. The Federal reserve bank, by providing a central agency in each district through which checks may be collected, has provided a method whereby checks may be collected with the least expense. This is due to the doing away with indirect routing, thus reducing the number of times checks are handled and the saving of time in securing final payment. If the system is properly supported by the banks of the country, it will lessen the expense in remitting for checks, as the banks of New England have demonstrated through 17 years of experience that it is much cheaper to receive one remittance a day and remit in payment than it is to receive remittance letters from a number of correspondents as well as others and account for them.

"A strong argument that occurs to us as to why that part of the Federal reserve act relating to charges on bank checks and drafts should not be amended

at the present time, is that the majority of the banks in this country transacting 85 per cent of the banking business of the country are not charging for remitting for their checks, and that the collection system of the Federal reserve banks should be given a fair and impartial trial before any amendment to the law is considered, and it would not be fair to the banks of the country to amend the law at the request of the smaller number of banks which have for selfish reasons always been opposed to a proper and economical system of collecting checks."

That sums up the case. Nearly 16,000 banks joined the collection system instituted by the Federal Reserve Board. These constitute two-thirds of the commercial banks of the country. They do 85 per cent of the commercial banking business. They do not charge for paying or collecting checks. This Senate "rider," drafted by a bank lobbyist and through organized propaganda grafted onto a bill here designed to help banking and facilitate commerce, is merely a statutory invitation to these 16,000 banks, as well as to the small group doing only 15 per cent of the country's business, to renew this tax on commerce and industry. It is a legislative sanction of an obsolete and vicious practice which has never had the countenance of law and should not have it now.

And I warn this group of bankers which assumes responsibility for this renewed attempt to erect this tollgate across the highway of commerce that it is sowing to the wind and will reap the whirlwind. The business men of the United States are thoroughly aroused over the situation, and if this legislation should be enacted, except in the modified form proposed by this conference report, they will systematically refuse to patronize banks which persist in this vice. Moreover, let the country banks take warning. Under the law they may no longer count balances with correspondent banks as reserve; hence there no longer will be inducement to carry local funds in outside banks at 2 per cent. This will presently occur; and when it does the big banks will begin to charge for remitting funds also should this Senate rider, unmodified, prevail. If the charge for remitting funds to cover checks becomes general and applies to central reserve and reserve city banks, as well as the country banks, it is evident that banks in general will not profit by the result. A bank in remitting to a Federal reserve bank wishes to be able to send offsetting items rather than cash, and the whole proposition of clearing checks depends upon this principle. Heretofore a charge has been made by the country bank for remitting, but no charge by the city bank, whereas under this Senate "rider" the city bank is authorized to charge as much as the country bank. If, therefore, a bank receives one-tenth of 1 per cent on all items drawn upon itself, but pays out one-tenth of 1 per cent for collecting all items it has received, the probability is that the large city banks will be the gainers.

An accomplished country banker in the State of New Jersey, a man who understands the philosophy of banking as well as the practical details, writes me that—

"If the Federal reserve system was nonexistent, the facilities and economy which it so admirably affords would justify the organization of a system for the exclusive purpose of clearing and collecting out-of-town checks, but the organization of a proper system for this purpose under present circumstances would be a needless waste of labor and capital and, in consequence, an unnecessary drain upon the public. This may be regarded as an answer to those who contend that the Federal reserve system should not undertake the matter of handling out-of-town checks.

"The condition of affairs was bettered at a stroke when the Federal Reserve Board undertook to collect out-of-town checks."

Mr. Speaker, there are a multitude of reasons why this check paying and collection charge should be abolished entirely and a fairer and more scientific system substituted, but the subject is technical and therefore difficult both to explain and understand, especially in the compass of limited time. But I very earnestly protest against this Senate rider which seeks to legalize, in the worst possible form, a banking practice that the best banking sentiment itself condemns.

The gentleman from Ohio [Mr. Switzer] asked me awhile ago why the conference report does not omit the Senate amendment altogether if the practice which it proposes to sanction is so indefensible. The only reason we did not discard the provision was the instruction given by the House. While we felt that the House did not act with full knowledge of the facts, and knew that scores of Members had voted under misapprehension, the conferees did not feel at liberty to "contemptuously" disregard the instructions of the House, as

the gentleman from Wyoming [Mr. Mondell] suggests we have done. In the circumstances the best we could do was to retain the phraseology of the Senate "rider" and apply an antidote which, we feel confident, will correct its evil effects in large degree if not entirely. The gentleman from Ohio [Mr. Switzer] also suggested that the modification of the Hardwick amendment proposed by the conference report is intended to prevent any check-collection charges being made by anybody. I frankly stated that I hope and believe the modifications proposed by the conferees will have the result of abolishing all charges beyond actual cost, which, in our view, would be the only "reasonable charge" that could be made.

Inasmuch as the Federal reserve act requires Federal reserve banks to accept at par all checks and drafts of member banks, the conferees unanimously agreed that member banks should be prohibited from exacting check-collection charges from the Federal reserve banks, as there should be reciprocal arrangements as well as community of interest. This modification itself will largely tend to draw the fangs of the Senate rider and circumscribe its utter viciousness. For these and other reasons, which I have not the time to present, I urge the House to vote down the motion to recommit the bill with instructions.

Without objection, Mr. Speaker, I shall append to my remarks the circular letter which has been several times alluded to here as an "anonymous" letter, but which, as will readily be seen, has a very definite and a very respectable paternity:

"ANYWHERE, SOMEWHERE, OR NOWHERE,
"*Washington, D. C., May 19, 1917.*

"A group of gentemen who happened to meet in Washington and who represent widespread business interests in various lines throughout the country have prepared this statement of reasons why Congress should reject the Hardwick amendment to the Federal reserve law or any other measure designed to accomplish the same purpose, viz, the purpose of allowing bankers to charge for paying checks drawn by their own depositors upon funds in their keeping. Payment of such checks can not be classed as a service to the party presenting them for payment. It is only the discharge of an obligation which the bank is bound to discharge on demand.

"The group included official representation of the Button Manufacturers' Association, National Association of Clothiers, National Association of Credit Men, National Association of Hosiery and Underwear Manufacturers, National Glass Distributors' Association, National Hardware Association of the United States, National Retail Dry Goods Association, National Shoe Wholesalers' Association, National Wholesale Dry Goods Association, National Wholesale Jewelers' Association, St. Louis Chamber of Commerce, and Southern Wholesale Grocers' Association.

"The committee appointed to prepare and issue the following statement consisted of Messrs. S. W. Campbell, C. B. Carter, W. R. Corwine, Thomas A. Fernley, E. L. Howe, J. H. McLaurin, W. D. Simmons, and W. W. Orr.

"The Federal reserve law and its development, under the able administration of the Federal Reserve Board, is gradually making a country merchant's check worth 100 cents on the dollar anywhere.

"The creditors of these merchants are entitled to payment by check or some other credit instrument which is worth 100 cents on the dollar some where.

"These country bankers are asking Congress to pass a law which will make a country merchant's check worth 100 cents on a dollar nowhere.

"The Hardwick amendment would make it legal for a bank to charge for paying its own checks in any manner.

"THE HARDWICK AMENDMENT—REASONS FOR ITS REJECTION

"In order that we may not give any wrong impression of our attitude toward the banking business or that we are in any way disposed to look at this problem only from a one-sided or selfish point of view, let us say right in the beginning that we appreciate thoroughly the difficult situation in which the small town bankers find themselves at present as the result of recent developments, and share the apprehension that they and their friends feel for their welfare in the future if the present course of development continues and if they persist in their opposition to making changes in their methods

and to adjusting themselves to present conditions in order to take advantage of additional and new ways of making money offered by the new law and which may be made to act as an offset to the loss of that part of their former revenues which has come from practices which this Hardwick amendment is designed to sanction and perpetuate, but which, for the following reasons, we believe should no longer be authorized or permitted.

"Let us say also in that same connection that we share thoroughly the conviction that bankers should have adequate compensation for all services which they render to their patrons and that their compensation should cover not only any direct outlay involved in rendering that service, but should cover also indirect or overhead costs—and a profit besides. However, that compensation should be charged to and paid by the patron of the bank to whom the service is rendered, and no banker should be permitted—much less authorized—to conspire with his patrons to put the burden of this expense upon a third party who has no voice in the arrangement. That would be taxation without representation, and, if we remember correctly, there was a popular prejudice against the established government's taxing those under its jurisdiction without their consent. Certainly we of this generation have a right to object to our Government's conferring upon any very small percentage of the citizens of this country the right to put a tax—direct or indirect—upon the remainder.

"As this is practically a Nation engaged in commerce, any plan which authorizes one small group of men to put a tax upon the commerce of the country, practically authorizes them to tax for their own benefit and profit the remaining large percentage of the people.

"We appreciate the fact that the universal establishment of the par collection system in this country would put a considerable part of these small bankers in an embarrassing position, but since that is the direct result of their own action, and since they have gotten themselves into this position by juggling with facts and by attempting to get away from sound principles and fundamental laws, there does not seem to us to be any justification in allowing them to continue to abuse the rest of the business community for the purpose of their relief.

"That they are responsible for the present situation is due to the fact that, beginning shortly after the close of our Civil War, but beginning more generally about 25 years ago, these bankers offered, as an inducement to persuade local merchants to carry accounts with them, to so handle their checks as to relieve them of having to pay exchange in remitting for their merchandise accounts to the various points at which they were due and payable. They evidently had two objects in mind in making this offer: (1) An increase of their deposits and the holding of all these funds all during the time checks in payment should be in circuit back to their point of origin, and (2) revenue which came to them through the deposit by these country merchants of exchange which they received direct, or from their farmer customers to whom it is paid by buyers of produce, cattle, etc., the payments usually being made in checks or drafts on New York City.

"These checks and drafts the country banker accepted for collection making a charge for that service and incidentally getting the exchange free as well.

"Soon after that, however, he developed the idea that, in addition to getting this New York exchange for nothing and charging his depositor for the privilege of giving it to him, he might then draw on the credit thus established to meet his own demand obligations (his depositors' checks) and by doing so retain the further use of the money during the circuit of this second credit instrument. Then, still later he evolved the plan of making a charge for paying this demand obligation in that way, calling it in some instances a collection charge; in other instances he called it exchange.

"The question naturally arises, How did he succeed in putting that over and why was he permitted to do so? That was simply because he took advantage of his position and the dependence of the country merchant upon him to influence the country merchant to adopt this course, using the argument (1) that it would relieve the merchant of paying exchange and following that up with the still more pungent and effective argument that as the country merchant expected his bank to do him a favor occasionally, he would, in turn, be expected to cooperate with the banker by making his remittances in this way. It was the price of accommodation from the banker when the merchant might have occasion to need it.

"Then when the country merchant received a letter from his creditor objecting to this method of payment as not adequately covering his obligation, and took it, as he usually did, to his banker to ask how to answer it, the banker coached him to stand pat and reply that if his own checks were not accepted in payment of his account, he would close the account and buy his goods somewhere else—the banker's argument to the merchant being that no firm would be fool enough to throw away a good account for a 15-cent charge and that would be all that would be involved in any one instance under discussion.

"Of course, as one manufacturer or jobber after another yielded to these tactics rather than lose their accounts, the banks began to coach each other with a view to making the proposition as general as possible, because the more general they made it, the more chance they had of holding on the position permanently since there was practically no way for the victims to get together and fight them. This, in the light of a recent statement made in the official organ of the American Bankers' Association, should be kept constantly in mind as evidence that these banks have themselves never seriously contended that they were entitled to collect this charge for paying their checks or that it was right, or good business, or sound banking. They have contended for its maintenance on the principle that might makes right. Their arguments are very like those which the German Government has recently tendered to us in answers to our insistence upon our rights to traverse the high seas. The German Government told us that if we did not stay away from those portions of the high seas which they proscribed, we would be responsible for the results: and if we got hurt, it would be our own fault. In like manner the American bankers, through their official organ, say:

"'The seller of goods has a right to demand payment from the buyer in actual cash or exchange that is worth 100 cents on the dollar at the point of sale, but if that merchant surrenders that right and accepts a check on the local bank in the home town of the buyer, it takes with that check the burden of its liquidation.'

"The similarity between this and the German sophistry speaks for itself. It is particularly interesting in view of the words which follow the above quotation from the report of the 'committee of 25' of the American Bankers' Association, which has been most industrious in lobbying this measure through Congress, viz:

"'No law, rule, or regulaion should permit this burden to be shouldered onto a third party, either the city or the country bank. The buyer and seller are the beneficiaries and one or the other should bear the expense * * *; The letter of the Federal Reserve Board overlooks the principles involved; that is, that the purchase and sale of exchange is a legitimate function of banking.'

"The idea that the Federal Reserve Board does not recognize the principles involved, is interesting but not nearly so much so to us as the recognition of the principle that a 'burden' of that kind should not be shouldered onto a third party, as that is exactly what this 'committee of 25' bankers have asked Congress to authorize them to do. It should therefore only be necessary to show that to be the case, to bring about the voluntary withdrawal of the measure by those who have been, for several months, working so constantly for its adoption.

"It is not that the Federal Reserve Board has failed to see the proposition in its true light, it is the 'committee of 25' (bankers) who have failed to see that in an effort to present a plausible reason for being permitted to do a most unwarranted thing, they have overlooked the fact that sale of merchandise is not the transaction to which the law would apply. The transaction to be effected by this law is one of those which, as they state, 'is a legitimate function of banking,' viz, the purchase and sale of exchange. This is evidenced by the fact that the law which they ask Congress to pass would apply without respect to the occasion for the payment in question or whether there had been anything bought or sold. The contractual relations of the buyer and seller of exchange alone affected by this provision; and the proposition that 'no law, rule, or regulation should permit or require that the burden be shouldered onto a third party,' applies thoroughly.

"The patron of the banker in question has occasion to make a payment in a distant point. The reason for having to make it is not a factor. Whatever arrangement is made between him and his banker with reference to the credit instrument which is used to make the payment, it does not involve the payee of that instrument, nor can the compensation for the service rendered be shouldered onto this third party—the payee.

"That, however, is what is proposed by this amendment and what they rightfully, although unwittingly, show that 'no law or rule should permit.'

"Now, instead of contending on the basis of principle or right or equity for the continuance of this practice, they fall back universally as a final argument upon the fact that so large a percentage of their revenues has come from this source that to stop them now would be a serious handicap and inroad into their earnings, and they therefore ask the United States Congress not only not to disturb them in this practice if they are able to continue it on the principle that might makes right, but as soon as the business interests of the country—by a proper, consistent, and logical law—provided for the gradual adjustment of the practice and conformity to sound principles, these bankers come then to the United States Congress and ask the passage of a law to enable them to retain the right to put this tax burden upon all third parties. They have gone still further in demanding the right to place this charge burden on a third party even when no exchange is asked for or furnished, and hence no basis for a claim that any service has been rendered to anybody.

"Why do these bankers insist upon putting it unjustly upon a third party? Simply because they have taught their depositors that they need never pay exchange and have no faith in their ability to recover from that position.

"As the result of a most active lobby they introduce a measure which is designed to give them a special privilege of a most absolute character, designed also to relieve them of some of the most fundamental obligations of a banker to his patrons and to the public. The amendment is carefully and painstakingly worded to relieve the banker from his responsibility for meeting his demand obligations at 100 cents on the dollar and to permit him in practice to keep for himself a small part of every dollar deposited with him by sanctioning his refusal to pay in full any proper demand therefor.

"We recognize that it will be very profitable to the bankers of this country to be permitted to do this instead of being responsible for and required to pay out 100 cents for every dollar deposited with them on demand; but it is certainly not commercial banking, as that has been known up to this time, and it seems to us a most astounding proposition to ask the Congress of the United States to put its sanction upon any such procedure.

"When a bank issues its notes in the form of currency it expects all other banks throughout the length and breadth of the land to accept these (its demand obligations) at 100 cents on the dollar, but this same bank desires Congress to relieve him from the responsibility of accepting his own demand obligations on the same terms.

"This whole proposition is therefore not only unsound and unmoral in that it is designed to permit a banker to discharge his obligations by paying less than the amount of them, but, in addition to that, it is thoroughly uneconomical in the way it will work out in actual practice. Under this system a country merchant in order to pay his account will mail, let us say from Selma, Ala., to his jobber in Chicago a check on his local bank for the exact amount of his debt. That check will go around the circuit from the Federal reserve bank in Chicago, then the Federal reserve bank in Atlanta, and then to the banker in Selma on whom it is drawn; and when it gets to its destination it is, according to this plan, nothing more than an order for that banker to send out in exchange for it another check for a less amount to pay the same debt.

"This second check then starts on its round, all during which time the banker in question still has the use of the funds which in reality should have been in the hands of the creditor of the country merchant.

"This first circuit, therefore, of the country merchant's own check is a perfectly useless procedure, requiring a loss of handling and consequently unnecessary expense, amounting to a great many millions of dollars of needless burden upon the commerce of the country, for which it gets absolutely nothing in return and which would be entirely obviated by having the merchant do what, as stated in the American Bankers Association's official organ, he should do and what his creditor has a right to demand of him, viz, send, in the first place, a check which will pay the amount.

"Just as the Federal Reserve Board is perfecting a thoroughly well-developed system which would eliminate all of this burden of useless expense which has been gradually saddled upon the domestic commerce of the country by these bankers, and just as that board is establishing a system which these bankers acknowledge we are justly entitled to, the Congress of the United

State proposes to enact a law designed to establish permanently the right of bankers to impose this injustice upon the remainder of the citizenship.

"This is not a war measure; it is not claimed to be a war measure, but it is proposed to impose it at a time when the business of the country is being asked to shoulder the heaviest burden of taxation it has ever faced, a time when the thoroughly enthusiastic cooperation of the business interests and the ready acceptance of their unusual burdens are of particular importance. Certainly this is not a happily chosen time to add to those burdens by extending to a privileged few the right of taxation and the right to put it upon those with whom they have no business relations, giving those taxed no voice in the matter nor any alternative. Could there be anything more out of harmony with the spirit and attitude which the people of this country are asked to show toward Congress and the administration?"

Mr. PHELAN. Mr. Speaker, I ask unanimous consent that the time of the gentleman be extended 10 minutes.

Mr. HARRISON of Mississippi. I object.

Mr. GLASS. Mr. Speaker, I yielded to the other side 10 minutes.

The SPEAKER. The gentleman from Massachusetts [Mr. Phelan] asks unanimous consent that the gentleman from Virginia have 10 minutes more. Is there objection?

Mr. HARRISON of Mississippi. I object.

The SPEAKER. The gentleman from Mississippi objects, and the clerk will report the motion to recommit presented by the gentleman from Pennsylvania [Mr. McFadden].

By unanimous consent, the following Members were given leave to extend their remarks in the Record: Mr. Glass, Mr. Phelan, Mr. Rubey, Mr. Wingo, Mr. McFadden, and Mr. Langley.

Mr. MCFADDEN. Mr. Speaker, I desire to offer my motion to recommit, and upon that I move the previous question.

The SPEAKER. The clerk will report the motion to recommit.

The clerk read as follows:

"Mr. McFadden moves to recommit the conference report to the committee of conference with instructions to the managers on the part of the House to agree in conference to that part of section 4 of the Senate amendment to H. R. 3673, which reads as follows:

"'*Provided*, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: *Provided further* That nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise.'"

The SPEAKER. And on that the gentleman from Pennsylvania demands the previous question.

The question was taken, and the previous question was ordered.

On motion to recommit the conference report the vote was yeas 159, nays 170, present 7, not voting 94. (P. 3621.)

On agreeing to the conference report the vote was yeas 188, nays 130, present 8, not voting 104.

Mr. JONES. The false basis I referred to a while ago was that contained in the note from Governor Harding to Chairman Glass in which the inference was drawn that the banks of the country might charge exchange on Government checks when, as a matter of fact, that had not been the practice even in times of peace and the suggestion was considered an insult to the patriotism of the bankers of the country who would certainly not in times of war refuse free service to the country that they were in the habit of giving in time of peace. The record shows that the chairman advised the House that this suggestion was the immediate cause of the conference committee's inserting the concluding words that modified the Hardwick amendment. It will be further noted in the Congressional Record that the committee chairman repeatedly stated that the reserve board could not force nonmember banks to remit at par against their wills even though these words were inserted. In view of the fact that the note from Governor Harding to Chairman Glass stated that the suggestion contained therein would enable him to do what he wanted to do indicated previous conferences on the subject and the subsequent action of the Federal Reserve Board and banks in attempting to force nonmember

banks to remit at par, which actions have resulted in some 17,000 of them being on the par list without using the benefits of clearing their own checks through the system in return, have caused a great many of us to suspect that this course of action was understood by the chairman and the governor of the Federal Reserve Board throughout. This suspicion has been strengthened in the minds of some of us by reason of the fact that the so-called par collection system built up by these coercive practices and the fear of same have been extolled by Senator Glass from time to time and the practices never criticized by him. It was this situation that led me to state that many bankers with whom I have been in communication lacked confidence in the system because of the actions of Senator Glass, Mr. Harding, and others connected with the system either through congressional action or membership therein.

I believe that any attempt to injure one or the other of these systems—national bank system or State bank system—should be considered a disservice to the country. The State bank system, for instance, is just as important to States and to the people of those States and to the States in their corporate capacities as the national bank system is to the National Government, and the States should control their own State banking systems.

The statement was made this morning that possibly you might force State banks into the system by providing that member banks should not be permitted to pay interest on reserve deposits. I think that would hurt the system more than it would do it good.

Mr. WINGO. I do not know whether you want to express yourself, but if I were a member of the Federal Reserve Board I could draw a regulation on the decision of the Supreme Court that would put State banks out of business or compel them to clear at par.

Mr. JONES. I think the truth about the matter is that we can secure a court ruling that will put the Federal reserve collection system entirely out of business.

Mr. WINGO. I say this much, that under the authority they have got—I do not mean legal authority; I mean that by force in methods—that would be the effect of it; and I could do it in a way that no court in Christendom would find I had that purpose. I could draw a regulation on the decision of the Supreme Court so fair on its face that it would make every nonmember bank say, "I have either got to pay at par or quit business."

Senator GLASS. As a matter of fact, the Supreme Court has not decided that the Federal Reserve Board and banks may not establish an universal volunteer par collection system. The Supreme Court has decided that they may. They say there is no imperative duty upon the court to do it, but it has decided that they may do it. It has decided, further, that a State may require State banks to make an exchange charge on checks.

Mr. WINGO. I recognize as a fact that object lessons are sometimes very impressive, and it might serve some useful purpose for some of these men who really believe in the soundness of bank check currency to be permitted to make the checks of the country float as uninterruptedly as a Federal reserve note. I think it might meet the issue before it reaches a stage where it might jar it and correct the evil.

The CHAIRMAN. Do you not think we might learn some lessons from the easy flow of the checks and the prompt collection of the checks?

Mr. WINGO. I have been somewhat timorous about suggesting that.

Mr. JONES. Of course, gentlemen, we have never admitted that this collection system was a volunteer system. It will be under its new regulation when it comes out. But these 17,000 banks have not become members voluntarily, because they have had this fear all the time in the matter.

Senator GLASS. What regulation of the board or what statute compelled them to become members?

Mr. JONES. There is no compulsion in the regulation, simply in the method used.

Senator GLASS. Of course, that matter has been tested in the courts, and the courts have decided that the methods used were not obnoxious to the law.

Mr. JONES. They held they were.

Senator GLASS. In what case?

Mr. JONES. In the first Georgia case they held if those things were true that we recited had been enacted—but we said they intended to do these things.

Senator GLASS. If they were true. The Supreme Court did not say they were obnoxious to the law. The Supreme Court said if they were true they afforded a basis for trial upon the merits of the case.

Mr. JONES. They went on to say that it was sufficient to found an injunction on.

Senator GLASS. Precisely; but that is not saying they were true.

Mr. JONES. I said if they were true; and they were true. They were not true in Georgia because they did not even get an opportunity to make them true. But we brought out the matter too soon in one respect and not soon enough in another. We did not prove the intention which, of course, is the hardest to convince the court of.

Senator GLASS. You did not prove the facts in the Georgia case.

Mr. JONES. The court would not let us do it. We had all these interrogatories in this record. We had this man from Brookings, Oreg., to testify about the Federal bank of San Francisco.

Senator GLASS. Upon what ground was it excluded from the evidence?

Mr. JONES. Because they said it was res inter alios acta—a thing done between others or between third parties or strangers (to the suit).

Mr. STEAGALL. It was clearly incompetent evidence in a proceeding between banks in Georgia against the Federal reserve bank there to set up in that case something that happened in a different State, among other people entirely.

Senator GLASS. Then it was not evidence.

Mr. STEAGALL. It was not legal evidence. It was sworn evidence, and had all the solemnity of a fact attached to it, and was just as much evidence as anything else in the case, except it was irrelevant to that controversy. It was tendered by the plaintiffs in that action but rejected because of its irrelevancy only, but it was sworn testimony.

Mr. WINGO. I understand it was not charged in Georgia that these methods had actually been used?

Mr. JONES. It was not charged in Georgia. We charged what that letter was, what they intended to do.

Mr. STRONG. Was the Kentucky case ever tried?

Mr. JONES. Final trial was not held, but it was tried on the hearing for preliminary injunction largely on interrogatories. Both sides were heard, however.

I want to say in reference to these suggestions that you go ahead and enact legislation that will coerce nonmember banks into either joining the Federal reserve banks or not being permitted to use facilities of national bank members—I do not think that members of this committee or Congress or members of the Federal Reserve Board believe in that kind of warfare, or continuing that kind of method of doing business.

In the first place, you know that that is not the proper way of going about things. You can catch a lot more flies with honey than you can with vinegar. The State banks are not entirely helpless. Suppose, for instance, the State should enact that reserves of their banks should be kept in banks under the State's own jurisdiction and control. The Senator in his argument, which has been read into the record, has shown that the States have some rights that Congress can not even undertake to override. We have always contended that the Federal Reserve Board as formerly constituted was trying to override an act of Congress.

Senator GLASS. I do not agree to that.

Mr. JONES. That is a difference of opinion. These methods I have outlined were not in accordance with the act of Congress.

Senator GLASS. And yet the Federal reserve system has been roundly criticized for doing what it was not established to do?

Mr. JONES. Yes, sir; I think so. I think there have been things charged on both sides that could not be sustained, Senator. But that one has been sustained.

I think there should be some avenue of credit outside of the Federal reserve system to take care of rural needs; something like the War Finance Corporation, except their definition of eligible paper, the kind they can discount, the term "agricultural paper," enlarged.

The CHAIRMAN. I call your attention to the fact that Congress, especially the House Banking and Currency Committee and Senate Banking and Currency Committee have been very active in the last two years in passing legislation to relieve the agricultural situation for people in rural communities, and we have practically gone full pace in that respect.

Mr. JONES. I do not think so far as credits are concerned that they have gone as far as they will have to go if the farmer is going to get the benefit of it.

Mr. STRONG. Now that we have passed these bills the demagogues out in our country are saying that the farmer does not want credit; that he does not want to get into debt any more; that what he wants is some way to get out of debt.

The CHAIRMAN. What is it that he wants now?

Mr. STRONG. Of course, what we need is $1.50 for our wheat per bushel.

Mr. WINGO. They want $1.75.

Mr. JONES. Of course, he does want to be able to do business on a profitable basis, and if he does not, no matter how much credit you give him, it is not worth a snap of the finger for the Government to extend credit. Instead of the War Finance Corporation extending the credit, it has let the little banks extend it and come between the corporation and possible loss.

The CHAIRMAN. You are not suggesting that in the State of Georgia we can pass laws to combat your troubles there?

Mr. JONES. No, sir.

The CHAIRMAN. If supplemented by the acts we have passed, for instance, for the intermediate credits and the relief that is afforded through that system, do you think there is any other revenue of legitimate credit needs which are not being taken care of for the farmer?

Mr. JONES. I do not think those rural credit banks are practically effective. I do not think it is necessary to go into that at this time, but I will be glad to some other time.

The CHAIRMAN. They are in operation?

Mr. JONES. I do not think they are going to be able to lend much money.

Mr. STRONG. They are lending much money.

Mr. JONES. I hope they are.

Senator GLASS. Do you think it is the proper function of government to tax all of the American people and take the proceeds of that taxation and loan it to one class of people?

Mr. JONES. No, sir; I think the Government has gone further in the banking business now than they have a right to do, personally, but the Government should extend as good facilities to one class as to another.

Senator GLASS. I call your attention to this activity of the War Finance Corporation. I speak of my own State only. Virginia has a population of 2,600,000 people. Over a given period there was not a bank failure in Virginia, either State or national, showing that its banking business is conducted by sane and conservative people. It was loaned or promised by the War Finance Corporation over a given period $726,000. The State of North Dakota, with 600,000 population, a little less than one-fourth of that of Virginia, with every bank gone to the scrap heap through socialistic experiments in banking, was allowed to take from this common fund by taxing all of the people of the United States $17,000,000. Do you think that is equitable and fair; do you think that an institution of that kind, which derives its funds from general taxation, ought to operate under a statute no word of which prevents the director of that corporation from expending the entire $500,000,000 in any one State of the Union if he wants to do it? He could have under the law, without violating any provision of the law, instead of loaning North Dakota $17,000,000 from the common fund as against $726,000 to Virginia, he could have loaned them the whole $500,000,000 of the revolving fund. Do you think that is a sound banking process?

Mr. JONES. No. I think there might have been some further restrictions. In fact, I would not advocate any such rural credit system being put under the War Finance Corporation any more than I would under the Federal Reserve Board, and I think, of course, there ought to be proper restrictions where there can not be discrimination as to the full use of it all over the country. Just because a director happens to favor one section over another, he can do it; I do not mean he has done it.

Senator GLASS. I think the Director of the War Finance Corporation is a genius.

Mr. JONES. I think, perhaps, that is true.

Senator GLASS. I think he is a man of the highest type and of the highest character, and I think he has administered that Government activity as few other men in this country could have done, and it is only because of that fact that there were not the most vicious and corrupt abuses.

The CHAIRMAN. I rather glean from the Senator's remarks that he will join with the chairman in seeing to it that, now the emergency is passed, there will be no renewal of the charter rights of the War Finance Corporation.

Mr. WINGO. I think you are unfortunate in the use of the words "emergency has passed." These gentlemen came to us and asked us to enact the intermediate credit act, and also continue the activities of the War Finance Corporation, which is included in that. They really believe—I am not going to

assume they are playing politics—the new charter for the farmer is going to solve all their ills.

Mr. STEAGALL. I do believe the revival of the activities of the War Finance Corporation, the legislation establishing the intermediate credit banks, providing rural credit system in connection with Federal land banks—while I do not approve all of the principles involved nor all the details of the legislation—it has been highly helpful to agriculture and helpful in securing credit and in enabling them to meet the difficulties that surround them. But I, for one, have never held to the view that all the farmers needed was credit facilities, and I do not think that the farmers of this country will ever prosper from any method that puts money in one pocket while with the other hand it is taking it out of his pocket on the other side. But this is what is going on. However, this is not the place to go into that. But so far as credit is concerned, it has been highly helpful.

Senator GLASS. What I am raising the row about is taking so much out of Virginia's pocket and putting so little in.

Mr. STEAGALL. Alabama did not get much out of it. They put it in the hands of some conservative commercial bankers down there and they did not catch the spirit of the law and its purpose, and our people got very little of it. But so far as I am concerned, I am glad it was done.

Mr. JONES. I have already touched upon it; but I just want to enlarge a little bit upon the propaganda that it has been continually necessary to keep up in behalf of the Federal reserve system during the past nine years. A good many of the bankers have expressed to me—quite a number of them—that it looks as though, on the outside, for a system that is as beneficent as the Federal reserve system is supposed to be and which it is represented by its advocates to be, it would not be necessary to have at almost every bankers' convention and almost every nation-wide convention of any sort a speaker extolling its merits. It seems there is no department of the Government that has to do that after 9 or 10 years' service, and the bankers are inclined to look with a little bit of suspicion upon one that has to be boosted to that extent. They also feel that if the system is as meritorious and is as much advantage to the bankers and communities as it is represented to be that it would not have been necessary to get the national banks in by force, "your money or your life," as the proposition was: "You give us your 6 per cent—3 per cent cash and 3 per cent on call—or give up your charters; and then on top of that give us 7, 10, or 13 per cent of your demand deposits for reserves, which you can not use, and you will be penalized if you do not keep it up"—they think if it was so much to their advantage it would not have been necessary to use force to get them in and it would not now be necessary to use force to keep them in.

Senator GLASS. Then the banks you represent do not think we should have required national banks to become members or to take out State charters?

Mr. JONES. That was not exactly the point, Senator. The point was that as it seemed necessary in the case of national banks, it does seem that the State banks should look with a good deal of particularity into the matter before going into it themselves, especially when it was pointed out by Mr. Bennett that a great many of the small national banks already in—and I have the same message to bring you—tell them it is to their advantage to stay out. We therefore think it would be a very good idea for them to stay out, and therefore they will think a long time before they will go in.

I want to say this: I was talking last spring to a banker who has a bank of several million dollars assets. It does probably 60 per cent of the business of a town of 50,000 or 60,000 people, and is a State bank—this was the vice president—he had considered each year for several years going into the Federal reserve system and had made a calculation of how it would affect them, and he said it showed a cost to them of $15,000 to $20,000 a year, and they did not feel they ought to give up that to get into the Federal reserve system. It is a pretty good amount of profit for a bank of $1,000,000 capital and five or six million dollars of deposits to give up.

Senator GLASS. And therefore the conclusion of the banks you represent is that it is no advantage to the State banks?

Mr. JONES. As at present constituted.

Senator GLASS. Are you going to make any suggestions as to how we can change that?

Mr. JONES. One of the things is that there is such a small return on the capital. That was suggested this morning—that there might be some amend-

ment to that. As long as you give no return at all on the 7 per cent reserves that have to be put up and only 6 per cent on the amount of capital, it looks like a small return when we get no interest. So far as reserves are concerned, the Federal reserve system has not reduced the actual reserve that has to be kept by that bank.

Mr. Claiborne said here last month New York was about the only city where the reserve had been lowered by the Federal reserve system; that the banks elsewhere continued to keep, and have to do it on account of the flow of trade, their reserves in other cities; that his bank in New Orleans kept a reserve in St. Louis, Chicago, and New York and other points; and that their actual reserves amount to 25 per cent, and they can not use the 10 per cent in the Federal reserve system; that they have to keep it up, according to his statement. And that is another reason for banks to keep out. It does not reduce the reserve, and yet at the same time what they put up with the Federal reserve system they do not get anything on.

Then there is the lack of voice in the control of the system, which is another thing that makes it rather hard for them to see their way clear to go in.

Here is a member bank that owns its share in the reserve bank. The only thing it can do is to vote for a third of the directors, as I understand it—one class of banks vote for three directors one after another, one class for another three, and the others are appointed by the Federal Reserve Board. But the regulations on the construction of the Federal reserve law are made by this board up here at Washington. They have no voice in the appointment of the board. And, by the way, this board has regulatory authority that would make anyone of us pause before we went against their rulings, subconsciously; and I do not mean any big bankers would consciously be so affected. They can control salaries. You give them a strangle hold on the people in Federal reserve banks. And here is a board living in Washington, who are here all the time, and yet these banks down there in Oklahoma, California, Oregon, Kansas, Arkansas, and other points are controlled with a yardstick—just one yardstick for the whole country. And they would much rather remain in the exclusive control of their sympathetic local banking commission—and I think they are right.

The CHAIRMAN. You spoke of rules and regulations.

Mr. JONES. I meant the regulations of the Federal Reserve Board construing the Federal reserve act and promulgating rules under which the Federal reserve banks must operate.

The CHAIRMAN. I rather got the impression from what you said the rules and regulations over the governor and the Federal reserve agent in each one of these banks.

Mr. JONES. I mean they would have to conform with these rules and regulations the Federal Reserve Board at Washington put out. They have got to take their construction of the law from the board.

The CHAIRMAN. They are not free and independent agents?

Mr. JONES. They are not.

Mr. STRONG. I take it from your remarks that you are not passionately fond of the Federal reserve system.

Mr. JONES. I am not here to tell of the good points of the system, and it has many which I recognize and which are known to you. If I were antagonistic to the system, I would not be here trying to inform the committee of criticisms against it that may enable you to correct its defects and perhaps assure its continued existence.

Senator GLASS. He is going to tell us how to get all the State banks in.

Mr. JONES. I think you ought to give these banks a bigger voice in the selection of the board.

Senator GLASS. Do you think we ought to let the banks of the country run the Federal Reserve Board and dominate its policies and take all the excise tax as profits and not give the Government anything?

Mr. JONES. I think the Government ought to have a franchise tax, but I really think the banks ought to get a little bit larger proportion of it.

Senator GLASS. I always thought the banker went upon the idea that he wanted stability and safety.

Mr. JONES. He has pretty good stability with approximately $100,000,000 capital and $200,000,000 surplus, growing all the time.

Mr. STRONG. I thought the inducement of the banks to go into this thing was to have a stable reserve system. By your remarks and the remarks of others, I find the main thing they want is more profit.

Mr. JONES. They want to have something to say about the regulations.

Mr. STRONG. Do you think it would be a safe thing for the bankers of the country to elect the Federal Reserve Board?

Mr. JONES. I think it would be just about as safe as to have them appointed.

Mr. STRONG. What would become of the people if they dominated the banks?

Mr. JONES. I think the people would be just as well protected.

Mr. STRONG. Would they pay a higher rate of interest?

Mr. JONES. I do not think so.

Mr. STRONG. You do not think these gentlemen would be actuated by a desire for profit?

Mr. WINGO. You think the acquisitive nature of bankers is as highly developed as that of any other individuals?

Mr. JONES. I think so. I think the acquisitiveness of bankers is just about the same as that of other people.

Mr. STRONG. If we were to let the bankers of the country elect the Federal Reserve Board, would not the big banks dominate and control at the expense of the little fellows?

Mr. JONES. I think they would unless restricted. They do so under the present arrangement.

Mr. STRONG. Would that be a good thing to do?

Mr. JONES. You might have your classes like you have now, in the reserve banks, and let the little banks name so many of the board members and the big banks name so many.

Mr. STRONG. Do they not do that by election now?

Mr. JONES. In the local banks; yes.

Mr. WINGO. Your suggestion is you think it would be some inducement to nonmember banks to come in if you gave the banks a more direct voice; in fact, gave them direct voice by dividing into classes in the selection of the Federal Reserve Board.

Mr. JONES. I think that would help, Mr. Wingo. There are so many things that every objection you remove makes that much more possibility that country banks will come in.

Senator GLASS. Mr. Jones, would you favor permitting the railroads to select a given number of the members of the Interstate Commerce Commission?

Mr. JONES. I had not thought of that, Senator. I would hate to answer that question. I do not believe I would. Anyway, the proposition is entirely different.

Senator GLASS. The Interstate Commerce Commission was instituted to have a supervisory control of the railroads and just as the Federal Reserve Board was instituted to have supervisory control of the operations of the Federal reserve banks.

Mr. JONES. One of the troubles of the little banks is that if they come into the Federal reserve system they have two supervisions.

Senator GLASS. The law does not specifically give them a right that the railroads may dominate.

Mr. JONES. So far as the banking proposition is concerned, you can still keep supervisory power over the national banks, and I think supervision of State and National banks would come mighty near taking care of the situation—by State departments and national departments.

Senator GLASS. I would imagine you would think the railroads either ought to have minority or majority representation upon the Interstate Commerce Commission.

Mr. JONES. As it is now, gentlemen of the committee, the Federal reserve system is owned by the member banks, and not only controls 3 per cent of their capital and surplus direct, upon which they are paid 6 per cent interest, but they control 7, 10, and 13 per cent of their deposits by reason of having to put it in in the form of reserve without interest and frequently using it in competition with them in business in the open market and otherwise, and by regulation practically control all the balance of their deposits.

Mr. STRONG. What would you say to the abolishment of the Federal Reserve Board and letting the banks of each district do the business themselves?

Mr. JONES. I should have to think about that, and I do not know but what it would be a good thing. I am not going to answer categorically, yes or no, but I think it is a proposition this committee might well consider.

Senator GLASS. Would you abolish the Interstate Commerce Commission and let the railroads run as they please to do?

Mr. JONES. I am not going to answer that. It is not relevant.

Mr. STEAGALL. One question: In recent years has not the Federal reserve system brought a great reduction in the interest rate in our section of the country to the farmers—and when I say "our section of the country" I mean Georgia and Alabama?

Mr. JONES. I am not sure whether it has or not.

Mr. STEAGALL. What brought it? It is there, is it not?

Mr. JONES. I think so. I do not know definitely. You were on a committee two years ago when I took issue with a banker who said the banks all over Georgia were charging exorbitant rates of interest. I took issue with him because I had information to the opposite effect.

The people of this country and the banks of this country think that the Federal Reserve Board has too much power to give to any eight men in the United States; that the Lord has not made men that are capable of properly using the power the Federal Reserve Board has got, or that the people think they have.

Governor CRISSINGER. They have not all the power you think they have?

Mr. JONES. That is the way I am putting it. I am doubtful if you have all the power the people think you have.

Governor CRISSINGER. You know we have not.

Mr. JONES. No; I do not. If the Federal Reserve Board and the Federal reserve council can meet in executive session and fix a policy of drastic increase in the interest rate and discount rates that can be charged to the bankers, and therefore are passed on to the merchants and manufacturers and farmers and others of this country, to the general public, and then keep that under their shirts two or three weeks without letting anybody know anything about it but themselves and their associates down in the districts, I say that there is too much power for any individuals to have, and I want to make this as a concrete suggestion along that line, that every discussion of the Federal Reserve Board about discount rates shall be at either a meeting called for that purpose or at a regular meeting at which it will be advertised to the world through the Associated Press and the other press agencies—I do not want to single them out—that rates can be discussed, not necessarily that they will be, by anybody, any substantial organization——

Mr. WINGO (interposing). Do you mean for the purpose of passing on rates proposed by the different banks?

Mr. JONES. Yes. In other words, that there shall be no change in the discount rate of any bank until the public is put on notice that it might be taken up at a certain time and they be given an opportunity in open meeting to discuss it.

Mr. WINGO. Were you ever a director of a bank, or are you now?

Mr. JONES. No, sir; I have never been engaged in a bank except in a clerical capacity.

Mr. WINGO. Do you think a board of directors of an individual bank ought to invite the public in whenever it wants to adopt a policy affecting the business of the bank and the credit of the community?

Mr. JONES. No, sir.

Mr. WINGO. What is the difference?

Mr. JONES. There is a heap of difference. Here you have a public institution that when it fixes a rate it fixes a policy that is going to affect every man, woman, and child in business in the United States.

Mr. WINGO. So would the bank in a community.

Mr. JONES. In a given community it only affects a particular man who applies at that particular time for a particular loan. But when you go ahead and have 8 members of the Federal Reserve Board and 12 members of the Federal advisory council fix a policy that is going to affect the price of every article in the United States, the public ought to know about it just as quick as it can, instead of talking about the weather, as the governor told the members to talk about.

Mr. WINGO. You think they ought to have a brass band out in front of the Treasury when discussing policies that might precipitate a panic in this country?

Mr. JONES. Yes, sir. In other words, let the general public be in on the panic like anybody else.

Mr. STRONG. Whether they know anything about banking or not?

Mr. JONES. Certainly.

The CHAIRMAN. You do not believe in private panics?

Mr. JONES. I do not. I believe that the meeting of May, 1920, had as much to do with continuing this panic which we had, a panic that could not exist under the Federal reserve system at all, and yet the worst panic I have ever known in this nearly 50 years of life. I say that the public ought to know those things, and that is one of the things the Federal reserve system was intended to do—put the public on an equal footing with big interests and financial institutions.

Mr. STRONG. You think that meeting of May, 1920, precipitated a panic?

Mr. JONES. I do not say that it precipitated a panic; I think the panic was on when that meeting was held. But I think it certainly did promote it.

Mr. STRONG. Promoted the panic?

Mr. JONES. Promoted the panic that was in existence.

Mr. STRONG. What happened at that meeting of May, 1920, was not disclosed until three years after.

Mr. JONES. I do not say it was not disclosed until three years after. I said it was not disclosed until three weeks had passed. The minutes were not given out until this spring, but the increased rate decided on at that time was given out in three weeks.

Mr. STRONG. You mean the increased rates precipitated the panic?

Mr. JONES. I said they promoted a panic.

Mr. WINGO. You mean accelerated it?

Mr. JONES. I mean accelerated it and furthered it, caused it to continue a long time.

Senator GLASS. In what way?

Mr. JONES. The increased rediscount rates.

Senator GLASS. Yes. How did it promulgate a panic?

Mr. JONES. We had a lack of confidence in the credit of the country before they announced their increased rates.

Senator GLASS. Do you know that, as a matter of fact, the rediscounts of the Federal reserve system increased several hundred millions of dollars after the meeting of May 17?

Mr. JONES. Those were the figures I was quoting this afternoon.

Senator GLASS. Just exactly how did an increase of the rates promote a panic?

Mr. JONES. Senator, let me tell you—nobody has ever told you why those rediscounts were increased. I am not financial expert enough to tell you, but I believe I can deduce why it was that in spite of the fact that the Federal reserve system was trying to restrict credit that for a while increased through the Federal reserve, and that was this——

Senator GLASS (interposing). The only point of discussion I have ever engaged in was whether the credits increased or decreased. The charge made was that they had decreased over a given period, and I undertook to show that they had increased. But you are getting away from my question. I asked you just exactly how that increase of the rediscount rates precipitated a panic or fostered a panic.

Mr. JONES. They gave every interest in the country the knowledge that the Federal reserve system was officially trying to reduce credits, control credits.

Governor CRISSINGER. Why did the rediscounts increase?

Mr. JONES. My idea—it is just a deduction, I say; I am no banker, but I lived through this. I was in a bank in the early part of 1920, just a clerk, however; I was not an officer. There were quite a number of banks that had not utilized the credit to which they were legally entitled under the Federal reserve act. There were other banks that were extended to the full limit. Of course, there were nearly 10,000 banks in the system in one class and another.

When the very rapid and almost perpendicular reduction in values hit us two or three months before this meeting and things began to go down and people began to sense there was a crisis upon us, the people began to withdraw their funds from the banks, people that needed to take care of extensions of their business that they thought they were going to have two or three years to reap the benefit from got to taking in credits and using their credit to get funds to take care of needed operations and try to stand from under. They went to the banks, and people that were afraid of the banking situation began to withdraw deposits from the banks because they were afraid

of them in the cities and country. And in order to illustrate the condition in the city I will just call attention to a distingushed Senator who died about that time whose safety deposit box when opened was found to contain over $200,000 in the "coin of the realm."

Senator GLASS. Do you think that was drawn out because the Senator distrusted the banks?

Mr. JONES. I just wondered. It was disclosed at a time when many others were doing likewise for that reason.

Mr. STEAGALL. Is it not well recognized that a great many of the banks under the rules imposing penalty rates had to incur penalty rates to take care of withdrawal deposits?

Mr. JONES. Certainly. I was told of one bank whose deposits went down—the Lord knows how in the world it could do it—from $400,000 to a little over $30,000 before it closed its doors.

Mr. STEAGALL. Does not the withdrawal of deposits always follow more or less panicky conditions?

Mr. JONES. Absolutely; and therefore those banks that had credit with the Federal reserve system and could demand a credit took advantage of it, because they were taking care of their own interests.

Mr. WINGO. One very capable banker suggested one reason for the increase was that there was a cessation of flow of funds from the public in the purchase of commodities, and that in order to carry the overhead and meet maturing bills for raw material and commercial accounts they had to go to their banks for extensions of credit to tide them over that stale period in their activities when there was no income of funds from actual sales.

Mr. JONES. That is another contributing cause.

Mr. STRONG. You have not told us why they increased rates.

Mr. JONES. I do not undertake to give a reason for increased rates. The question asked me was why raising the rates promoted or accelerated the panic.

Mr. WINGO. You know the reasons given for the passage of the law, do you not?

Mr. JONES. Which law?

Mr. WINGO. Which authorized a progressive rate of interest?

Mr. JONES. I have heard several reasons given. I have heard it was in order to keep banks overextended from continuing to overextend.

Mr. WINGO. I suggest that you read the explanation made by the House Members on the report of the bill, because they correctly transmitted to the House the reasons given by Governor Harding, which reasons were given in executive session.

Mr. JONES. I will be glad to read it.

Senator GLASS. Mr. Jones, just let me ask you this question bearing on that explanation. Evidently you do not think the rediscount rates should have been raised. You think, then, that the Federal reserve banks should have still further expanded their credits, notwithstanding there had been severe encroachment upon their reserves. What effect do you think that would have had on the finance of the community to have observed that the reserves of the Federal reserve banks were below legal requirement and that a penalty must be imposed?

Mr. JONES. Senator, I do not like to answer that question. I have already stood away from other questions like that on the ground that I am not a financial expert and do not pose as one.

Senator GLASS. That bears upon this proposition you were discussing.

Mr. JONES. I simply said that the passage by this board and by the banks, of course with the approval of the Federal Reserve Board, of the increase in their rediscount rates decreased the confidence of the business world and the banking public in the financial situation and caused increased efforts to get out from under.

Senator GLASS. Do you think a decrease in the rediscount rates of the Federal reserve banks would have increased the confidence in the country?

Mr. JONES. I do not think that possibly if the board had put a restriction on the over extension of the banks, which they could have done without additional rediscount rates—I think that would have stopped it just as quick as an increase in rediscount rates, because when a banker is dying he is going to take advantage of anything he can do to save his life.

Senator GLASS. As a matter of fact, I think this extension of which I speak did occur after the two increases in rates. The first increase was not made in June but in January.

Mr. JONES. That was about the time the panic started.

Senator GLASS. You think the increase in the rediscount rate in January started a panic, do you?

Mr. JONES. I think it had something to do with it. I do not know about starting it.

Senator GLASS. Then, the only other recourse and resource of the Federal reserve bank system was to have continued expanding under the reduced rediscount rate. Of course, that would have seriously impaired the reserves of all the banks, and you think that would have reduced confidence in the country.

Mr. JONES. I doubt very much if it would have gone very much below 40 per cent.

Senator GLASS. Do you not know that the reserves of one of the Federal reserve banks was entirely wiped out and that it had to resort to rediscount operations with another Federal reserve bank to avoid a panic?

Mr. JONES. I think, Senator, that the public was not looking at any one individual Federal reserve bank; they were looking at the system as a whole, and their consolidated weekly statements.

Mr. WINGO. How many people do you think in the city of Atlanta, outside of the bankers and their attorneys understand what was meant when they picked up the last statement which showed that the reserves were about 76? What does that mean to the average business man?

Mr. JONES. I believe that the average business man knows a great deal more about that than you think he does.

Mr. WINGO. You think they pay attention to it?

Mr. JONES. The average business man and the average farmer thinks he knows a heap about it.

Mr. WINGO. You think the farmer and the business man understand the increases of reserve percentages?

Mr. JONES. I think he understands that 76 per cent shows a stronger banking system than 40 per cent.

Mr. WINGO. I had a very able banker not far away from this district who wanted to know of me, "What is the matter with the Federal Reserve Board. I see the legal reserve has gone down to 76." I explained to him that did not mean they were short but in a very flush condition.

Senator GLASS. What do you think the average business man and farmer in the State of Georgia and Alabama and out West think when he finds he is paying 8 or 10 per cent interest to his local bank, whereas the rate of discount of the Federal Reserve Board is vastly less than that?

Mr. JONES. I think he can find a very reasonable explanation that his local banker can give him, and he will understand.

Senator GLASS. Does he go and ask his local banker to give him an explanation of that?

Mr. JONES. Sometimes. The banks have been unjustly criticized about the difference between the Federal reserve discount rates and the rates in the country. You gentlemen who live in large cities like Richmond and other places understand that those banks down there with several million dollars resources, some of them with $20,000,000 or $30,000,000 or $40,000,000, can do business on 2 per cent margin and make a profit. But you take those little bankers with $100,000 deposits, and they can not.

Senator GLASS. Here is just exactly what I do mean: A banker very persistently trying to prevail upon the Federal Reserve Board to reduce its rediscount rates from 4½ per cent in order to help the poor, distressed farmer, whereas he was loaning the poor, distressed farmer money at 8 per cent, legal rate, or a margin of 3½ per cent between the reserve discount rate, and his discount rate never reflected a reduction of the reserve bank rate in his loans to his borrowers. He charged the legal limit every whack.

Mr. JONES. I do not think that is germane to what I was saying. I made a chance remark, and it led to this discussion that really was not the gist of the criticism I was making. The criticism of that meeting of May, 1920, was that here was a policy for rediscount rate, in which all the reserve banks were represented, that affected every commodity in the United States because of the increased interest rates necessary to charge. That was not known to the general public until some time after that. The policy was known to certain indi-

viduals and whoever they told in their respective communities. That is not fair to the general public.

Senator GLASS. Just on that point, let us get the facts straight. Do you not know that, as a matter of fact, that meeting of May 17 was not called for the purpose of altering the rediscount rate? Do you not know, as a matter of fact, that that meeting did not alter the rediscount rate? Do you not know, as a matter of fact, that your own Federal reserve bank at Atlanta had resolved to increase its rediscount rate before the meeting of the council held here May 17; and do you not know that the Federal Reserve Bank of Dallas had already done the same thing, and that the Federal reserve bank at Kansas City had already done the same thing, subject to review by the board here; and that only one other Federal reserve bank in the whole system put in a progressive rate—that at Kansas City—and that this meeting did not reduce the rate at all? Do you not know that under the law the respective Federal reserve banks themselves initiated a reduction of rates, simply subject to review by the board here, and at that meeting of May 17 the board did not review any rediscount rate? Do you not know those to be facts? They are.

Mr. JONES. May I answer you in Governor Harding's own language?

Senator GLASS. Oh, no; answer me in your own language.

Mr. JONES. I would like to quote from Governor Harding's statement to the members of the Federal Advisory Council.

Senator GLASS. If he has made any statement contrary to the statement I have made, he can not justify it by the facts.

Mr. JONES. I do not remember. It has been a long time since I read this article.

Senator GLASS. Mr. Platt, you are a member of the board, perhaps you can tell us about that.

Mr. PLATT. These rates were raised before that meeting, exceeding 7 per cent at Boston, New York, Chicago, and Minneapolis. That meeting was an experience meeting to find out what the situation was in the various Federal reserve districts of the country.

Mr. JONES. They were discussing the policy here and they agreed on a policy, according to Governor Harding's statement, which affected the interests of the people of the United States.

Mr. PLATT. The reserves of the Federal reserve system, were almost at the legal limit, and something had to be done to slow up expansion of credits.

Senator GLASS. Mr. Jones, you are familiar with the proceedings of that meeting. They have been printed. What member of the Federal Reserve Board at that meeting suggested an increase in rediscount rates?

Mr. JONES. Senator, it has been so long since I read that that I can not answer without referring to the minutes.

Senator GLASS. There they are. I would like to put it in the record, if you will. What member of the Federal Reserve Board at that conference—because it was only an advisory conference—of May 17 recommended an increase in the discount rate at any single Federal reserve bank, do you recall?

Mr. JONES. I say, I do not remember the record on it; I would have to look into the record to find out, if it is there. I really do not know it is there. I will be glad to supply later the information in reply to that question.

The CHAIRMAN. Suppose you put it in the record at this point.

Mr. WINGO. I would like to have the members of the committee to be furnished with a copy of that.

Senator GLASS. As a matter of fact, it has been printed twice in the Congressional Record.

Mr. WINGO. There is a dispute about it. I would like to have an authentic copy, to see what it does say.

The CHAIRMAN. The minutes of the Federal advisory conference?

Mr. JONES. I would suggest, gentlemen, "that you be careful not to give out anything about discussion of rediscount rates."

The CHAIRMAN. Who was he addressing?

Mr. JONES. The entire conference. [Reading:] "That is one thing there ought not to be any previous discussion about, because it disturbs everybody, and if people think rates are going to be advanced there will be a mad rush to get into the banks before the rates are put up, and the policy of the Reserve Board is that that is one thing we never discuss with the newspaper men. If he comes in and wants to know if the board has considered any rates or is likely to do anything about any rates, some remark is made about the weather or something else, and we tell him we can not discuss rates at all.

And I think we are all agreed that it would be very ill advised to give out any impression that any general overruling of rates was discussed at this conference.

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

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

Senator GLASS. And you do not think that was a proper precaution?

(It was here directed that the entire proceedings be inserted in the record.)

Mr. JONES. You asked me awhile ago about the Interstate Commerce Commission. They have their hearings on all rate questions. The Supreme Court of the United States have their hearings on all questions, and nobody outside of the very people who decide those things know anything about it until those things are decided, and then they are given out to the public and everybody else has an equal chance at the information.

Senator GLASS. That is exactly what Governor Harding suggests, that they discuss it with nobody, no newspaper, no outside person until they got ready to give it out, and then of course it was given out to the newspapers.

Mr. JONES. Of course, I cannot agree with the Senator it is that at all.

Senator GLASS. Do you think that the Interstate Commerce Commission when it assembles to discuss among themselves what shall be done in a given case of control of rates or anything of the sort invites the public into the conference?

Mr. JONES. Not until they have had a hearing on the subject, but here you have a hearing of the representatives of the banks of all the system, Federal Reserve Advisory Council, established by Congress, and they have a hearing——

Senator GLASS (interposing). Not a hearing; they have a conference about a commercial, industrial, and financial condition throughout their respective districts.

Mr. JONES. And then they go back and tell their officers and directors in all lines of business. I believe while those gentlemen were quite unanimously perfectly honorable and would not take advantage of any such information, still they might. The public knows they might. I do not accuse any of them with having done it, but as long as they have the power and the advance information, there is always a suspicion on the part of a great many people that somebody is going to take advantage of it.

Senator GLASS. Then your idea is there should not be any executive session of the Federal Reserve Board?

Mr. JONES. I do not say that. I think, though, that whenever there is a discussion of a policy there should not be any change of rates without advance information being given that the thing is considered or that this meeting will be held and that such matter might be discussed. There might not be any proposition of a change. Suppose the meetings should be announced so that anybody can be there and that those meetings will be open.

Mr. STRONG. Your idea is that if the board was not permitted to have an executive session it would help to get the State banks into the system?

Mr. JONES. Open hearings on the subject would help renew confidence by showing there can not be any private information for individual gain. I do not believe there has been anything of that kind, but the public believes the opportunity is there, and you know the opportunity is there when they can do that, and a great many of these people are in large business operations.

Governor CRISSINGER. You think that then before a rate is changed they should have a hearing on rates the same as the Interstate Commerce Commission?

Mr. JONES. I think that is a good suggestion. It was made by a banker in Georgia, and I think it is a proper suggestion.

Governor CRISSINGER. Do you think a banker ever calls the public into his directors' room and tells the public whether he is going to loan money at 8 per cent, which is the legal rate, or less than 8 per cent? Do you recall that any bank director in the State of Georgia ever had a public meeting to consider whether or not that board of directors would make a rediscount rate of 8 per cent, which is the legal rate, or 7¾ per cent?

Mr. JONES. No, sir; I would not advocate that. I do not think it is a parallel case at all.

Mr. STRONG. I am not talking about the public now, at all, but do you think that bankers would come into the Federal reserve system more readily if they thought the policy of having a public hearing was to be followed out?

Mr. JONES. I believe so; yes. I believe it would increase confidence or help restore confidence.

Mr. STRONG. Among bankers?

Mr. JONES. Among bankers in the system.

Mr. STRONG. I am not a banker; I am just trying to find out.

Mr. JONES. Some little things they think might be corrected, such as extravagance in the Federal reserve system. We have in the Federal reserve system, according to the last report of the Federal Reserve Board, more than six employees to every five customers of the Federal reserve bank, and a banker that has two or three employees running a bank with two or three hundred customers can not quite understand the necessity for that condition. The only customers of the Federal reserve bank, except the Government itself, are the member banks or the clearing banks, of which I think somebody from the board gave out the information some time ago about 180 took advantage of the opportunity to clear their own checks.

Governor CRISSINGER. One hundred and eighty-one.

Senator GLASS. How many members are there in the par clearance?

Governor CRISSINGER. Seventeen thousand; and 181 allied banks keep deposits with the Federal reserve banks.

Mr. JONES. In other words, the thing that was going to bring them into the clearing system, according to Senator Glass, as this brings these 17,000 in, was the opportunity to clear checks in the Federal reserve banks, and 181 have taken advantage of it; and I say those 181 plus 9,800 member banks, making about 10,000 customers in all, have over 12,000 employees.

Mr. STRONG. Have the member banks made much complaint as to these expenses, or is it just the nonmember banks?

Mr. JONES. They have had discussion about it, but do not make any particular complaint. It comes out of the Government.

Senator GLASS. Why does it come out of the Government?

Mr. JONES. It reduces the franchise tax.

Mr. STRONG. It comes out of them?

Mr. JONES. It comes out of them in one sense, because everything that the reserve banks get comes out of their members.

Senator GLASS. In other words, the law explicitly requires that the expenses shall be assessed against member banks; is not that a fact?

Mr. JONES. Against the reserve banks.

Senator GLASS. Do not the member banks have the selection of two-thirds of these directors who initiate salaries and expenditures and, indeed, conduct the operations of the Federal reserve bank?

Mr. JONES. Yes, sir; and those salaries are revised by the Federal Reserve Board.

Senator GLASS. Or reviewed; and therefore, if the member banks in any given district feel that the bank which they own is guilty of extravagance, have not they the remedy in their own hands by electing new directors who will be more economical?

Mr. JONES. If you have tried to get concert of action——

Senator GLASS (interposing). I am asking you what the law provides.

Mr. JONES. They could do it if they could get together and have conferences. Then in three years they could change the majority of the personnel of the directors.

Senator GLASS. The law can not undertake to remedy characteristics or temperament of individual banks or bankers that refuse to do their duty?

Mr. JONES. Another criticism of that proposition is that it affects the general situation of the member banks themselves—their own employees. These people have very little to do, and they are getting good salaries, and it makes

it cost a good deal more for them to operate; and then, of course, the other extravagance that you gentlemen have heard about, these enormous and palatial buildings being put up while reducing personnel, which happened in Atlanta and other places a few years ago.

Senator GLASS. Did any of your banks in Georgia protest against the Atlanta bank?

Mr. JONES. We are glad to have a big bank building in Atlanta.

Senator GLASS. You are not glad to have a viciously extravagant building there?

Mr. JONES. It is mighty hard to get a man to come out openly and criticize extravagance in trying to get Congress to cut down expenses. It is pretty hard to do.

Senator GLASS. You know it was stated that the New York building cost $30,000,000. I have a letter from the governor, written within the last three months, showing that the total expenditure will be a little in excess of $12,000,000. Do you know of any bank that remained out of the system because of any high salaries?

Mr. JONES. I would not be able to state any specific reason why any one bank remained out of the Federal reserve system.

Mr. STRONG. These are your ideas of why they might remain out?

Mr. JONES. These are criticisms received in conversations and in correspondence with hundreds of bankers in various parts of the United States, and largely, of course, in my own State of Georgia.

Mr. STRONG. Can you tell us how many bankers belong to your association?

Mr. JONES. The Country Bankers' Association—we have something over 300. Some of the city bankers are not eligible for membership, and we have about 50 per cent of our eligible membership; we have had sometimes over 400.

Mr. STRONG. Of all of the banks in the United States, you have about 300?

Mr. JONES. The other banks of the country are not eligible to membership in the Country Bankers' Association of Georgia. We have either in our organization or affiliated organizations, like the North Carolina Bankers Protective Association, which has something like 280 members, and members in Nebraska and South Dakota, where we have another district director, something like 3,000 to 4,000 banks in the National and State Bankers Protective Association.

Mr. STRONG. What do you mean by "Protective Association"? How do you protect them?

Mr. JONES. We have been protecting them by asserting the right to charge exchange. That is the only protection we have given them so far.

Mr. STRONG. This is just an association to fight the par exchange?

Mr. JONES. That is primarily what it was organized for.

Senator GLASS. Speaking about criticisms and suggestions, we were told that quite a large number of country banks in Georgia, with a capital of $15,000, who were eager to become members of the Federal reserve system but were debarred by reason of their small capitalization, the senior Senator from Georgia made an amendment to the Federal reserve act reducing the minimum requirement to $15,000. Do you know how many banks have come in?

Mr. JONES. I think the large amount of none; that is about how many I would anticipate.

Mr. WINGO. You are inaccurate in saying the Senator from Georgia made the amendment. The Senate and House of Representatives passed it.

Senator GLASS. I said he succeeded in having it passed.

Mr. STRONG. It shows a very learned mind was mistaken about why banks do not come into the Federal reserve system.

Mr. JONES. Certainly. It also shows that bankers themselves are not sure what changes in the operations of this system would be sufficient to induce them to go in.

Mr. STRONG. That is what we are trying to get from the bankers themselves rather than from an association.

Mr. JONES. As I stated before, you are not going to get from very many bankers a voluntary statement of their objections to coming into the Federal reserve system. They are not interested; in other words, they are going to pass upon what you do after it is done, but if you give to a specific banker a specific invitation to come up and give you information, he will come. But that is about the only way you can get the information from these bankers.

The CHAIRMAN. Before we recess, I think, in answer to Mr. Strong's request of yesterday for certain information of the Federal Reserve Board, that Governor Crissinger has that information here.

Governor CRISSINGER. I have it here, but I thought it ought to be explained.

The CHAIRMAN. Then we will delay that until a later day.

The meeting will now adjourn until 10.30 o'clock to-morrow morning, when the National Credit Men's Association will appear first.

(Thereupon, at 5.40 o'clock p. m., the joint committee adjourned to meet to-morrow, Thursday, October 11, 1923, at 10.30 o'clock a. m.)

Mr. Jones requested of the committee the privilege of adding the following to his statement:

I am very greatly indebted to Mr. Wingo for his suggestion that I read the debate on the act of April 13, 1920, authorizing the imposition of what is known as the progressive-interest rate. I find in it a great deal of interest in connection with my statement to the committee.

The report is found in connection with the passing of H. R. 12711, in volume 59 of the Congressional Record, Part 5, pages 5056 et seq. I find that Mr. Platt, chairman of the Banking and Currency Committee at that time, in calling up the bill for action very concisely gave the reasons which seem to actuate all of its proponents in asking for its passage, as follows:

(P. 5056)

"Suggestion came from annual report of Federal Reserve Board which discusses the subject of expansion of credit at some length and states that it must be checked, but 'with careful regard to the economic welfare of the country and the needs of its producing industries.'

"Some banks, generally in the big cities and frequently also where there is a good deal of speculation, have rediscounted far beyond the rediscounts of the average member banks."

(P. 5058)

"Mr. PLATT. The Federal Reserve Board attorneys think it is doubtful whether they have this power now, and the board does not like to use powers about which there may be a doubt.

"We are at the critical period financially right now and everything depends upon whether we can check speculation and unnecessary expansion and can gradually bring our banking conditions to a normal basis. This bill offers a means to that end and should be passed."

(P. 5066)

"Mr. PHELAN. The act with the amendment will give such flexibility that it will not act to harm agricultural production. In my opinion, if the act is in operation, if the Federal reserve banks endeavor to act under it, the effect will be to help the production of necessary things rather than injure. That is one of the purposes; that is, to help throw our credit into the production of necessary things, which is one of the things that we all desire in order to bring down the present high cost of commodities and the present high cost of living."

I find in this discussion as well as that the following week in the Senate that I have very high authority in support of my opinion that there is too much power invested in the members of the Federal Reserve Board. I quote as follows:

(P. 5067)

"Mr. PLATT (now vice governor of the Federal Reserve Board). We are trying to prevent the big banks from hogging all the credit and not letting the little banks have any.

"Mr. PLATT again (answering a question of Mr. Madden). This power they have to-day is fraught with danger."

(P. 5160)

"Senator GRONNA. My opposition to this proposed amendment to the Federal reserve law comes from the fact that I have always been opposed to giving too much power to any individual or to any board. There have been times during the war when that was necessary, and it would be necessary if we were to

have a war in the future to give the President of the United States and those associated with him unlimited power. But I have never been able to see any good reason why we should in times of peace give unlimited power and authority to public servants because that is what they ought to be, nor should the Federal Reserve Board be given the power to limit loans to increase the rate of interest to make conditions such that it would be impossible perhaps to carry on production.

"I may not understand it (the reserve law) correctly, but I have formed the conclusion, sir, that at a time when inflation has actually taken place we can not by law give power arbitrarily to deflate the currency without ruination to the producers of the country, because the effect of such an undertaking must necessarily fall upon the producers, and the farmers' products will be the first ones to decline in price."

(P. 5161)

"Senator SMITH of South Carolina. I do not believe it is a sound policy of government to make it possible for any man or set of men arbitrarily to determine whether I am speculating or whether I am investing money."

It is further interesting to note that while this progressive interest rate was passed by Congress for the purpose of stopping excess loans to be used for speculative purposes on the exchanges and to enable producers to secure a larger share of the credits of the system, the result was that it was never used except in the agricultural districts.

In view of the fact that in the so-called "par clearance" matter the Federal Reserve Board and banks acted adversely to the advice given by an Attorney General of the United States, and their action shown to have been entirely unwarranted by the decisions of the courts, it is of particular interest to read Mr. Platt's statement, quoted above from page 5058, that "the board does not like to use powers about which there may be a doubt."

Very few of the bankers to whom I have talked have any desire to abolish the Federal reserve system. If the system and its operations could be brought back to its original purpose as declared in the preamble to the act, mainly to furnish an elastic currency and to afford means of rediscounting commercial paper, and could be effectually stopped from seeking to extend its activities to other lines or to seek because of its powerful financial position to dominate the activities of nonmember banks, and could be put upon a voluntary basis, so that membership would be confined to those banks and communities finding it a benefit without an effort being made to force in other banks in other communities that would be better off outside or who think they will be better off outside, then the system would be considered an unmixed blessing to the country. I am of the opinion that such a system would attract and hold a larger percentage of the banking resources of the country than is held under the present arrangement.

It is unfortunate that those bankers and others who are willing to point out what they believe to be defects in the system should be considered enemies rather than friends. If the system were perfect and had been perfectly operated, the criticisms and antagonisms that exist could not have been aroused. We believe, then, that it is a friendly act to face these criticisms squarely, ascertain how far they are justified and what the remedy is, and then apply the remedy.

INQUIRY ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM

THURSDAY, OCTOBER 11, 1923

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE OF INQUIRY
ON MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM,
Washington, D. C.

The committee met at 10.30 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee will resume its hearings.

Mr. STEAGALL. I want Mr. Jones, as he has suggested and which should unquestionably be done, to offer, to go in the record at the proper place, the clearance plan known as the Claiborne-Adams check-collection plan. He has a short document of that kind that should go in the record.

The CHAIRMAN. Without objection, that will be inserted at this point.

(The documents referred to are as follows:)

CLAIBORNE-ADAMS CHECK-COLLECTION PLAN—SUGGESTED SUBSTITUTES FOR SECTIONS 3 AND 4 OF REGULATION J, SERIES OF 1923. (SUPERSEDING REGULATION J OF 1920)

SECTION III. ELIGIBILITY OF CHECKS TO BE HANDLED BY FEDERAL RESERVE BANKS

(*a*) Each Federal reserve bank will receive from its member banks and from nonmember clearing banks in its district on deposit at par for immediate credit and availability checks payable within its district drawn on all member and nonmember clearing banks and on all other banks within its district that agree to remit at par in acceptable funds to the Federal reserve bank.

(*b*) For all such checks so deposited the depositing bank shall be given immediate credit and availability by the Federal reserve bank.

(*c*) No Federal reserve bank shall receive on deposit for immediate credit and availability any check drawn on any bank not within its district nor on any bank within or without its district that refuses to remit at par in acceptable funds: *Provided, however*, That all Federal reserve banks will receive from their members and clearing members within their respective districts as forwarding agents only and for deferred credit only checks on member banks of other Federal reserve banks, and checks on nonmember banks within or without their districts to be forwarded direct to the banks on which drawn if within their district, or through the Federal reserve bank of the district in which the drawee bank is located, for remittance by said drawee bank, and any such drawee bank may deduct from the face value of the checks so forwarded to it for remittance an exchange charge against the bank for which said checks are being handled of not exceeding ten cents (10c.) per one hundred dollars ($100) of the face amount of such check or checks, and in no case less than ten cents for any one remittance, and the net proceeds of such check or checks shall be covered by exchange drafts available at par, drawn to the order of the Federal reserve bank from which such checks were received by the drawee bank. When the net proceeds of any such check or checks are available to any Federal reserve bank, either direct or through the gold settlement fund, or under its established average time schedule, the same shall be credited by it to the reserve or deposit account of the bank from which such checks were originally received.

(*d*) Every Federal reserve bank will receive from other Federal reserve banks checks drawn upon all banks of its district as forwarding agent only,

and as such agent receive the proceeds of all such checks direct from the drawee bank, less such charges against the bank for which said checks are being handled for payment and remittance as may be made by the drawee bank, but in no case to exceed ten cents (10c.) per one hundred dollars ($100) of the face amount of such check or checks, with a minimum charge of ten cents (10c.).

(e) No such charge for payment and remittance shall be made by any member or clearing member bank against the Federal reserve bank upon any check drawn payable to such Federal reserve bank without prior indorsement.

(f) No exchange charge shall be made by any bank upon any check which is the property of the United States.

(The following paragraphs have been added since the plan was originally proposed to the board in order to clarify the meaning of the plan and to meet objections raised.)

(g) No Federal reserve bank will receive for immediate credit any check which is subject to an exchange charge under these regulations.

(h) All checks drawn upon member and affiliated nonmember banks and which have passed through or bear the indorsement of any bank located in a different Federal reserve district from that of the drawee bank shall be subject to an exchange charge as set out in section (c) of these regulations, at the option of the drawee bank.

(i) The Federal Reserve Board will by rule define what is covered by the term "kiting." Any Federal reserve bank that has cause to believe that kiting, as thus defined, is being done or attempted, shall be authorized, upon notice to the offending bank, to decline to handle for or to accept for immediate credit from such bank the checks used for such purpose.

SECTION IV. MANNER OF COLLECTION

The Federal Reserve Board hereby authorizes, and each member and nonmember clearing bank will be required to authorize, the Federal reserve banks to handle checks received on deposit, or as forwarding agent, as follows:

(1) A Federal reserve bank will act as agent only, and will assume no liability except for its own negligence and its guaranty of prior indorsements.

(2) A Federal reserve bank is authorized to send checks for payment in exchange draft direct to the bank on which they are drawn, or to which they are payable.

(3) Checks received on deposit for immediate credit and availability, as provided in paragraph (a) Section III of these regulations, by a Federal reserve bank on its member or nonmember clearing banks will be forwarded direct to such banks, and such banks will be required to remit therefor at par in funds acceptable to the Federal reserve bank, or to authorize the said reserve bank to charge their respective account or clearing accounts.

(4) Checks received by a Federal reserve bank as forwarding agent payable in other districts will be forwarded to the Federal reserve bank of the district in which such items are payable, in accordance with paragraph (c) of Section III of these regulations.

(5) A Federal reserve bank will charge back the amount of any check for which payment has not actually been received, regardless of whether or not the check itself can be returned.

Adoption of the above amendments would mean:

BENEFITS TO THE FEDERAL RESERVE SYSTEM

1. The settlement of the long-drawn out and injurious controversy between the Federal reserve system, its member and nonmember banks, which had its inception in the establishment of the clearing house function of the system.

2. The placing of the collection function of the Federal reserve system on a basis in conformity with the Federal reserve act as construed by the recent decisions of the United States Supreme Court.

3. Preserves intact and unimpaired the universal collecting machinery of the reserve board and gives them a universal collecting system although not a universal par system.

BENEFITS TO NONMEMBER BANKS

4. Will permit the checks on nonmember banks to be handled for collection by the Federal reserve banks subject to the right of these banks to make a charge for collection and remittance not to exceed one-tenth of 1 per cent.

5. Will enable all nonmember banks desiring to withdraw from the par list of the reserve system without interference by the reserve system or its agents now or hereafter.

6. Will enable nonmember banks to receive from their city correspondents immediate credit upon all par items deposited by them payable within the district.

BENEFITS TO MEMBER BANKS

7. Will provide that each reserve bank give immediate credit at par to all member and nonmember clearing banks in its district for checks deposited on other banks within its district, agreeing to remit at par in acceptable funds to Federal reserve banks.

8. Will permit member and nonmember clearing banks to charge exchange at one-tenth of 1 per cent in remitting for checks drawn on them and coming from outside of the district through the Federal reserve bank.

9. The benefits thus flowing to the nonmember banks by reason of their right to charge exchange on all items will be equalized by the benefits coming to the member banks in the form of immediate credit for intradistrict items and exchange on interdistrict items, and at the same time preserves to the Federal reserve system its right to continue to function as a general clearing system covering the entire country.

CLAIBORNE-ADAMS COLLECTION PLAN—REASONS WHY THE FEDERAL RESERVE BOARD SHOULD ADOPT PROPOSED SETTLEMENT OF PAR CONTROVERSY

[By L. R. Adams, general secretary National and State Bankers' Protective Association]

On August 1 Charles de B. Claiborne, president, and L. R. Adams, secretary, National and State Bankers' Protective Association, appeared before the Federal Reserve Board, by request, and suggested the Claiborne-Adams plan as a substitute for sections 3 and 4 of Regulation J, series of 1923 (superseding Regulation J of 1920). The Claiborne-Adams plan was considered by both the Federal Reserve Board and by the advisory committee of the governors of the 12 Federal reserve banks. No conclusion was reached and the entire matter was held in abeyance for discussion with the advisory council which will meet in Washington the middle of September. In the meantime, the operation of Regulation J, series of 1923, is held in suspense.

In beginning the consideration of this or any other plan for the settlement of the par clearance problem, a prerequisite to any intelligent consideration must be a clear understanding of the fact that by the decisions of June 11, 1923, by the Supreme Court most of the previous official interpretations of the Federal reserve act relating to clearance are shown to have been in error, and that the law is not at all what it is popularly supposed to be.

Nor can a correct understanding of the court's interpretation be had by a mere cursory reading of these decisions. They must be studied diligently and analyzed carefully or much of the Supreme Court's meaning will be lost sight of.

In the first place, it must be realized that under the court's decisions all idea of enforcing a system of universal par clearance must be abandoned. The court's decision made this impossible when it said:

"Congress did not in terms confer upon the Federal Reserve Board or the Federal reserve banks a duty to establish universal par clearance and collection of checks; and there is nothing in the original act or in any amendment from which such duty to compel its adoption may be inferred. The only sections which in any way deal with either clearance or collection are 13 and 16. In neither section is there any suggestion that the Reserve Board and the reserve banks shall become an agency for universal clearance. On the contrary, section 16 strictly limits the scope of their clearance functions."

And again:

"There is no reference whatever to 'par' in section 13, either as originally enacted or as amended from time to time. There is a reference to 'par' in section 16, and it is so clear and explicit as to preclude a contention that it has any application to nonmember banks or to the ordinary process of check collection here involved."

Moreover, the establishment of a universal par clearance system is not only unauthorized but is found by the court to be obnoxious to and irreconcilable with the specific provision of the Hardwick amendment. It said:

"Moreover, the contention that Congress has imposed upon the board the duty of establishing universal par clearance and collection of checks through

the Federal reserve banks is irreconcilable with the specific provision of the Hardwick amendment."

Contrary to the contention that the Federal reserve act destroyed any of the right of nonmember banks to charge exchange, the court held:

"The power of the Federal Reserve Board to establish par clearance was thus limited by the unrestricted right of unaffiliated nonmember banks to make a charge for exchange and the restricted right of members and affiliated nonmembers to make the charge therefor fixed as reasonable by the Federal Reserve Board."

Nor are the merits or demerits of par clearance any longer the issue—the Supreme Court has disposed of that.

The question is now one of law observance and enforcement, and those banks that have for six years been deprived of their lawful rights and revenues through a misinterpretation of the law will naturally expect that for the future the law will be strictly followed as interpreted by the Supreme Court and their rights and revenues restored in accordance therewith. And this will doubtless be the desire and purpose of the Federal Reserve Board as now constituted.

The practical question, then, is, How shall the conditions of the law be met?

This can be done only in two ways:

(*a*) A substantial abandonment of the clearing functions of the reserve banks and a cessation of all effort toward a universal clearance system through the reserve banks; or

(*b*) The setting up of an entirely new universal clearing system in the reserve banks, which shall be within the law, and which will permit the free enjoyment by all banks of the rights which the Supreme Court has said they possess.

As a compromise of conflicting wishes and interests, the latter alternative has been chosen and is proposed in the Claiborne-Adams plan.

I am frank to confess that personally I prefer the former alternattive, as I have never believed that the universal clearance of checks was either a necessary or desirable function of reserve banks. However, as a compromise measure intended, so far as possible, to compose the views and interests of the largest possible number of people, I am glad to share the responsibility of formulating and proposing the plan under consideration.

With this foreword, we will discuss the plan in detail:

"SEC. III. *Eligibility of checks to be handled by Federal reserve banks.*—(a) Each Federal reserve bank will receive from its member banks and from nonmember clearing banks in its district on deposit at par for immediate credit and avavilability checks payable within its district drawn on all member and nonmember clearing banks and on all other banks within its district that agree to remit at par in acceptable funds to the Federal reserve bank."

Underlying the drafting of this clause are the following facts and reasons:

Section 16 of the Federal reserve act requires:

"Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve bank checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank."

The requirement that these checks shall be received on deposit "at par" is not met by deferred credit or deferred availability. The term "at par" means exchangeable in money at full face value, and deferred credit distinctly negatives this condition. Immediate credit must therefore be given checks such as are described in the above extract from section 16 in order to comply with the requirement of the law.

As reserve banks have no depositors outside of their own districts except the Government itself, checks which they are required to receive at par are limited to those payable within their districts and to those payable in other reserve districts received in payment of obligations to the reserve banks or to maintain reserves.

To support the statement that this is true beyond question or argument we quote from the Supreme Court's decision in the Atlanta case, as follows:

"But the class of checks to which the reserve bank's collection service might legally be applied was left by the amendment as those 'payable upon presentation within its district.'"

The limitation "within its district" is not mere surplusage—it fixes a definite limitation upon the right of each Federal reserve bank.

Ths limitation upon the class of checks which may be legally received by the Federal reserve banks is just as definite as though this sentence read:

"But the class of checks to which the reserve bank's collection service may be legally applied are those payable within its district."

To give force to this qualification it must be held that the collection system of each Federal reserve bank is legally restricted to checks payable within its own district, and to receive checks payable in any other district save its own is an illegal application of its collection service.

FEDERAL RESERVE BOARD MAY ACT AS CLEARING HOUSE

There is no difficulty in reconciling this construction with the provision in section 16 that the Federal Reserve Board may act as a clearing house for Federal reserve banks, because there is no conflict. While the reserve baks can not receive for collection checks payable outside of their own districts, they may receive in payment of obligations due them checks drawn upon member banks in any district; and it is in the collection of this latter class of checks that the Reserve Board may act as a clearing house for reserve banks.

It will thus be seen that in order to maintain a clearing system at all the reserve banks must confine their activities to checks payable within the district as limited by sections 13 and 16 of the Federal reserve act, except for such checks as are given in payment of obligations to the United States or to Federal reserve banks.

The immediate credit and availability provision necessarily excludes unaffiliated nonmember bank checks, because the court has said that such banks have "an unrestricted right" to make a charge. We think it is clear that they can not be deprived of this right either by the Reserve Board or by Congress. If they voluntarily waive this right they may then become "affiliated" and their checks become eligible for immediate credit under this clause. Members are given immediate credit for checks payable at par within the district as an offset to the loss of exchange on checks within the district and to equalize the advantage possessed by nonmember banks in the privilege of charging exchange on their checks passing within the district as well as without.

The clause might also be an inducement to nonmember banks to become affiliated and forego their right to charge exchange within the district in consideration of immediate credit for checks coming into their hands.

"(b) For all such checks so deposited the depositing bank shall be given immediate credit and availability by the Federal reserve bank."

Clause (b) merely clarifies beyond question the immediate credit provision of clause (a):

"(c) No Federal reserve bank shall receive on deposit for immediate credit and availability any check drawn on any bank not within its district nor on any bank within or without its district that refuses to remit at par in acceptable funds: *Provided, however,* That all Federal reserve banks will receive from their members and clearing members within their respective districts as forwarding agents only and for deferred credit only checks on member banks of other Federal reserve banks, and checks on nonmember banks within or without their districts, to be forwarded direct to the banks on which drawn if within their district or through the Federal reserve bank of the district in which the drawee bank is located, for remittance by said drawee bank, and any such drawee bank may deduct from the face value of the checks so forwarded to it for remittance an exchange charge against the bank for which said checks are being handled of not exceeding 10 cents per $100 of the face amount of such check or checks, and in no case less than 10 cents for any one remittance; and the net proceeds of such check or checks shall be covered by exchange drafts available at par, drawn to the order of the Federal reserve bank from which such checks were received by the drawee bank. When the net proceeds of any such check or checks are available to any Federal reserve bank, either direct or through the gold-settlement fund or under its established average time schedule, the same shall be credited by it to the reserve or deposit account of the bank from which such checks were originally received."

CAN NOT USE PAR SYSTEM OUTSIDE OF DISTRICT

As pointed out by the Supreme Court in the Atlanta case, the reserve banks can not legally use the par system across the district lines. But in pointing out the limitation upon the class of checks to which the "reserve bank's collection service" might be legally applied, the court referred to the present system which denies banks the exercise of rights "regained," and such limitation is not applicable to a new system which recognizes and does not conflict with those rights. As the present system ignores district lines in this particular the

reserve banks must either set up a new system or discontinue the collection machinery. Any new system established must be based upon the right of banks, both member and nonmember, to charge exchange on their checks coming from points beyond their own districts.

The Supreme Court said:

"The right to make a charge for payment of checks thus regained by member and preserved to affiliated nonmember banks shows that it was not intended or expected that the Federal reserve banks would become the universal agency for clearance of checks."

It would seem to be beyond controversy that where reserve banks receive checks from member and affiliated banks "as forwarding agents only and for deferred credit only," under a presteted regulation that such checks shall be forwarded direct to the drawee banks, that such drawee banks "may deduct from the face value of the checks so forwarded to it (them) for remittance an exchange charge against the bank for which said checks are being handled," and that "when the net proceeds of any such check or checks are available to any Federal reserve bank, * * * the same shall be credited to the reserve or deposit account of the bank from which such checks were originally received, such charge by the drawee bank could in no way be constructed as a charge against the reserve bank or in conflict with the final clause of the Hardwick amendment.

As the Supreme Court pointed out that Congress intended for member banks and affiliated nonmember banks to have a limited right to make a charge for payment of checks and remission therefor by exchange or otherwise, it becomes necessary to define the division between checks for which remittance must be made at par and those for which exchange may be charged. If there is to be a geographical division, district lines would seem to be the only division practical. Indeed, such division is indicated by the part of section 16 quoted above. If the member banks and affiliated nonmember banks are to be allowed to charge exchange on part of their checks, it becomes necessary to outline the part on which exchange may be charged. Clause (c) undertakes to do this in accordance with the Supreme Court decisions.

"(d) Every Federal reserve bank will receive from other Federal reserve banks checks drawn upon all banks of its district as forwarding agent only and as such agent receive the proceeds of all such checks direct from the drawee bank, less such charges against the bank for which said checks are being handled for payment and remittance as may be made by the drawee bank, but in no case to exceed 10 cents (10c) per one hundred dollars ($100) of the face amount of such check or checks, with a minimum charge of ten cents (10c)."

This clause is intended to enable Federal reserve banks to handle for collection checks on banks in other districts received by such banks in accordance with clause (c), in order that the collection system may be general in its scope and in its nature.

"(e) No such charge for payment and remittance shall be made by any member or clearing member bank against the Federal reserve bank upon any check drawn payable to such Federal reserve bank without prior indorsement."

CLAUSE SAFEGUARDS FEDERAL RESERVE BANKS

This clause safeguards the Federal reserve banks against exchange charges by member or affiliated banks against the reserve banks for checks drawn against reserve accounts in payment of obligations due the reserve banks or for the maintenance of reserves and gives effect to the final clause of the Hardwick amendment—"but no such charges shall be made against the Federal reserve banks."

"(f) No exchange charge shall be made by any bank upon check which is the property of the United States."

It is and has been the practically universal practice of banks to remit at par for checks given in payment of obligations due the United States. While this clause could not be enforced against unaffiliated nonmember banks, it would no doubt be accepted in good faith by all such banks.

In the report of the advisory committee of governors objection to this plan was made on the ground that it would open the way for unlimited kiting. When it is undertaken to "make every check worth a hundred cents on the dollar anywhere (to say nothing of everywhere) in the United States" some danger of kiting must be expected; but we refute any suggestion that the great mass of American banks are only deterred from kiting by conditions imposed upon them which make it impossible. We do not think it is even measurably

true, but if the objection is valid it is easily met by a short rule defining kiting and authorizing reserve banks to refuse, in special cases, to handle or to give immediate credit for any checks which it had cause to believe were being used as a part of a kiting scheme.

Under this plan it is contemplated that every bank shall have the right to charge exchange for remitting for all checks passing outside of the Federal reserve district of the drawee bank (to be determined by bank indorsements), and that no check subject to such a charge shall be received by any Federal reserve bank at par. If there is any question about this, from the reading of the plan as originally drawn a short clarifying clause will make it plain.

This would insure against the expressed objection that—

"Human nature being what it is, it is inconceivable that banks would not take advantage of the unusual opportunity afforded them. Instead of forwarding to their own Federal reserve bank checks payable in other Federal reserve districts, they would naturally send such items to correspondents in other Federal reserve bank cities, which correspondents could deposit them in their own Federal reserve banks and receive immediate credit and availability without being subject to the exchange charge. This would result in giving immediate credit and availability for practically all checks, as received at each Federal reserve bank or branch."

PERMANENCY OF PLAN NECESSARY FOR ITS SUCCESS

No plan of check collections through the Federal reserve banks is likely to succeed unless it can stand the judicial test as to its legality. The limits of a legal collection system in the reserve banks have been pretty clearly defined by the Supreme Court, and any permanent plan must be confined within those limits. The Federal Reserve Board should not be asked again to undertake a system which is beyond its power to establish and maintain. Never again will a compulsory system come as near complete success before organized opposition develops as did the one just overthrown in the courts, and it is unfair to the board and the reserve system for commerce or clearing banks to insist upon the establishment of a system that can not legally be set up and to attempt which would bring against the board and the system a storm of criticism such as has beat against them during the past four years and which, it seems, is now, happily, about to be abated.

The plan outlined seeks to establish the collection system on a permanent basis, legal and voluntary as to the nonmember banks over which the Reserve Board and banks have no control. In so far as the member and affiliated banks are compelled to remit at par for their checks passing only within the district, compensating advantage is offered through immediate credit for par checks deposited by them. The "unrestricted right to charge exchange," which the Supreme Court said belongs to nonmember banks, is respected. The advantage possessed over member banks by reason of this right is sought to be equalized by giving immediate credit to member banks for par checks. Any settlement of the exchange controversy that is to be permanent must be satisfactory to all classes of banks, so far as possible. To be satisfactory the advantages of the system must be nearly equal as it is possible to make them. It would seem that such equality can be more nearly effected by giving the par-remitting banks immediate credit than in any other way—except possibly to abandon the collection system entirely.

OBJECTION RAISED AS TO "FLOAT" ABSORBED

The objection is raised that to give immediate credit for par checks would require the reserve banks to absorb a large amount of "float." With par checks confined to intradistrict items, the amount would not be so large as has been claimed—certainly not beyond the ability of the reserve banks to absorb. The commercial banks in the country, towns, and cities absorb this "float" for their customers. It has always been the general custom for the correspondent banks to absorb it for their depositing correspondents. The reserve banks should easily be able to absorb it for their member bank customers if they are the towers of strength and the instruments of service that they have been claimed to be.

"Commerce" is not entitled to any service from the banks for which it is not willing to pay a reasonable price. If the Government and the reserve authorities feel that a universal check collection and clearing system will be of

benefit to "commerce" and is something to which "commerce" is entitled, then the reserve authorities should be willing to cover the cost into the expenses of the reserve system so that the burden will fall upon the whole people through the reduction of the franchise taxes paid the Government by the reserve banks rather than require privately owned banks to bear the burden as heretofore.

In giving thoughtful and careful consideration to this plan and before rejecting any feature of it, the critic is asked to consider what he would substitute for the rejected feature and then investigate the Supreme Court's decisions handed down June 11, 1923, to see if the substitute conforms to the reserve act as there construed.

Senator GLASS. Has the stenographer been furnished with a copy of the minutes of the conference held in Washington in May, 1920?

Mr. STEAGALL. The comptroller said he would furnish that in order that Mr. Jones might keep the copy he had.

Senator GLASS. I want that certainly to be done, because I want it to appear in the record. I want it done because I want it to appear in the record that this was not a conference of the Federal Reserve Board and the advisory council for the purpose of raising rediscount rates, and I want it to appear that the rediscount rates were not raised by that conference.

Mr. STEAGALL. The paper should speak for itself.

Mr. WINGO. I presume that the stenographic record itself of the meeting giving the exact words that passed will show just what it is.

Senator GLASS. Yes; but I want my statement to show in the record also. Some people might be induced to read a brief statement from me who would not wish to go through 62 pages of this report. I want it to go in because I want it to appear that no member of the Federal Reserve Board present at this conference suggested or advocated raising rediscount rates, and I want it to appear that only one member of the Federal Reserve Board present advocated deflation in terms or by suggestion. On the contrary, I want it to appear in the minutes that the one member of the Federal Reserve Board, to wit, Mr. Miller, actually indicated his opposition to deflation, and I want it specifically to appear that Governor Harding, of the Federal Reserve Board, made the following statement in the course of his rather extended remarks:

We should be careful, however, not to overdo this matter of liquidation, because too drastic a policy of deflation which might result in crowding to the wall and throwing into bankruptcy legitimate enterprises, however non-essential their operations may be, would have a tremendously bad effect and would defeat the purpose of the very policy which we are trying to have established. There must always be a wise and discriminating judgment used. A sensible and gradual liquidation will result in permanent improvement, as we all know, but any attempt at radical or drastic deflation merely for the sake of deflation will result in very serious consequences, and such a policy should be avoided.

I also want it to go in the record that so far from this conference having raised the rediscount rate it took no action at all. It had no authority in law or otherwise to take any action. It was merely a conference with the Federal Reserve Board and advisory council and class A directors of the Federal reserve banks throughout the United States to determine as near as might be what was the situation in the country and to advise among themselves what policy or measures might be taken to meet the situation that might be disclosed, and I want it to appear in the record that so far from this conference having raised the rediscount rate and created a panic or fostered a panic that it did not raise the rediscount rate; and

that the proceedings of this conference were not disclosed until three years after the conference was held, and therefore it could not have created a panic or have contributed to a panic.

Mr. WINGO. You stated you want it to appear. What is it you are going to introduce to make it appear?

Senator GLASS. I want the transcript of the stenographic minutes of this conference to appear in the record.

Mr. WINGO. It has already been offered.

Senator GLASS. I asked the question whether it had been presented. It has been promised, and I want to insist that it shall appear in the record.

Mr. WINGO. You made several statements about what you want to appear, and I was wondering what was the extraneous evidence other than the record you were going to offer.

Senator GLASS. There is no extraneous evidence.

Mr. WINGO. Because as I read the minutes of the meeting, while I agree with you on a great many propositions, I think that your statement that you want to make it appear is an argument that you wish to present as a conclusion, and evidently you and I have read different copies of the meeting.

Senator GLASS. Perhaps so. That is why I want it to go in.

Mr. WINGO. There is something in your suggestion that the country will pay more attention to a short statement than they would to a voluminous writing. I would like to get your opinion now about what they did and why did they meet there?

Senator GLASS. I am not giving opinions; I am stating facts.

Mr. WINGO. What was the fact as to the purpose of the meeting?

Senator GLASS. I have just stated what the purpose of the meeting was. The purpose of the meeting was to assemble here in Washington for a conference with the Federal Reserve Board, the Federal reserve advisory council, and the class A directors of the 12 Federal reserve banks, in order that these gentlemen in intimate contact with their respective parts of the country might tell the Federal Reserve Board just what conditions prevailed in their particular sections of the country and might discuss with the Federal Reserve Board what measures they would advise to take care of the situation thus disclosed, and I say that that conference had no authority in law or otherwise to raise any rediscount rates or to lower any rediscount rates, or to take any action on the rediscount rates, and did not take any action on the rediscount rates.

Mr. WINGO. Certainly. Everybody knows the rediscount rates are not initiated by them.

Senator GLASS. Everybody does not know. There is a vast misconception about everything connected with the Federal Reserve Board, and what I am trying to do is to exercise my privilege to state what are the facts from my viewpoint.

Mr. WINGO. I am not objecting to that; I am only trying to get information. We are not talking about raising rediscount rates, but I want to know what the object of the meeting was with reference to fixing a policy and arriving at a conclusion as to what was the wise thing to do—these gentlemen being essentially responsible—the wise thing to do with reference to fixing the policy of credit. Did they discuss that at that meeting?

Senator GLASS. Yes; certainly.

Mr. WINGO. That was their principal object of meeting?

Senator GLASS. I have stated the object of the meeting. The object in meeting was to disclose to the Federal Reserve Board from men intimately acquainted with the situation what was the condition in their respective territories and to make recommendations to meet that situation thus disclosed.

Mr. WINGO. The policy of contracting credits was discussed there.

Senator GLASS. Undoubtedly.

Mr. WINGO. And the wisdom of doing it.

Senator GLASS. Undoubtedly, and I have just indicated what was the view of the Governor of the Federal Reserve Board, and if it does not extend the brief statement that I contemplated making too far, I can give the statements of other members of the Federal Reserve Board and let us see how many, if any, members of the Federal Reserve Board advocated deflation.

The CHAIRMAN. Was this a regular meeting, a periodical meeting of the board, with these class A directors and Federal advisory council, or was it a special meeting?

Senator GLASS. I imagine that it was the regular meeting of the board with the advisory council, and that they amplified the attendance by inviting the class A directors of the various Federal reserve banks as being those officials who come in more intimate contact with the conditions and credits than any others.

Mr. WINGO. To resume, the reason I wanted to discuss that—I am not undertaking to criticise anything—is the disputed fact of what was before this committee, one man present having denied that there was any such discussion.

Senator GLASS. I am not dealing with that.

Mr. WINGO. I am; I hold the privilege here the same as other members of this committee. The Senator read one statement that I am glad he read, but I did not want that statement left suspended in mid-air because it might cause misunderstanding, because that statement is predicated on the assumption that a policy was adopted that should be carried out with due caution. I am not criticizing that. The fact is, and objection has been made by some bankers, that they denied that they met there and fixed a policy, and I do not see why they should not meet there. Was not that their duty? I am not criticizing, but the statement of the witness yesterday was that they did not make a policy. They were created for that.

Senator GLASS. I am not talking about criticism.

Mr. WINGO. But I am.

Senator GLASS. I say the specific statement of the witness yesterday was that this meeting raised the rediscount rate and caused or contributed to a panic throughout the country.

Mr. WINGO. If you will permit me to go on.

Senator GLASS. If the record will be read there that will be disclosed.

Mr. WINGO. I am talking about another matter which you seem to be wholly oblivious to or desire to ignore.

Senator GLASS. I do not desire to ignore anything that is important to the committee.

Mr. WINGO. If you will just permit me—I did not interrupt—I will develop a fact that I want in the record.

Senator GLASS. I do not want my colleague to develop a statement that I am disposed to ignore anything that he says.

Mr. WINGO. Interrupting me in making this statement indicates that you are either impatient or that you think it is not worth consideration.

Senator GLASS. Go ahead.

Mr. WINGO. I thank you for that consideration. The point I want to make, Mr. Chairman, is that it does appear, as this committee knows, that some gentlemen who were present at that meeting deny the facts that are now disclosed in the record, and denied them in my presence.

Senator GLASS. Do you mean this committee?

Mr. WINGO. I mean the Committee on Banking and Currency, in this room. It is a matter of notorious knowledge, and the distinction is very clear. Of course, the gentleman has been present at the meeting of this particular committee and knows that my statement is obvious. The criticism was made, and I think with some force, by a great many people that here were men charged with responsibility coming down here and undertaking to advise with the Federal Reserve Board upon policies. There was nothing either criminal or vicious in them undertaking to advise the Federal Reserve Board in passing upon rediscount rates sought to be initiated by Federal reserve banks, but there was criticism that they surrounded the whole proceeding with secrecy and then denied that they discussed policies, and that created a sort of distrust among bankers, who would have expected them to come together to discuss such matters, but for them to see a man supposed to speak with authority deny that any such policies were discussed at the meeting it naturally raised a spirit of distrust; and it would have been infinitely better, in my opinion, if the board had had the courage of its conviction and taken the public into its confidence and justified its viewpoint and sought to mobilize the backing of the intelligent, conscientious bankers of the country in carrying out policies adopted.

Their policy may be wrong—I am not discussing that; I am discussing the methods employed and the feeling of resentment the situation aroused among the banks, not only the member banks but also the nonmember banks. I will say this much in conclusion, that I am speaking of the policies of the board as constituted at that time. I think the present board would not do such a thing, for two or three reasons. One of them is, I think, that they appreciate that their policies, at least, should not be secret, and, next, they appreciate the fact that it is folly to attempt such a thing as that in dealing with thousands of independent bankers over the country, who feel like they are not children but that they have intelligence enough to be intrusted with reasons for any policy that a public agency might set up.

Senator GLASS. I have no disposition to enter into the discussion, particularly as my colleague has not cited or has not undertaken to controvert anything that I cited as a fact. It is perfectly obvious that he and I do not agree in opinion and judgment as to what the board should have done.

Mr. WINGO. I did not express an opinion of what the board should have done with reference to rates.

Senator GLASS. Well, I misunderstood; I thought my colleague expressed an opinion that the board should have opened its doors to the public.

Mr. WINGO. I did not make any such statement or anything that justified such an understanding.

Senator GLASS. On that point I totally dissent, if that was the opinion. I do not think a meeting of the board ought to be a town meeting.

Mr. WINGO. Mr. Chairman, for fear that a man of the Senator's learning should put such an interpretation on my statement, I will repeat what I said, and that was that my criticism is that after having properly met and considered and advised with the Federal Reserve Board, and having agreed upon that policy—I do not suggest that a meeting to agree upon a policy should be a town meeting—but I said, having agreed upon a policy, that I think it would have been the part of wisdom, laying aside the question of rates, if they had publicly announced what that policy was, instead of having whispered various suggestions made that were contradictory in character; and the character of that meeting with the secrecy surrounding it, tended to destroy the confidence of the bankers as well as the public. I have not suggested that it should be a town meeting, but I do say, wherever an agency of this kind agrees upon a policy—I am not discussing the wisdom of the policy—having agreed upon it, and assuming that it is right so far as this Federal Reserve Board is concerned, the member bankers of the country certainly, even if the public were not, were entitled to know what the policy was that was adopted to enable them to deal with the credits of the Nation.

Senator GLASS. I think when my colleague shall have read the transcript of the stenographic minutes of the meeting he will find that they did not agree upon any policy at all, that the division of opinion there as to what should be done was just as sharp as his and my division of opinion seems to be.

Mr. STEAGALL. What action followed the meeting of this committee, either immediately or soon after, with reference to rediscount rates?

Senator GLASS. Rediscount rates were at various times raised. You know that.

Mr. STEAGALL. I am not speaking of various times. I am speaking of what happened after this meeting which would be connected in the public mind with the meeting. I am trying to disclose the facts. I do not remember the details of those things.

Senator GLASS. I am trying to indicate to you what happened with respect to rediscount rates.

Mr. STEAGALL. That is just what I want to know.

Senator GLASS. Governor Harding stated at the meeting what is perfectly obvious to anybody that is at all familiar with the provisions of the Federal reserve act, that the rate-making power in its initiative rests with the directors of the respective reserve banks, independent of any other reserve banks, and that being so, reserve banks pretty soon thereafter at different times raised the rediscount rates.

Mr. STEAGALL. That is the fact I wanted to develop, that soon after this meeting at which they discussed this policy that action followed by the various Federal reserve banks.

Senator GLASS. Yes; but no action was taken at that meeting upon the question of raising rediscount rates. One thing was done at the meeting.

Mr. STEAGALL. You have already stated that.

Senator GLASS. One thing was done at the meeting. It is not important to know my opinion on it, but one thing was done at the meeting to which I totally dissent, having reference to rediscount rates. The meeting assumed to advise the Interstate Commerce Commission to raise railroad rates. I think that was a matter entirely outside of its jurisdiction. I think that was the greatest piece of semiofficial impertinence that ever I heard of in my life; but that has nothing in the world to do with the policy of the Federal Reserve Board and banks.

Mr. STEAGALL. If they were attempting to deal with the whole business trend of the country——

Senator GLASS (interposing). It was not authorized to deal with it.

Mr. STEAGALL. And with policies with respect to the supply of credit, it would have that effect without authority of law, and to attempt to adjust railroad rates would be simply a part and detail of such a policy.

Senator GLASS. The board is authorized by the law. One of the objects of its creation is to deal with credits.

Mr. STEAGALL. But were they authorized to deal with credits for the purpose of affecting prices?

Senator GLASS. No; and the board has always disavowed anything of the kind.

Mr. STEAGALL. That is a criticism against them.

Mr. WINGO. It should be said to the credit of Governor Harding—I am not undertaking to pass on the merits of the policy they adopted, but I was criticizing the lack of confidence in the public and bankers—it should be said to his credit that in the concluding speech he made in enjoining secrecy he did not enjoin them to be secret on their recommendations about freight rates, but only with reference to discussion of rediscount rates did he suggest it.

Senator GLASS. Upon that delicate matter, a discussion of which in public might create a panic.

Mr. STEAGALL. In connection with my other question, when was the punitive interest rate established? I mean when was there an order for its application?

Senator GLASS. There never was any order for its application.

Mr. STEAGALL. I do not mean by the board. I just want the record to show when that went into effect, when the banks applied it. I know the authority came from Congress.

Senator GLASS. I will state it, if you will permit me. I have the testimony of Mr. Scott, Class A director, as I recall, of the Federal Reserve Bank of Dallas, and at that meeing of May 18, 1920, Mr. Scott says:

> The Federal Reserve Bank of Dallas has already adopted the progressive rate proposed to be put into effect whenever the executive committee finds it necessary to do so.

Mr. STEAGALL. That does not say when the interest rate went into effect in the Dallas banks. I just want the record to show that.

Senator GLASS. I simply want to indicate that the board of directors of the Dallas bank, before this meeting of May 18, had already adopted the progressive rate, and I might state explicitly, and you

will find it in the record here, that the Federal Reserve Bank of Atlanta had done the same thing, and the Federal Reserve Bank of Kansas City had done the same thing, and that subsequent to this meeting, and prior to this meeting, the Federal reserve bank at St. Louis had. Those were the only four Federal reserve banks which put this rate into effect.

Mr. WINGO. The progressive rate.

Mr. STEAGALL. The progressive rate; I call it the punitive rate; the progressive rate had never been charged anybody or been imposed upon any bank prior to this meeting. The policy had been adopted by other banks?

Mr. WINGO. Congress adopted the policy.

Senator GLASS. The meeting did not take any action.

Mr. WINGO. This meeting up here did not have any authority in law except to get together, I will say to my colleague from Alabama, and confer and advise. They could not issue any orders any more than they could fix a rate.

Mr. STEAGALL. I am attempting to connect things done with the meeting at which the things were discussed.

Mr. WINGO. It has more effect, however, based upon superior judgment, and it has with the average banker more weight than a statute of Congress.

Senator GLASS. Any action that was not known until three years after it was held could not have created a panic.

Mr. WINGO. I have never suggested that at all.

The CHAIRMAN. I will clear up any possible misunderstanding that might exist with regard to these two documents. I want to know whether there are two different copies of them going into the record, or whether they are one and the same. Can you enlighten us on that, Mr. Jones?

Mr. JONES. I can not. I have not seen the printed copy. This is one we have bought from a news agency.

The CHAIRMAN. Have you any reason to believe they are different?

Mr. JONES. No; I do not believe they are. I will be glad to take them this afternoon and compare them and see.

The CHAIRMAN. I think it would be well to do that.

Senator GLASS. This is the official document, and I will say to the stenographer and to the committee that if the stenographer is unable to obtain one elsewhere I will loan this one.

The CHAIRMAN. Whether the copy which the gentleman has is the correct copy or not?

Senator GLASS. I have no doubt it is, although I have not examined it.

Mr. JONES. I could not say.

The CHAIRMAN. We will compare the copies, and if there is a difference we will note it in the record.

Mr. WINGO. The charge with reference to that, that it is deleted for publication, this committee could not ascertain.

Senator GLASS. That it was deleted? Who makes the charge?

Mr. WINGO. I was under the impression that it was involved in some of the numerous controversies on the floor of the Senate.

Senator GLASS. I never heard it before.

(The printed copy of the stenographic minutes of the meeting of the Federal Reserve Board and Advisory Council of May, 1920, is as follows:)

FEDERAL RESERVE BOARD CONFERENCE

MINUTES OF CONFERENCE

WITH THE FEDERAL RESERVE BOARD OF THE FEDERAL ADVISORY COUNCIL AND THE CLASS A DIRECTORS OF THE FEDERAL RESERVE BANKS HELD AT WASHINGTON, D. C.
MAY 18, 1920

107679—26—PT 1——36

BEFORE THE FEDERAL RESERVE BOARD.

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

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

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

Appearances:

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

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

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

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

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

Philip Stockton, Federal reserve district No. 1.
A. B. Hepburn, Federal reserve district No. 2.
L. L. Rue, Federal reserve district No. 3.
W. S. Rowe, Federal reserve district No. 4.
J. G. Brown, Federal reserve district No. 5.
Oscar Wells, Federal reserve district No. 6.
James B. Forgan, Federal reserve district No. 7.
F. O. Watts, Federal reserve district No. 8.
E. F. Swinney, Federal reserve district No. 10.
R. L. Ball, Federal reserve district No. 11.
A. L. Mills, Federal reserve district No. 12. Present also:

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

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

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

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

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

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

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

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

PROCEEDINGS.

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

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

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

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

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

After allowing for the normal credit expansion in a growing country, we find that since the 30th of June, 1914, the expansion of bank credit in this country has amounted to about $11,000,000,000. At the same time the expansion in the volume of currency in circulation, deducting from our starting point the currency held in

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

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

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

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

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

Every effort should be made to stimulate necessary production, especially of food products, and to avoid waste. Planting operations in many sections have been delayed because of adverse weather conditions, and should there be an inadequate yield of crops this year

the necessity for conservation and conservatism will be accentuated. War waste and war financing result inevitably in diminished supplies of goods and increased volume of credits.

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

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

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

We all know that normally, after the fall trade is over and the crops have been harvested and distributed, there is a marked easing of money accompanied by the liquidation of debts. This occurs usually in January and February and up to the middle of March of each year. Liquidation of this kind is entirely natural and is necessary in order that the banks may strengthen their resources in order to meet the demands which will be made on them later in the year as the crops are in the process of making or harvesting. This year we have had no such liquidation. Commercial loans have expanded

steadily, and, while there has been some reduction up to the last week or so in loans secured by Government obligations, it is noticeable in the last few days that those loans have been increased. It would appear that this means an anticipation on the part of the American people for their requirements for bank credit which they usually make later on in the year. We may well inquire that, as we have had this demand at a time when we ought to have had liquidation, what is our situation going to be in the later months, when we are going to have the demands which we have been accustomed to having? Now, I hope that the answer to this is—and if this is correct it is the reassuring feature of the situation—that the demands which have been made in the past few months, when we should have had liquidation, are due, at least in part, to the fact that essential commodities have been held back by lack of transportation facilities. Then our problem is directed to opening up the transportation facilities in order that these goods may flow to market. This done, we will get some liquidation which ought to be sufficient to offset the demands which will be made upon the banks for essential purposes later on in the year.

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

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

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

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

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

and to keep away from the mass of details which it is impossible for any board sitting here in Washington to digest.

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

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

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

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

tion, what is an essential and what is a nonessential loan. A Federal reserve bank is in much better position to undertake this than is the Federal Reserve Board.

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

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

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

tion to the power that the directors of the Federal reserve banks have to limit their loans.

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

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

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

It may be argued that the volume of credit must necessarily be greater now than was the case a few years ago on account of the higher prices and higher wages which are prevailing, so that any

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

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

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

crepancy, the bad relationship which has existed between the volume of goods and the volume of credit and money.

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

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

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

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

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

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

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

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

Mr. PLATT. Mr. Chairman and gentlemen, it is a great pleasure for me to be here. I feel a little bit of trepidation before an audience made up exclusively of bankers, because I think I may be subject to a little criticism for not having had a great deal of banking experience. In fact, I think my actual banking experience is confined chiefly to acting as teller at a few bank elections. But I have

been interested in banking for a good many years, and, upon coming to the Banking and Currency Committee in the House in the year 1913, when the Federal reserve act was under consideration, I was not entirely unprepared.

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

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

I thank you very much, gentlemen.

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

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

Mr. BEAL. Mr. Chairman and gentlemen, it is an unusual honor thrust upon me to be made the senior director of district No. 1. Just at present I think district No. 1 is in quite a fortunate position. Through the active work of our governor and of our Federal reserve agent we have been able to reduce our liability so that at present, with the exception of the Cleveland district, I think the Federal reserve bank of district No. 1 is at the top of the reserve list. We seem to have been able to have had some liquidation in our district, which possibly is due to the fact that while last autumn we were low and borrowing largely, it was chiefly, I think, for the purchase of cotton

and of wheat. All the gentlemen here know that we have large cotton mills in our section of the country and that our section is a very large user of raw cotton. That cotton, of course, has now been turned into goods and payments have been made for those goods. As a result, our bank, as I have already stated, and as the figures show, is in quite a liquid condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

will feel justified in going ahead and making very substantial and enlarged commitments for the future.

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

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

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

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

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

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

Governor HARDING. Everybody is on strike?

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

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

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

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

tion is a very strained one and should be dealt with now before the conflagration becomes too severe.

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

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

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

Mr. ALEXANDER. Make the basic rate 7 per cent. I am in hopes that there will be no plan of progressive rates put in effect in New York. Make the rate 7 per cent. I am speaking of commercial

paper. You will probably want a differential in favor of obligations secured by Government bonds, and the present rate is 5½ per cent, and perhaps you would want the rate on certificates of indebtedness 5½ per cent, but the commercial paper rate is the important thing. The commercial paper is the thing that is being created in volume right now, and we want to limit it as much as we possibly can, limit the creation of commercial paper.

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

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

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

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

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

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

Mr. ALEXANDER. No, I am coming to that point. Between corporations there is a contract rate, but in smaller transactions, where you are dealing with individuals and with farmers, 6 per cent is the legal rate. I do not think it makes a particle of difference to any of those borrowers, certainly none of those with whom we come in

contact, whether they pay 5 per cent, 6 per cent or 7 per cent. The question is, "Can we get the money?" That is the question to-day. They say, "You lend us the money and we will pay the rate."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Governor HARDING. How about transportation facilities with you?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. BRUTON. Mr. Chairman, I think you will agree with me when I say that Richmond feels very comfortable, sitting in the same row of seats with Cleveland. Just at this time we are specially interested

in agricultural demands, and the farmers are getting more loans now to take care of that than formerly, on account of the large expense of making the crops. We hope it will not be necessary to increase the rate of interest for fear that it might be construed as a reflection upon this great industry, which, in the final analysis, is doing the work of the country. Probably I am a little old-fashioned, but I have the impression that some positive relief could be had at the discount table of the Federal reserve bank, by the discounting committee, in drawing in on a certain few banks in the district and limiting their borrowings, which would give to their banks the opportunity to make essential arrangements.

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

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

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

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

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

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

Mr. OTTLEY. Mr. Chairman and gentlemen, the condition of the farmers, merchants, and manufacturers in the sixth district is generally good. The condition of the banks throughout the district, in large majority, is good. The borrowings in excess from the Federal reserve bank by the banks of the district are confined to a very few banks, and through the officers and the board of our bank the

matter has been taken up directly with all of the borrowing banks, particularly with a few that are excess borrowers, and they have been told in polite but positive terms that there were others who had to be accommodated later on and that they must get their houses in order.

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

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

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

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

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

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

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

Governor HARDING. Is there anyone else from Atlanta?

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

Governor HARDING. District No. 7, Chicago?

Mr. REYNOLDS. Governor Harding and gentlemen of the board, believing as I do that if we pass through this crisis successfully and maintain prosperity in anything like its present level, I think the first requisite necessary is the maintenance of confidence. Believ-

ing, furthermore, that confidence is to a considerable extent a state of mind, it seems to me that we people who are from the outside points here could do more for the state of mind, along the line of trying to enable the members of the Federal Reserve Board to look through our glasses and get the focus of things as we see them at the other end of the line. Those pictures, of course, are all helpful, and they are necessary, in the last analysis, to the reaching of a conclusion as to what is necessary to be done.

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

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

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

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

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

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

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

Now, it may seem to you people here that under conditions which arise whereby there should be deflation rather than inflation, that

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

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

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

Mr. WILLIAMS. I agree with you fully.

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

Mr. WILLIAMS. Before the consumer got it?

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

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

I said to a banker the other morning, "How do you like being a banker nowadays?" He said, "Sherman said, 'War is hell;'" but, he said, "I would rather be in the trenches on the other side than loaning to the banks these days." That illustrates the state of mind toward the people and in our institutions in Chicago, and I think in all institutions we do not go down so deep to analyze to any great extent as to whether this is a nonessential or an essential, but we take

it right by the scruff of the neck and try to determine whether that fellow must have that money, and if he does not have to have it, even though it is essential, we put him on the waiting list. That is my theory, of the way to correct this situation, and I give you my observations, thinking after all this whole thing is very largely a matter of sentiment and very largely a matter of determination on the part of the bankers to cooperate with the board and of the board to cooperate with the banks, and if that could be done we will sail through automatically, and we will have a little demobilization in business without any apparent damage to any particular class of business. It is a case where you can not get "George" to do it; everybody has got to do his part if a reduction of the loans is to be brought about.

I thank you, gentlemen. [Applause.]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Governor HARDING. Mr. Utterback.

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

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

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

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

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

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

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

I just want to say to you that I do not like this increase in rates. Out in our part of the country we have been going a little bit wrong in our thinking, so much so that we have established a bank of our own, called the "State Bank of North Dakota," and the farmers, seven-ninths of them pay all the taxes in our State, and they are looking for something with which to shoot it into the big business and into the banker, and I think that any method that would raise the rate arbitrarily when he has had four or five years of poor crops—any of the 700 or 800 small bankers over that State, whose average deposits probably do not exceed $200,000; when he is compelled, after the stress of those four poor crops; when it costs $15 to $20 an acre to plant an acre of wheat up in our State; when hay is $25 to $30 a ton; when oats are $1.25 a bushel; when it costs $5 an

acre to sow an acre of wheat; when barley is $1.75 a bushel; when farm labor is $100 to $125 a month; when those conditions prevail it looks to me like the institution that they told us when we started the Federal reserve system that was going to take care of us and prevent panics was now going to fall down and penalize them just the moment that the Giver of All Good Things had failed to give us our share of prosperity during this war.

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

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

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

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

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

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

I was in Kansas City on last Thursday; I found that our rediscounts had been paid off to the extent of $10,000,000 and our loans

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

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

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

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

Governor Bailey is here and Mr. Burnham.

Governor HARDING. Governor Bailey.

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

I will give a little concrete example of my own case. I loaned a man $25,000 in October on wheat at a station only 60 miles from the Missouri River, for 30 days. No note was ever given in better faith or was contemplated to be paid at the end of 30 days on the theory that he would ship the wheat. I have renewed that note for him consistently every 30 days since and it is still unpaid and the wheat is still in the elevator. We are soon going to have two crops of wheat in Kansas, and I have discovered this situation: A little banker, that lives north of me, to whom I loaned money, went up to Falls City, which is the headquarters of the officer of the Missouri Pacific who distributes cars for that division, and he begged him for some cars. He said, "I would be glad to do it, but I have just come

back from the East and they have taken 200 box cars off of my division and sent them to Minneapolis." I do not know who told him to do this, I did not learn then, but he said he had been East and somebody had told him to do it, but I should like to have somebody analyze to me the philosophy of sending 200 box cars to Minneapolis when their harvest is three weeks shorter than ours, and we have got two crops of wheat in Kansas to go pretty soon.

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

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

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

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

So I say, gentlemen, I think the real remedy is in a graduated rate. Of course, make the basis line whatever you want, and let us say you would raise the rate to 7 per cent. Now, the only complaint we have among our banks is, there ought to be a maximum rate. I

do not believe that, gentlemen. I would put a danger signal here, and another there, and another up here—that is, death; and he will never go against the death signal. You have made the Federal Reserve Bank of Kansas City a broker shop, you have changed it from a reserve bank to a commercial bank, and I want to get it back, and that is the reason I am in favor of the graduated rate. [Applause.]

Governor HARDING. Mr. Burnham, of Kansas City.

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

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

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

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

I thank you. [Applause.]

Governor HARDING. May I say right here that at the recent conference of governors of Federal reserve banks in outlining the financial requirements for the present season they all expressed the opinion that come what may the reserves of the Federal reserve banks ought to be kept approximately equal, that they should go up and down together. Now the Federal Reserve Board is not particularly concerned as to the source of the reserve so long as the

situation is properly and wisely handled, and it seems to me that in this live-stock situation, which is a very serious situation from all we have been able to hear, and it is an important matter, it ought to be taken care of; that those banks which are most familiar with the industry, the districts in which that industry is domiciled, should be expected to do everything reasonable to take care of it, and that if by reason of a Federal reserve bank in a particular district taking care of the banks which are discounting for live stock men, their own reserves are depleted, why then they should be expected to rediscount with some other Federal reserve banks who are going to get the benefit of the live-stock product later on, and then those banks in turn may have to rediscount with others, just as we have seen the situation shift—there are only two banks in this system which have never rediscounted. We have had all other banks, including New York and Boston, as heavy rediscounters with the South and West; then we have the present situation when New York, Boston, and Cleveland are rediscounting for the other seven reserve banks.

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

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

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

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

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

they be requested to retire and prepare their resolution, and when they have it ready, offer it.

(The motion was duly seconded and agreed to.)

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

The CHAIRMAN. Is there anything else on that?

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

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

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

I move the adoption of the resolution.

(The motion was duly seconded.)

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

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

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

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

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

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

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

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

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

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

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

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

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

Governor HARDING. Mr. McKinney.

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

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

I thank you. [Applause.]

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

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

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

We can stimulate our assistance to production. We can do that

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

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

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

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

That is a misfortune in one way, but it is our burden and our duty too, and that is so of the banks and larger centers as compared with those in smaller centers, and if we can go to our people with the assurance that there is credit available for the protection of essential and quickly assimilable things, and that as compensation for that use we must ask them to refrain from the demand for credit for those things not essential, or for those which in our minds are not essen-

tial, we shall have gone a long way toward solving the difficulty as far as it is within our power to do so. [Applause.]

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

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

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

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

It would seem to me the concrete problem now is to determine whether our present condition is approximately the extent of expansion that we would like to have this fall rather than a more or less acute condition. If so, the way to meet that problem is to bring about in the next three or four months a definite amount of contraction, which would permit us to expand correspondingly in the fall. If it were possible for every bank in the country to reduce its loans during the next three or four months to the extent, say, of 10 per cent, there would be a total expansion in the fall possibly of approximately $2,000,000,000. In other words, if, without disturbance, we could prevail upon each bank, or upon the average have the banks reduce their loans 10 per cent within the next three

or four months, and that is what we have spoken of in the Federal reserve system as orderly liquidation, we could then make all reasonable expansion that would be required to meet the situation in the fall, which is bound to come, and yet not create any greater stringency than we now have.

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

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

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

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

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

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

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

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

DEAR SIR: Reports that have reached this association within the last few days regarding the difficulty experienced by farm implement dealers in financing the movement of agricultural machinery from the manufacturer to the farmer

led to the calling of a meeting of the executive committee yesterday, May 13, and the appointment of an emergency committee, specially charged with the duty of directing attention to the seriousness of the situation thus created with respect to the country's food supply in the immediate future.

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

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

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

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

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

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

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

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

Very respectfully yours,

H. M. WALLIS, *Chairman.*

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

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

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

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

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

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

Mr. FORGAN. All from manufacturers; yes.

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

CHICAGO, ILL., *May 17, 1920.*

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

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

F. J. HAGENBERTH

PHOENIX, ARIZ., *May 18, 1920.*

Hon. DAVID F. HOUSTON,
Secretary of the Treasury, Washington, D. C.:

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

ARIZONA CATTLE GROWERS' ASSOCIATION,
CHAS. P. MULLEN, *President.*

CHICAGO, *May 17, 1920.*

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

Firmly believing that the Federal Reserve Board has more power than any other commercial element to correct the evil of high prices and stabilize necessities, we respectfully suggest that if all loans to profiteers and speculators in the essentials of living made on warehouse receipts were called it would without doubt force an emptying of the cold-storage houses and amply meet

the necessities of the consumer at reasonable prices without injury to any legitimate industry. This was recently done with the lumber speculators on the Pacific coast and resulted in a decline of from ten to thirty dollars per thousand feet in the price of lumber within 60 days. Speculators find it all too easy to borrow money at low rates on warehouse receipts and hoard the necessities of life at a profit of one to three hundred per cent and if this borrowing were made impossible by you commodities would immediately begin to tumble and conditions rapidly head toward normal.

FRANK J. SHEAD,
President Shead Lumber Association.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. BAILEY. They are not.

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

Mr. BAILEY. Yes.

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

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

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

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

AFTER RECESS.

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

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

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

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

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

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

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

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

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

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

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

(The proposed amendment was accepted.)

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

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

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

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

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

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

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

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

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

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

Doctor MILLER. I think the morning's conference has pretty well developed the things that bulk largely in our estimation of the general situation, and anything that any of us could say beyond

that would be little more than repetition, or perhaps give only added emphasis by a personal word.

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

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

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

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

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

Sometimes on occasions of this kind you want a word or a phrase upon which to hang things, and I was struck in the course of deliberations this morning with the frequent occurrence of the word "discrimination." I think the country will accept that as on the whole indicating a temperate and responsible attitude on the part

of the Federal reserve system and member banks of the country in dealing with this problem, and on the whole that is the one thing that would seem to me worth specifying as a general objective in any report a committee of this conference might make in the way of a recommendation to the Federal Reserve Board as to what in its opinion must be done to handle conditions successfully in this country so as not to dampen the ardor of enterprise, not to throw any chill over industry, but also with the constant suggestion that banks are to use such influence as they have to restrain the unproductive use of credit, applying the test of unproductiveness under existing conditions and not under normal conditions, and to restrain the reign of extravagance.

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

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

I come back, therefore, to the word "discrimination" in the extension of credit, as on the whole pointing the way toward the road that we have got to travel, and perhaps in some parts of the country even blaze, in order to get back to the situation that the governor

very happily described this morning as the restoring of a more normal relationship between the total volume of credit in existence and the total volume of production. I would amend it only in one particular, the production of those things that people who care for the country, who are sensitive to the requirements of the times and who are willing to cooperate in a great national endeavor will not quarrel with, the production of things that immediately are more important, and the postponement of things that for the moment are less important. [Applause.]

Governor HARDING. Mr. Comptroller.

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

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

Governor HARDING. He must have got a cut price.

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

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

As illustrating the embarrassments against which we have been working, I would call your attention to the enormous cost in this

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

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

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

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

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

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

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

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

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

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

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

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

Governor HARDING. Following our comptroller's suggestion that the banks of the country are making an intensive campaign to keep up their savings department especially, I wish to call attention of the members of the conference to the fact that the Federal reserve note issues outstanding are nearly $3,100,000,000, and that in endeavoring to locate the whereabouts of those notes we failed to see where there can be more than about $1,750,000,000 of them held in the vaults of the banks of the country, so that leaves about $2,300,000,000 in the pockets of the people, or in circulation somewhere. We all

know the habit that has grown up in the last two or three years on the part of people carrying large amounts of notes upon their persons, and it gives you a very good idea of the possibilities of a campaign to increase your deposits if you can induce people who carry money around with them, or who have it stuck around the house somewhere, to come around and deposit it with the banks. It will increase your deposits and will be a very large reduction in the amount——

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

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

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

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

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

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

hurt; it needs the steady nerve of the bankers just as they faced their problems in 1903 and 1907.

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

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

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

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

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

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

Mr. WILLIAMS. The figures I gave referred more to the national banks and did not refer to the other member banks. Of the total borrowings of national banks of $2,000,000,000, bills rediscounted and bills payable of all kinds, if there should be a conversion of a

thousand millions in Liberty bonds, or if they should sell them to savings banks and to investors, that would pay off one billion. If the borrowers with the banks should pay off the billion which they are borrowing on war issues, that would pay off the other billion.

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

Mr. WILLIAMS. To which chart do you refer?

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

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

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

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

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

Mr. WILLIAMS. The total discounted paper on hand.

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

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

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

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

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

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

Mr. WILLIAMS. In answering Mr. Scott's question as to the increase of seven or eight millions in the loans and discounts of the banks, there was a suggestion made this morning by some one that the banks might be asked to reduce their loans and discounts by 10 per cent. That would come pretty nearly wiping out the whole busi-

ness; 15 per cent would almost wipe it out. I would suppose that the loans and discounts resources of all the banks, national and State, are about $45,000,000,000. I suppose that the loans and discounts are somewhere between thirty and forty billion, so that an 8 or 10 per cent reduction in loans or 5 per cent would cause the payment of an immense amount of paper.

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

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

Mr. SCOTT. Those are the only two?

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

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

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

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

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

Mr. OTTLEY. Absolutely not.

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

Mr. WAYNE. I would like to say a word on this progressive discount rate. It does not appeal to me as a director of the Federal reserve bank at all, at least for operation in our district. I am afraid it will do just the opposite for which the Federal reserve act was enacted. In other words, the act was proposed to enable the banks to cater to commercial business. I know in the operation of our own bank we were very often called upon to borrow quite heavily and we cut it down as fast as we could, but if we are going to accumulate a batch of commercial paper, either by direct transactions for

customers or by purchase on the market, because our borrowings at the Federal reserve banks happen to go beyond a certain limit, we are going to be heavily penalized, we are going to stop buying the paper, and we are going to invest our money in call loans on Wall Street, which is exactly what the Federal Reserve Board does not want the member banks to do. We are not going to be penalized, but we are going to put our so-called surplus moneys in investments that we can readily realize on without being penalized. I think the situation can be handled, at least in our district, without recourse to the imposition of the penalties that have been proposed. I think when a member bank over borrows that it is up to the officers of the Federal reserve bank to find out the reason for it, and I think in 9 cases out of 10 it can be corrected. I think that you are going to defeat the very purpose of the act, which was to enable commercial banks of the country to do a safe commercial business. We will simply be driven into call loans on Wall Street for our surplus money if they are going to penalize us.

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

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

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

Governor HARDING. Charged against the selling bank.

Mr. FORGAN. The indorsing bank.

Governor HARDING. Yes.

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

Governor HARDING. I meant the indorsing bank.

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

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

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

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

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

Mr. BEAL. Very little.

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

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

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

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

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

Mr. FORGAN. For commercial paper; yes.

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

Mr. TREMAN. I would say the same.

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

Mr. BAILEY. Yes.

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

this country. The replies are coming in. They are going to be tabulated in the next day or two and we will have some further information on it.

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

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

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

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

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

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

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

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

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

Mr. BAILEY. I think they will. We have discovered since this rate was put in that the bank—in the first place, the Kansas City bank people have gone out through the country and said to him—they

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

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

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

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

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

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

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

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

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

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

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

Mr. SCOTT. Yes.

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

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

Mr. FORGAN. How can they do it?

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

Mr. FORGAN. The progressive rate?

Mr. SCOTT. No.

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

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

Mr. FORGAN. Where do you get the limit?

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

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

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

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

Mr. MOHLENPAH. I had had the complaint from several country banks in different districts that the city banker was raising his rate

up on them. For instance, the commercial rate made at the Federal reserve bank to Kansas City, Chicago, and St. Louis, that raised the rate to 6½ to 7 per cent on the country banker; that is, it is rather an automatic proceeding.

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

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

Mr. SCOTT. Ours is the city banker.

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

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

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

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

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

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

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

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

Governor HARDING. Oh, yes.

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

Governor HARDING. Not necessarily. All in a district?

Mr. UTTERBACK. I mean over the system?

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

Mr. BAILEY. Would not this obtain? Suppose I carry a balance in New York City and expect to rediscount on it and they put the

rate to 7 per cent and Philadelphia is kept at 6, would I not probably transfer my balance to Philadelphia?

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

Mr. BAILEY. I do not know.

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

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

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

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

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

INQUIRY ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM

(Continuation of hearing of Wednesday, October 10, 1923)

STATEMENT OF MR. J. H. TREGOE, SECRETARY-TREASURER NATIONAL CREDIT MEN'S ASSOCIATION

The CHAIRMAN. We have here this morning the representatives of the National Credit Men's Association. Who is there to speak for the Credit Men's Association?

Mr. TREGOE. I am secretary-treasurer. Around that officer revolves the whole executive work of the organization.

The CHAIRMAN. Will you present the entire matter, or are there other gentlemen to be heard?

Mr. TREGOE. We have representatives here, Mr. Chairman, and they have delegated me to make the opening statement, and then they can be submitted to questions that may arise or enter into discussion that may occur after I have spoken, or they may have some supplementary statement to make.

The CHAIRMAN. Proceed in your own way.

Mr. TREGOE. I judge, Mr. Chairman, that the committee knows something about my organization, and that our specialty is credit. That is the particular field in commerce with which we deal as an organization.

Senator GLASS. I do not want to interrupt the continuity of your statement, but I think it my right there to indicate to the committee that you are not confined to any one line of business or any particular class of commercial activity or industry; in other words, that you are not merely the representatives of the jobbers as has been charged.

Mr. TREGOE. Our membership, Mr. Chairman, is a little over 30,000. That membership is comprised in 135 units spread all over the country, and the membership comprises both manufacturers and wholesalers. We are not an association of individuals. We are an association of enterprises, but the administration of our work falls directly or almost entirely into the hands of the credit managers, and, therefore, we have had under our supervision and study the credit interests of the country. We were organized in 1896 at a period of low prices and when credit was very chaotic, and I think that we were largely instrumental in bringing about what we call a credit technique that has aided in the largest measure the development of our commerce because confidence is the basis of credit, and we have put into operation plans and methods whereby confidence may be stimulated and the irresponsible or the deceitful trader eliminated.

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The great difficulty, I want to say to you, is that credit is very technical, and not many of our business or banking people understand its fundamentals. If you will let me illustrate, you were discussing between yourselves about that meeting. We discovered in December, 1919, from a close credit scrutiny that there was a maladjustment of production and demand and we were heading rapidly toward an awful crash. We issued our warning, but the whole country, except in the credit fraternity, were gripped in such an orgy of speculation that they would not heed the signs, and may I say to you with great candor that in the study of our overproduction and when one of the most violent attacks had been made on credit which you as a banker can understand, that credit had been made to play the part of capital. Credit is not capital; it is not wealth; and when that had been overplayed and our production was overextended we were due for one of the most serious panics that ever came to this country; the panics of 1873 and 1893 would have been a baby show in comparison with the awful loss that would have come to this country in 1920.

I do not want you to consider that we are prejudiced, but I say to you as representing our very candid ideas that but for the supporting power of the Federal reserve system, despite the controversy over the increase of rates and the deflation, but for the supporting power of the Federal reserve system the losses to this country would have been enormous, and instead of having a panic, which we did not have, we simply passed through a serious disturbance. We feel, therefore, a genuine gratitude to the Federal reserve system for what they did to our country and for our country in that most awful orgy of speculation.

The CHAIRMAN. I am interested in the warning you sent out to your members in December, 1919, and you said that you got no response from your members.

Mr. TREGOE. No. May I say to you that in December of that year I addressed a convention in Atlantic City, a convention of waist manufacturers. They were all feeling good, feeling that they were going to have a harvest, and they were going to leave that convention and load up with silk.

Mr. WINGO. What month?

Mr. TREGOE. December, 1919. They were going to load up with silk, and I gave them my warning, and one of these manufacturers afterwards sent word to me that I had saved him many thousands of dollars, but he never offered to divide.

The CHAIRMAN. In regard to that warning that you speak of, did you send out a written warning to the membership?

Mr. TREGOE. It was comprised in a letter such as I issue monthly which goes to about 17,000 readers.

The CHAIRMAN. Will you insert that in the record or give the stenographer a copy of that letter, so that it might appear in the record?

Mr. TREGOE. If we can find a copy of that letter, I will be glad to insert it. We discovered the coming of the crash in 1919 from the credit angle, and what I have to say to you this morning I would like to have you consider that I view it from that angle, from a critical credit study. Now, coming to the Federal reserve system, you know, because it is common knowledge, how firmly we believe in it. Only last month our board of directors, our real administra-

tors, reaffirmed their faith in the Federal reserve system, and their gratitude for its benefits to the Nation. Our interests are not exclusive. Our interests are the interests of everybody in this Nation. We are sympathetic with agriculture. We are sympathetic with everything that produces business, because it all interrelates with credit, and we have got to take cognizance of that situation. The Federal reserve system, as we look at it, while it is intended to coordinate the banking powers and centralize reserves, is primarily designed for business, and business includes agriculture. It is a restricted view; it is not a just view, in our opinion, to say that the Federal reserve system is a mercantile system. It is a business system and relates to everything that will come within that term, business. It is designed to encourage production. It is designed to give us the proper credit facilities.

Let us just take a little review, Mr. Chairman, to explain to you how we look at this thing. I could not get all the figures; I merely took something that is typical. In the four States of Montana, North Dakota, South Dakota, and Minnesota in the past 12 months there were 144 bank failures, involving a capital of a little over $4,000,000 and deposits of a little over $31,000,000. I was in Montana not many months ago, where many a business enterprise was feeling the pinch because its deposits were tied up in these insolvent banks. How do we explain that? I may not be entirely accurate, but approximately so. There is one bank in this country for every 3,500 of population. A bank for its support must have its patrons. It is serving a community—and right here let me interpolate that profit making for a bank is a secondary function. It is a public servant, and a bank that subordinates public service to profit making does not deserve the name of bank. It deserves better the name of a pawnbroking establishment. The bank is designed to be a public servant. Now, there is one bank for every 3,500 of population. In North Dakota there was one bank for every 768 people and in South Dakota one bank for every 921 people. In banking resources—not up to date, but within the past year or two—there was an average of $1,600,000 for every bank. In North Dakota the average was $261,000 and in South Dakota $394,000. In operating costs, which you will understand, in 1922 in South Dakota it was 90.1 per cent, an increase of a little more than 5 per cent in 12 months.

The CHAIRMAN. Ninety per cent a year.

Mr. TREGOE. In South Dakota and in North Dakota, 91.5 per cent.

Mr. WINGO. Is that all banks?

Mr. TREGOE. Yes; the average.

Mr. WINGO. The average of all banks?

Mr. TREGOE. The average of all banks. Now, interest—you know what that is. The average amount of interest paid in North Dakota in 1922 as compared with all the deposits was 3.87 per cent. In South Dakota it was 3.25 per cent.

The CHAIRMAN. That is, interest paid by banks on deposits.

Mr. TREGOE. The total interest that they paid in proportion to the entire deposits.

The CHAIRMAN. Interest that the banks paid on deposits that they were holding?

Mr. TREGOE. Yes.

The CHAIRMAN. Have you the average rate of interest charged to borrowers?

Mr. TREGOE. No; I have not. I want to get at the matter of costs, just as we see it from the credit viewpoint, to show how it develops.

The CHAIRMAN. Go ahead.

Mr. TREGOE. What does that mean, with restricted prospects, with the small resources, with the high operating cost, that they are bidding for business and that they are charging excessive rates to their borrowers? All of this must come from the public.

The CHAIRMAN. Do you mean to imply that the banks are being operated at an excessive cost?

Mr. TREGOE. Excessive cost; yes. They are bidding for deposits and paying excessive rates for deposits, and they are bidding for borrowers.

Senator GLASS. What is the average rate for all banks throughout the United States, so that we may make a contrast?

Mr. TREGOE. I wish I had that figure; I have not; but in the larger cities the interest paid on a checking account seldom exceeds 2 per cent.

The CHAIRMAN. Inasmuch as your association represents some 30,000 business concerns, many of whom are borrowers, I presume it is right to suppose you are interested in lowering of the general interest charge to borrowers.

Mr. TREGOE. No; do not get that viewpoint. I am explaining to you about the banking end to show you that to support my opinion that we have in this country too many banks.

Mr. WINGO. Are you speaking now and have you been directing your remarks to the question of nonmember banks or both nonmember banks and member banks?

Mr. TREGOE. I am getting around to that. If I am not too long, I will try to work it out by a process of evolution, to show how the credit men work.

Mr. WINGO. You evidently do not understand my question. My question was this, so that I may follow it: Have you been speaking of member banks, nonmember banks, or of both?

Mr. TREGOE. Member and nonmember banks in my figures. All banks are included in my figures. As I said, we have too many banks. Having so many banks in the sparsely settled States bidding for deposits, operating independently, not having the resources themselves, taking unwise risks, Mr. Chairman, filling their portfolios with paper that will not liquidate, merely bidding for business; why, out in that vast country the banks with their portfolios filled with paper that will not liquidate—and the essence of credit is its liquidation; it must liquidate or it is not credit—just filled with that paper, and then the day comes when they can no longer pay their checks over the counter and the doors are closed and deposits tied up against merchants and stores.

The CHAIRMAN. In other words, in a locality where the borrowing demand exceeds the ability to get deposits, you think it is a mistake to have too many banks?

Mr. TREGOE. Too many banks.

The CHAIRMAN. You think concentration of such resources as they have would be better.

Mr. TREGOE. Too many small banks with limited resources. I want to state to you as reflective of our needs that while the Federal reserve system comprises only one-third of the total number of banks in this country—commercial banks, of course—it represents the real heart of our banking world in the way of resources. But it is an anomalous situation. There are 20,000 of our commercial banks, a large portion of which are qualified, which should be enjoying the resources and facilities of that system.

We know that some of the larger banks are inclined to encourage smaller brother bankers to stay out of the system because they can then centralize in themselves the deposits of these smaller institutions, but that is a selfish policy in our opinion and, therefore, we are inclined to disapprove of allowing the powers and facilities of the Federal reserve system to be enjoyed by nonmember banks, many of whom do enjoy it now through the mediation of their own depositaries which are members of the system. We do not disapprove of the State rights principle. I want to say personally that I think we have intruded too much upon that principle, but there are some functions that belong to central government and, in my opinion, the banking function is one of them. We have not cared for the tendency of national banks to withdraw from the national banking system, and we have not felt at all congenial to the inordinate and the rather strong exactions placed on the national banks by the departments in Washington.

Departing to another field, as I said to-day, I think the Internal Revenue Department is driving the country crazy, getting its nerves, and when a bank is required to do something that is unreasonable its nerves are affected. There ought to be reasonable regulations, but in many of the States regulations are not sufficiently strong and stern, and banks are permitted to be chartered without the proper conditions, and thus they operate with too small a capital and too little ability, and that is why such a large number meet with disaster.

We do not come to you this morning with any remedy which can be applied to bring the nonmember banks into the Federal reserve system. I do not know that a remedy can be offered. It seems to me it is a matter of education, but the Federal reserve system needs no brief on our our part. It seems to me it needs no brief on the part of anyone. It should be made attractive. Its members should feel very congenial to the system and it should be made to draw into the system all of the qualified banks.

I want to say further, that we believe firmly in the par payment plan. We believe the par payment plan has facilitated commerce. The par payment plan must not be reckoned with merely as a banking facility. When you take into consideration the flow of commodities, moving from production point to consumption, take the vast volume, gentlemen, it is wonderful as you sit and contemplate, as we sit now and see this vast volume of commodities flowing and going through, and think that the credits their transfer creates are nearly all settled by checks which have become our real currency; it has become our real currency of this country. The check is a facility, an economic facility. We have made it so. Here is the shipper in New York and the buyer in San Francisco. The shipper

takes a check on the San Francisco depositary, the par payment plan with facilities that were installed, the gold clearance plan here, and the Federal Reserve Board has expedited the movement of the check, it has quickened the movement of the check, it has reduced the cost of business, it has facilitated the flow of commodities. It has made the credit end of it so much easier. Just think of the check under the old system, when a check sometimes to go 100 miles would travel 500 miles. All of that time somebody was out of the money; somebody had the money who ought not to have had it. The cost was large and the risks were large because the quicker the check drawn on the depositor is paid the quicker the credit is extinguished, but so long as a check is unpaid that credit remains unextinguished; it is still credit. That is the way we see it. We believe firmly in the par clearance plan. We do not think it should be interfered with. Everything that will stimulate production at reasonable costs keeping everybody employed, maintaining our credit stability, should be maintained. For everybody's sake, may I say, "Stand firm for the Federal reserve system." Let us try to have the small country banker understand that he is a public servant; that is his function, a public servant, and not a banker simply to make money.

Mr. STEAGALL. Who will make money if we do not let bankers charge for their services? Are we going to deny them the right to make money? Will they not quit going into the banking business? Men will quit putting their money in banking if we do not let them make money.

Mr. TREGOE. People will not be induced to invest in any enterprise unless they get a reasonable return on what they invest, but there are some functions that appertain to a public service. When a man produces clothing that is simply a mercantile enterprise, but a banker in a community—the banker is the real confessional of the community. The country banker exercises more influence in his community than oftentimes the preacher does.

Mr. STEAGALL. It would be mighty nice to serve us, furnish us money, and collect our checks, and if anybody owes us collect it and send it to us, and serve us generally, if that were practicable, without having any pay for it, but suppose everybody demanded that the bank get nothing.

Mr. TREGOE. Interest is proper.

Mr. STEAGALL. And that everybody treated it as a public servant.

Mr. TREGOE. He who serves must receive his compensation. You understand I mean that the function of the banker first is to serve the public. He must make a profit. He must sustain himself.

Mr. WINGO. Is not this the thought you have in mind, that in the last analysis it is the part of wisdom of the banker to recognize that in the long development and maintenance of the business of the country it is to his selfish interest to mingle public good with his selfish policy?

Mr. TREGOE. When the community prospers the banker will prosper with it.

Mr. WINGO. A short-sighted policy based solely upon making a profit, in the last analysis, is not even from the selfish standpoint the best policy for the banker. He is interested in the public develop-

ment, the development of the resources of our country and in increasing our wealth.

Mr. TREGOE. You have explained it so much better than I did.

Mr. WINGO. That is the thought I presumed you had in mind. I did not infer that you were advocating that the banker should simply operate his business for the glory of God and the public benefit.

Mr. TREGOE. The banker will prosper as the community prospers, and the community will prosper largely in proportion to the facilities enjoyed.

Senator GLASS. Out of whose money does the banker make his dividends, out of his own or the depositor's?

Mr. TREGOE. He makes his money largely from the deposits.

Senator GLASS. By the use of other people's money.

Mr. TREGOE. Yes; using the deposits. If a banker made money simply on the capital it would not maintain him; he could not pay his overhead.

Senator GLASS. Of course not; he makes money out of the deposits, using other people's money.

Mr. TREGOE. Yes.

Senator GLASS. What is the process of credits in a bank? If I want a line of credit from my bank at Lynchburg, is it not almost invariably the custom, certainly very generally the custom, for that bank to require me to carry a certain line of deposits with it, 20 per cent of the credit extended?

Mr. TREGOE. Yes.

Senator GLASS. So that we have not any situation where banks are philanthropic institutions and do such a tremendous service without cost to the public, as I view it. One more question along that line: If a national bank in my town issues its note, it is a promise to pay, that is all.

Mr. TREGOE. Yes.

Senator GLASS. Just as my note is a promise to pay or your note is a promise to pay. Would not that note be acceptable at par in San Francisco across any bank counter there, a national-bank note issued in my town?

Mr. TREGOE. It would be paid at face; yes.

Senator GLASS. The only virtue that it might have over my note or your note is the fact that United States bonds are behind it as a basis. Then if I have $10,000 to my credit in my bank at Lynchburg—a pretty wild supposition—but if I had, and I wanted to buy a bill of goods in New York or San Francisco amounting to $1,000, I would give my check for it. Is there any particular reason why my check should be discounted and not paid at its face value?

Mr. TREGOE. We can not see any reason at all.

Mr. STEAGALL. It is paid at its face value.

Mr. TREGOE. Oh, no.

Mr. STEAGALL. Then it is not a good check.

Mr. TREGOE. Not by a nonmember bank. Take a depositor in North Carolina operating outside of the par-payment system.

Mr. STEAGALL. It is the difference between having a bank pay the check over the counter and having to go to the expense of traveling or sending money to another part of the country.

Senator GLASS. Do you happen to know what the expense is? You know the Federal reserve act says that a bank may charge the actual cost. Has the Federal Reserve Board or any other Federal reserve bank ever been able to get an actuary smart enough to figure the actual cost?

Mr. TREGOE. I have not heard of any such.

Senator GLASS. Is not the actual cost so infinitestimal that no actuary that ever lived could figure it?

Mr. TREGOE. It is very slight.

The CHAIRMAN. It comes down to the actual cost of handling items in transit, the actual physical work of handling the items, and the time consumed in transit.

Mr. TREGOE. The facilities that have been installed under the Federal reserve system reduce the cost of handling the check and of paying the check to such a small sum it is not to be compared with the accommodation to the drawer of the check. Mind you, Mr. Chairman, under the old days very many of the large New York institutions demanded exchange on New York for the payment of their invoices. When a buyer of a commodity had to go to his bank and buy a New York check.

Mr. WINGO. You are coming down to a practical proposition. Here is what you complain of in the business world. I am not going into the merits but simply the mechanism of it. Say you are a jobber or wholesaler and sell a merchant a bill of goods; that merchant sends you a check on one of these nonclearing banks. One of two things happens. Either you or the jobber has to allow to the banker the cost that the nonmember bank attaches to the remitting of that check or else the bank has to absorb it itself.

Mr. TREGOE. Yes.

Mr. WINGO. Your contention is—and I am interested in that because you have evidently studied the workings of it—your contention is that the par-collection system has not only facilitated and made more rapid the liquidation of that instrument which you regard in the last analysis as discharging the functions of a circulating medium to a certain extent, but you also contend that it has reduced the cost of the operation, too.

Mr. TREGOE. Reduced the risk, too.

Mr. WINGO. And the risk, and thereby you have reduced the cost, whether that cost or whether that benefit applies either to the jobber or to the banker, and your contention is that the operating cost is itself passed on ultimately to the ultimate consumer. That is a fair presentation, I think, in a practical way, of your contention.

Mr. TREGOE. The public pays the bill.

Mr. WINGO. That is the contention. As a matter of fact, it does not make any difference whether an actuary can figure out the infinitesimal shades of cost or whether you can ever agree upon one and to what extent the burden is shifted, your theory, representing the consuming public and the business world, is that somebody pays it in the last analysis—old man ultimate consumer pays the costs.

Mr. TREGOE. Something else; it is the convenience.

Mr. WINGO. Certainly, the convenience. I am not talking about the merits; I am trying to get to the underlying philosophy. For illustration it costs the Federal reserve banks $10,000,000 a year.

Somebody has got to pay it, the Federal Government, the member banks whose money is used, or the jobber has got to pay for it, or the country merchant has got to pay. Somebody has to be paid. It is either paid by a class or by the stockholders as a mass or by the stockholders of the Government, the individual citizen, the ultimate consumer; somebody pays it. So it does not serve any useful purpose to figure out shades of how much of the rate goes on any particular transaction. The fundamental philosophy is that the burden falls in justice to the public.

Mr. TREGOE. A large house wrote me the other day that its Atlanta branch was paying $200 a month for exchange charges on checks drawn on nonparticipating banks.

Mr. WINGO. That was a business man.

Mr. TREGOE. Exchange; yes.

Mr. WINGO. He was not able to make arrangements with his banker?

Mr. TREGOE. They were absorbing $200 a month.

Mr. WINGO. In other words, his banker did not feel he could absorb that.

Mr. TREGOE. They were absorbing it.

Mr. WINGO. The banker says, "I am not making a profit and I can not absorb the charge this bank down in the country is making on remitting to us the face of the check that you deposit with us."

Mr. TREGOE. We have an appointment at 12.15 p. m. with the President, but can return this afternoon, if agreeable to the committee.

Mr. WINGO. Some of us are not so much interested in theories as in practical applications.

The CHAIRMAN. We will recess until 2 o'clock p. m.

(Thereupon, at 11.55 o'clock a. m., the joint committee took a recess until 2 o'clock p. m., Thursday, October 11, 1923.)

AFTER RECESS

The joint committee reconvened at the expiration of the recess.

The CHAIRMAN. The committee will resume its hearings. Mr. Tregoe you may proceed.

STATEMENT OF MR. J. H. TREGOE—Resumed

The CHAIRMAN. As I recall, Mr. Tregoe, Mr. Wingo, at the time of the taking of the recess, asked some questions about who was at the present time paying the collection charges—that is, the transit costs—and then you had started in on a discussion.

Mr. TREGOE. We were talking there about the par payments?

The CHAIRMAN. Yes.

Mr. TREGOE. Well, Mr. Chairman, there are phases of that subject which come to you the more you study it. In other words, I believe myself that returning to the old system of exchange charges would tend to the centralization of deposits, something that the Federal reserve system interrupted. In other words, a great many of the sellers of commodities would require their customers to remit in New York funds, which would be an inconvenience and cost to the country merchant.

The CHAIRMAN. Do you think it is a probability that the old custome would ever prevail again?

Mr. TREGOE. The old custom, Mr. Chairman, just as sure as you live, sir, would be restored if you eliminate the par-payment plan.

The CHAIRMAN. What do you mean by that? There is talk now that it is compulsory so far as the national banks, who are members of the Federal reserve system, are concerned. The Federal Reserve Board have declared it optional, so far as the State banks are concerned. Just what do you mean there?

Mr. TREGOE. I mean if the par-payment plan is eliminated.

The CHAIRMAN. Eliminated how?

Mr. TREGOE. Entirely eliminated.

The CHAIRMAN. How would it be entirely eliminated?

Mr. TREGOE. Remove from connection with the Federal reserve system and establish the regulation of that kind and we get back to the old system of exchanges.

The CHAIRMAN. It is not quite clear to me yet. I may be very dumb on that point. But under a recent ruling of the board these State banks and trust companies that were outside of the system now can treat it as optional?

Mr. TREGOE. Yes.

The CHAIRMAN. I believe there is a demand also from that same source that the par collection matter be made optional to member banks. Would that ruling be what you term a return to the old régime?

Mr. TREGOE. No; a return to the old régime would be the abolishment entirely of a par-payment plan system; that is what I have in mind. Now, at present the national banks are required to be in the system. With the State banks it is optional already, and while there are only about 1,600 of the State banks members of the Federal reserve system, yet about 27,000 of a total of 30,000 are in the par-payment plan.

The CHAIRMAN. It has been testified here before the committee that the coercive methods seem to be the disturbing thing, and the statement has also been made that more coercive methods would be pursued, and the par collection system is a pretty well established proposition throughout the country. It has been stated that if the matter was made optional—by these country banks who are represented here through Mr. Jones—that practically all of those banks would remain in the par collection system.

Mr. STEAGALL. It is optional now. The supreme court decision made it so.

The CHAIRMAN. It has been stated by members of that association and to the chairman that if the feud, so to speak were settled, and it was made optional that practically all of those banks now in the system would probably remain in the par system.

Mr. WINGO. I don't think he got that point. The thought I think the chairman has in mind is this, that supposing the national banks were required, as they are by law—if the whole system of par collection was one that was voluntary on the part of all member banks both State and national, do you not think that experience would cause the great bulk of them to remain in it, or would they all get out of it and destroy the system? What is your judgment on that?

Mr. TREGOE. My judgment is this, that if you were to make it entirely voluntary all the way through—member banks and nonmember banks—forces would be at work that would practically disrupt the system. You have got to have in the Federal reserve system that requirement—a requirement binding upon the members of the system and those outside of the system, entirely voluntary. You see the large number of nonmember banks that have voluntarily entered into this system.

Senator GLASS. You do not mean 1,600.

Mr. TREGOE. Only 1,600 are in the system, but the difference between that 1,600 and the number that are in the par-payment-plan system enters into the thousands. But, you see why did they not go in and why will some stay in and perhaps some will go out? Some have. Some few have retired since the Supreme Court decided the constitutionality of the North Carolina act—not many. Some retired immediately and some have come back into the system.

If that is eliminated from the act and is not made obligatory upon the members of the system it would not offer as efficacious—as voluntary a plan. It could not, Mr. Chairman, as we see it.

The CHAIRMAN. The success of the par collection system, then, depends upon its being attached to the Federal reserve system?

Mr. TREGOE. The par-payment plan must be a feature, and a permanent feature, of the Federal reserve system. We have always believed so. And when the Federal reserve bill was under discussion and we sat down with Senator Glass, who was then occupying your position, Mr. Chairman, we told him in those early days that we believed that one of the scientific features of the Federal reserve bill was the provision made for the par-payment plan.

I wish I had the power to convey to you by words just as we see the results of this plan in the business world and what it does.

What is going to be the effect of the Supreme Court decision? I think you will find this: The Federal reserve banks can no longer accept items on depositories that will not pay their checks at par. They can no longer collect by messenger or by any other media; they can no longer coerce at all. It is voluntary upon the banks outside of the system. What is going to happen? You are going to find this: It will put to a disadvantage the merchants using the depositories that are not in the par-payment system. You are going to find after a while thousands of invoices stamped in this wise: "This invoice is payable by any check drawn on a bank that pays its checks at par."

I do not want you to get the idea, Mr. Chairman, that we are at all antagonistic to the country banker. To the contrary, we believe in the community banker. That is our attitude. We believe the community should do its own banking. We believe in the community banker, and we want to build him up and make him stronger. We do not believe in too much centralization. But this par-payment system will in my opinion help to build up scientific banking in this country. And you will not object if I say that we have not an overamount of scientific banking in this country.

It will develop the bank and help the community.

And then I feel so much gratitude for your description of that interrelation of the community with the bank. I will go into a com-

munity—I have done it—and I have seen the spirit of the community. I have seen its progressiveness; I have seen its aggressiveness; and I have immediately said, "This community has good bankers." I have gone into some other communities that were not progressive and I have said, "This community has not good bankers." The interrelation with the banker is wonderful, we believe, and we believe it should be stimulated and sustained, and the stronger and more scientific you make the banker the stronger and more progressive and more aggressive you make the community; and the par-payment plan is the crux of that situation, the facilitation of our commerce.

The CHAIRMAN. You speak of the recommendations of your association in the early stages of the formation of the Federal reserve act. Your association was actively interested in that at that time, was it not?

Mr. TREGOE. Mr. Chairman, to give the history of it, we appeared before Mr. Glass's subcommittee in this very room when he was investigating the banking and currency system, immediately following the election of 1912. We came here and we came as advocates of the Aldrich-Vreeland bill. But we could not get it. You know why, of course. Mr. Glass told us we could not get it, and we were after something that would keep us from having these abominable panics.

Mr. WINGO. You realize there is quite a distinction between the Federal reserve act and the Aldrich plan?

Mr. TREGOE. Oh, yes. Let me finish. We came here, you know, with that advocacy. That is the way we felt at the time, but we could not get it. We worked with Mr. Glass to get the best bill we could, and I want to say to you that we never for a moment believed that the act could perform such great services as it has performed for this country; and we are firm believers in it. We might say that the adherents in Congress were not those who were its original proponents, but those who were brought, after careful study, to believe in the law's science and value.

And we believed to this extent, Mr. Chairman; we believe that properly supported and properly used, and if politics are kept out of its administration, that there need not ever be another panic in this country.

The CHAIRMAN. In that connection, you mentioned, "If politics are kept out of the system." Just what do you mean by that?

Mr. TREGOE. I mean that the administrators of the system, Mr. Chairman, should always be selected for banking ability and not because they are the henchmen of any particular aspirants or any public administrator.

The CHAIRMAN. You say the bankers should manage it. Do you mean just that?

Mr. TREGOE. It is well, perhaps, to put an element of business into the system, because it is a business system.

Mr. WINGO. Is there any distinction in your mind in the effect on the system of having the administrative forces appointed and placed in responsible positions, men who are incompetent, at the solicitation of a Senator or of a Congressman, than it would be if the same thing were done at the solicitation of the banker?

Mr. TREGOE. Let me answer that by saying that I think that in selecting the administrator of the system all kinds of solicitation should be condemned.

Mr. WINGO. I possibly did not make myself clear. You were condemning solicitation, and I agreed with you; that those who are responsible for selecting persons connected with the system or to perform its work should be selected solely upon their merits and their capacity to perform the work for which they are selected and not to please anyone, whether that person sought to be pleased is a man who holds a public office or whether it be a private business head.

Mr. TREGOE. You have stated it.

Mr. WINGO. The general impression I have gathered is that the country was lead to believe that in times of peace maybe those in authority in the Federal reserve system have yielded to the importunities of politicians, the word "politicians" meaning men who are engaged in holding public office or seeking public office. My investigation shows that some of the strongest importunities to unload incompetents on the system comes from men who never held public office and adopt the superior air that they even feel too good to seek public office.

Mr. TREGOE. I want to say very candidly that never has it been brought to our attention that importunities have been made to appoint the administrators of the system by men in public life. Of course, there may be exceptions, but I will say pressure from such sources has been nil.

Mr. WINGO. The point I want to make is that in selecting men for any of these positions they ought to be selected on account of character and qualifications, and not to please anybody, whether it be a business man or officeholder.

Mr. TREGOE. That is the attitude we take, his fitness, because the proper administration of that system is important to all the Nation.

You were speaking about giving publicity to that particular conference held here in a very critical period.

The CHAIRMAN. Before you leave this other subject, I have just one or two more questions: It is frequently stated that one of the reasons why State banks and trust companies do not come into the system is that they are fearful of possible political control of the Federal reserve system. I think it is quite important for the purposes of this committee if it is possible to clear and get just exactly what is meant by that political control that we do so. Is it your impression—and you have no doubt come in contact with that same query or thought—that they mean that the classification of eligibles for appointment which was entered into by legislation recently designating that at least agriculture should be given representation, that that was the injection of politics into the system?

Mr. TREGOE. There was a strong fear, Mr. Chairman, when that subject was under agitation that by designating a representative on the board of any industry or any craft or of any particular business, that it was a dangerous thing to do. We agree with that sentiment entirely. We are not opposed to agricultural representation on the board, but to designate that agriculture be singled out for presentation was a dangerous thing to do; and I really think so far as I can recall now that the sentiments that came to us during that agitation

were aroused by a fear that political control might be exercised to the disadvantage of the system.

The CHAIRMAN. After all, that was only what you might term a gesture to the president who has the appoining power, and was no doubt reciprocated, because there was in the act originally the same kind of a gesture, that in the choosing of the members of the Federal Reserve Board due consideration should be given to certain lines of industry.

After all, is not the political side practically eliminated, because the appointing power is in the hands of the President or is it accelerated because of that fact? What I am trying to do is to clarify this general statement that the fear of political control of the Federal reserve system is being watched by the State banks and trust companies to such an extent that they are standing aloof and waiting to see just what happens.

Mr. TREGOE. If the same vigilance and the same nonpartisanship are exercised by our presidents in the selection of members of the Federal Reserve Board in the future that have been exercised in the past, I do not think there should be cause for any fear, because I do not believe, Mr. Chairman, running down from President Wilson to the present time, that in making appointments to the board the thought of political preferment entered in the least. That is my impression.

Wherever you take a law, its real value, its real efficacy is in its administration. It is a human-made document and it must be humanly executed.

You could not take a banking and currency law and in its very provisions prevent the entrance of certain noxious or deteriorating things into it. It must all come down to our attitude toward it, the attitude of public administrators. The attitude of the appointing power, with his ear to the ground and his eyes open, recognizing that the public expects him in so important a function as that of the Federal reserve system to seek competency and not use his power for political preferment of any kind.

The CHAIRMAN. Right in that connection, another phase is frequently called to my attention by bankers and by business men. It is the supposed interference on the part of Congress with the Federal reserve act or the banking laws of the country. Can you clarify, as the head of this great organization that you represent, just what is meant by that?

Mr. TREGOE. Well, it is this, Mr. Chairman: If you read our history, read it critically, you will ascertain that in a country like ours, compositely organized, and with its strong varying interests, there could not be a unanimity of sentiment on a national banking and currency system.

The second bank of the United States was opposed violently by a number of State bankers who believed that it was usurping their functions and taking away their gains. It was an issue in the Jackson administration, and, unfortunately, the administrator of that bank sought to fight fire with fire and went into politics and received a severe defeat in 1832. At that time there was no organization of business; business was operating on individual lines. Business itself was not hurt by it. Men had not gotten themselves together,

and there was not that spring to the rescue of something that was considered so important and so necessary to the country in the financial crisis of 1816.

With business organized as now on cooperative lines, we can come to you to express and defend and state our case.

The farmer of our country had always exercised a strong political power. His voice is heard in Congress more largely than that of the business man, or I should more correctly say the mercantile man, because the farmer is a business man—but I mean the mercantile man. The farmer has exercised a considerable influence on legislation and when things were against him without analyzing, as we have discovered recently the main causes, believing that the price of wheat went below a dollar because he was not receiving proper support and, notwithstanding the fact that wheat is one of our minor productions—only 6 per cent of our agricultural products of the year, and we raised 18 per cent of the world's crop of wheat, and that poultry and eggs in the total have exceeded the total products of wheat for the past year—without considering the fundamentals, he has gone to Congress and sought legislation.

Senator GLASS. Have you the impression, Mr. Tregoe, that the President is required by law to appoint a farmer as a member of the Federal Reserve Board?

Mr. TREGOE. I do not carry the impression, Senator Glass, that he is, but by implication I get the idea that it is sort of a moral obligation on his part to appoint a farmer member of the Federal Reserve Board.

The CHAIRMAN. Is that implication any stronger than it is to appoint a banker?

Mr. TREGOE. Yes.

Senator GLASS. How is it made stronger.

Mr. TREGOE. Well, because of the agitation for it.

Senator GLASS. It is made stronger by the elimination of the alleged requirement that two members of the board be experienced bankers and the addition to the law of agriculture as one of the interests that may be considered in the appointment of members. My contention is that the President is not under legal constraint or moral obligation to appoint anybody from any particular class of people. It is altogether with the President to say whom he shall appoint as members of the Federal Reserve Board, whether they be bankers or they be theoretical or dirt farmers, or be merchants or manufacturers. The law simply says that in the appointment he shall take into consideration these various interests.

Mr. TREGOE. Coming back to your question, Mr. Chairman——

Mr. STEAGALL. Let me interrupt right there.

Mr. TREGOE. Yes.

Mr. STEAGALL. The original Federal reserve act provided that the President in making appointments of members on the Federal Reserve Board should take into consideration the industrial, commercial, and financial interests of the country. The exclusion of the agricultural interests from the provisions of the act was one of the things that was often pointed to as a basis of criticism against the policies of the Federal Reserve Board and the personnel of the Federal Reserve Board; and the Congress amended the law in deference to that appeal, in the thought of removing whatever possible basis

of criticism could be found in that fact, and by inserting the provision which placed the agricultural interests of the country on an quality with the financial, industrial, and commercial interests to be considered by the President in making up the personnel of the board.

The CHAIRMAN. I suppose what Mr. Tregoe refers to is that that was done in response to a demand from the agricultural interests of the country that they were being discriminated against by the financial, industrial, and commercial interests of the country.

Mr. TREGOE. I would like to say to Mr. Steagall, in reply, that entering the word "agricultural" was superfluous.

Senator GLASS. I was just about to say the same thing.

Mr. TREGOE. Because, theoretically and scientifically, the interests of the country divide themselves into its industries, its commerce, and its banking, and agriculture falls within those first two provisions. Therefore by inserting agriculture it was nothing more than explanatory and did not for one minute expand the provisions of the act or the appointing powers of the President.

Mr. WINGO. Will you permit a suggestion right there so that you may see the viewpoint of Congress when it made the last change? The contention was made that by failing to mention the word "agriculture" that that was a discrimination. That contention was met by the contention of others that agriculture was one of the big industries of the country, and it was neglected. So when the specific bills which would require a dirt farmer to be put on the board came up there was the agitation. The opposition said that it was picking out a distinctive class. Then those who proposed that said, "You have already picked out a distinctive class of bankers." One of the most conservative business men in this country urged that the wise way to meet it was not to add any additional class as a group, but to eliminate the distinction already there and to meet any possible criticism let the law be amended so that the President should take into consideration the industrial and the commercial and agricultural interests—the three broad divisions that are supposed to be cared for—and not have any class as a particular occupation, but the business be referred and not the class of the man. So the theory of the conservative business man prevailed and not the theory of the dirt-farmer class.

I think if you will investigate the statements made on the floor and the letters that were brought in you will find that that was done. In other words, Congress did not yield to any clamor one way or the other, but decided that the best way to compose the situation was to let the law be broad in its general terms, recognizing, as the Senator pointed out, that in the last analysis the President of the United States has the power to appoint every one of these men, if he wants to, bankers; every one of them, if he wants, a credit man; every one of them, if he wants to, woolgrowers or anything else. But there was a broad distinction of classes that he should take into consideration, which I have not the slightest doubt that a President with a broad conception of wise policy would take into consideration, whether enjoined by legislative statute or not.

Mr. STEAGALL. As a matter of fact, not criticizing those who prepared the Federal reserve act, it was really not the way to legislate

to attempt to state in the act what considerations should govern the President in selecting the persons to constitute the membership of he Federal Reserve Board. It would have been enough to place the appointing power in the President, and if I had had the whole matter of changing the law in my hands I would have as soon stricken out the instruction to the President that he should consider financial, industrial, and commercial interests in making up that board as to make the direction that he should have considered the agricultural interests, because none of it has any business in there and none of it means anything.

Mr. TREGOE. In preparing a bill like this, the framers do not notice it, because if we in preparing anything wanted to cover the entire interests of the country, would say we take into consideration the industrial, commercial, and financial interests, agriculture falling directly within the three classes.

Coming back to your first statement, Mr. Chairman: You know this question of banking and currency involves the great big problem of banking; it is very difficult to understand, and I think it is too chimerical to believe that we can get Congress, representing all the different interests in this country and the different types of men, to reach unanimity on banking and currency matters. It is a difficult subject, and I judge that some of the banks and trust companies prefer to remain out of the system because of the uncertainty of legislation. To me, Mr. Chairman, it is not a wise policy, and, furthermore, I do not think it is an entirely loyal policy. We put ourselves in the hands of Congress. Congress has its great, broad powers. We can not expect Congressmen to be demigods; they are only human beings like the rest of us, and Senators as well.

Senator GLASS. My colleague there from Alabama seems to think that the Presidents are demigods. I think Presidents are just as human as many of the rest of us, and it is my contention that we did a wise thing when we required that the daily occupations of the country should be considered; and we required, and I think wisely, that the geographical sections of the country should be considered. We did not want the President to appoint all the members of the board from this hateful spot called Wall Street, you know, of which I am said to be the "representative" here on this committee. [Laughter.] We wanted the President to recognize there were other parts of the country, insignificant and unimportant, but still other parts of the country.

Mr. STEAGALL. I think it is all right to specify that in making appointments where there are a number of places to be filled that geographic considerations should not be overlooked, because that is the customary method of legislation, and it has practical application. But to say that the President shall give consideration to the basic industrial agents of the Nation in dealing with a matter so important as the appointment to membership on the Federal Reserve Board would be about like saying that he would consider the character and common honesty and good standing in the community of the various men before appointing them. That is why I made that suggestion. I do not think there was any harm in it, but I think it was a superfluous thing.

Mr. TREGOE. Mr. Chairman, if I were permitted to indulge a criticism coming from my studies about political history, I should

think this, that Congress is often misunderstood and puts itself in the light of being misunderstood because it has shown preferences for certain interests that too frequently dominate. You can not get away from that as you read all the way through any political history, no matter what it is, and of all the interests that have been permitted to exercise influence it is the mercantile and agricultural interests. And the agricultural interests have dominated our legislation very much more than the mercantile interests.

When we obtained the bankruptcy act in 1898 we could not get Congress to put our farmers and laborers on the same basis with the merchants. The bankruptcy act does not permit us to put a farmer or laboring man into involuntary bankruptcy, but gives the farmer and laboring man the right to petition for bankruptcy.

Mr. WINGO. You refer to history. Unfortunately, history, especially modern history, is written by the extreme partisans of one view or the other. Take the history of the Federal Treasury. When I want to have a moment of relaxation I take down some books that have been written to tell the inside story of the Federal reserve act, and then for comparison I take some private notes I made as a member of the committee, and I find plenty of amusement. You have the idea, representing one class of men, that Congress is yielding to another class. It may possibly interest you to know that one of the strongest criticisms of Congressmen—and it goes back of this agrarian movement in the West—is that those men charged and they believe that the Congress will not listen to the farmer and is dictated to by the commercial interests. And may say this, in my humble experience of 10 years in Congress, I came here with the idea that you have, that farmers absolutely dominated Congress. I have had that feeling swept away. I am not charging undue influence. My candid judgment is that the organized business forces are represented by the shrewd business men, and that they exert more influence in legislation than any other class of people. That is my candid opinion.

Mr. TREGOE. I am delighted to get that view.

Mr. WINGO. If you would come with some of us who represent an agricultural constituency and have to answer the charge that they are not represented by the organizations having as shrewd men as, say, the manufacturers have, and hear the charge and suspicion that is hurled against any man who tries to keep his poise in Congress, hold the scales even, and think of the long future of the country whose destinies he is trying to shape. then I thing possibly you would revise your opinion of Congress a little bit.

Mr. TREGOE. I would be perfectly willing to, Mr. Congressman, because I have so much respect. No one knows better than I do that this country can not be prosperous unless her agriculture prosper.

Mr. STEAGALL. I do not think you will find so much tendency in Congress to attempt to follow the interests of a majority as in the fact that Congress is often controlled by the forceful appeals and methods employed by organized, well-disciplined minorities. That is a great evil that has crept in.

Mr. TREGOE. Do you not believe the public sentiment that the history of this country outside of Congress has been dominated always by the minority—it is the well digested opinion.

Mr. STEAGALL. My opinion is that minorities generally control elections. I think I can take the minority and win the election easier than with the majority.

Mr. WINGO. May I classify the appeals I get from my district and say that for one appeal letter I get from either a farm organization or farmer I get a whole bundle from manufacturers and business men in my country. It is not unusual for me to come down to my office in the morning and find that 130 or 140 of my banking constituents have sent me a telegram in identical language; and I find that true of the wholesale merchants of my district; I find it true of the chamber of commerce. I can show on my desk to-day a lot of letters from one business organization in my district, each a personal letter to me, and yet if I strike out the date line and the salutation and the concluding remarks, they would be identical, comma for comma and period for period.

Mr. TREGOE. Do you not recognize, Mr. Congressman, that in the minds of those enterprises there is a consciousness that they have got to work tremendously hard in competition with the agricultural interests to get what is their right?

Mr. WINGO. I have stated to my constituents, both the business clubs and others, that they are not free from gentlemen whose salary frequently depends upon their clients being impressed with their activities and their influence with Congress.

Mr. TREGOE. You are not hitting at me, are you?

Mr. WINGO. No; not at you. I never got a telegram from you that was influenced by some gentleman sitting down here whom I will never see. If you could just see the chairman's mail and some Senator's mail, you would get it out of your mind that the farmer is the big active force in this Nation in trying to get legislation.

The CHAIRMAN. Frequently, I might say, that when a series of telegrams with the same substance running through them comes that the Congressman can often tell what influence initiated them.

Mr. WINGO. I often tell gentlemen down here who are responsible for such things that if they would send the copy of the statement that the Congressman had made publicly on the floor of the House he might save his organization telegraph tolls.

Mr. TREGOE. You see from that, Mr. Chairman, right straight through that all of us sometimes act without having predigested matters, and I think it very fine when men can sit down and talk with one another just as we have permitted us to talk with you to-day. There is one thing about our organization that I am very fond of. I have always been in credits. I was president of this organization 20 years ago. Now, I have been demoted into the office of secretary.

Mr. WINGO. I think that is a very fortunate thing. I want everybody to let me hear from them. Congressmen sometimes, I suspect, frequently make mistakes, and I am really surprised they do not make more of them.

Mr. TREGOE. I think you gentlemen can not recall receiving very many communications from the National Association of Credit Men, because we do not try to tamper, and when we have anything in particular we proceed to do it after most careful consideration.

The CHAIRMAN. I am ready to give you this credit, Mr. Tregoe, that in the par-collection fight your organization was most successful. Your members were right upon their tiptoes in sending telegrams.

Mr. WINGO. I intended to bring over here a sheaf of those old telegrams for a certain purpose and call attention to the similar wording.

Senator GLASS. I wish our constituents would write us oftener, and then, perhaps, we would have saner legislation. Pending Federal reserve legislation, I think I am within the bounds of exactness when I say I did not get three letters from the bankers of Virginia. I do not mean in my own district that I particularly represented, but I mean the whole State. I did not get any letters from any of them at any time—anything about legislation. Happily for me, perhaps, they seem to think when they send me here I represent their interests as best I can, and they let me alone. They do not bother me; I wish they would bother me some.

Mr. WINGO. They do not bother me. I get very valuable information.

Senator GLASS. It makes a man feel sort of aloof not to have his constituents communicate by letter with him. I am glad when you send me a telegram or letter, and I wish you would do it often.

The CHAIRMAN. Mr. Tregoe, I was interested in your recital of the history of these different panics and banking situations, particularly in regard to the old United States Bank situation. You did that in response to a question I propounded as to the clear definition as to what political domination in control of the Federal reserve system might mean. You stated there that the primary cause of the downfall of the old national bank was the fact that the United States Bank itself got into politics, entered politics deliberately, as I understood you. The situation, as contrasted with the present, is quite different from that, is it not?

Mr. TREGOE. Absolutely.

The CHAIRMAN. The fear on the part of the critics is that politics is going to jump in and control the Federal reserve system.

Mr. TREGOE. The administrators of the Federal reserve banks, Mr. Chairman, have been exceedingly discreet, and they have kept themselves free from political interferences or from politics in every way. That was demonstrated recently. We sent to Governor Crissinger a few letters on the subject of par payment, and I wish you would see his response to those letters, indicating that the Federal Reserve Board had nothing at all to do with the politics of the question; and that part was with the business people of the country. It was a very discreet letter, very prudently worded and drawn, and we have not on the closest scrutiny discovered the slightest political movement on the part of any administrator of the Federal reserve bank.

The CHAIRMAN. You spoke of the politics of the par-clearance matter. Just what do you mean by "politics" in that connection?

Mr. TREGOE. Any effort, Mr. Chairman, on the part of the Federal reserve banks to prevent unfavorable legislation in Congress.

Referring to the second bank of the United States, the president participated in the campaign and, deliberately, to bring about the defeat of Andrew Jackson in the election of 1832. The bank was

trying to save itself, and they felt its salvation was in the defeat of Andrew Jackson; and the administrator of that bank entered the political arena. It was an imprudent thing and, in my opinion, simply led Mr. Jackson to draw the conclusion that in his overwhelming majority the public had spoken and had condemned that institution.

You will find that these Federal reserve administrators, from the board members down, should take no part or exercise no direct influence in preventing any action of Congress regarding the par-payment plan. They have their ideas. But that par-payment plan, Mr. Chairman, of the Federal reserve system is a business institution. It has done a great service for business, and we consider it within our legitimate domain as a credit organization to stand in its defense and to speak to you as controlling that system.

The CHAIRMAN. In that connection, I am interested here in an editorial in one of the leading industrial papers of the country, in which direct reference is made to this par-collection matter. They point out that the Federal Reserve Board is not acting in accordance with the Supreme Court decision. They also point out here in that connection that unless the Federal Reserve Board does comply with the edicts of the Supreme Court it will be a big political question, and a President may be elected just on that one issue. Is that a fair statement?

Mr. TREGOE. That statement is not fair in our opinion.

The CHAIRMAN. The article I refer to winds up by making this criticism of the Federal Reserve Board, that they are not conforming to the edicts of the Supreme Court and interpretation of the law, and that upon the answer of the Federal Reserve Board will depend not only the presidential campaign of next year but the financial history of this country for many years to come.

Mr. STRONG. Are you reading from the Wall Street Journal or the Manufacturers' Record?

The CHAIRMAN. The Manufacturers' Record of October 23, on page 66.

Mr. TREGOE. I feel that the editor is prejudiced.

The CHAIRMAN. Mr. Tregoe, is it not fair to suppose that that paper, being read by the class of people that do read it, is apt to pervert the public mind to some extent on matters pertaining to the Federal reserve system?

Mr. TREGOE. That kind of an editorial, Mr. Chairman, will affect some people, undoubtedly. But you will find that that editorial in the hands of the average mercantile man would have no effect at all.

I want to say to you from my own observation since the decision of the Supreme Court—I studied it very carefully—and as for myself, while regarding it as important, yet at the same time I have not been led to believe it was such a great misfortune. But since that came about the Federal reserve banks have changed their methods. There is no attempt at coercion in the least. The items on depositories not paying their checks at par can not be accepted; and if you were permitted to look into the methods and practices of the Federal reserve banks since that decision was handed down you would find my views are entirely sust[illegible]

Mr. WINGO. Possibly there are some extreme criticisms on both sides of this question being indulged in in magazines?

Mr. TREGOE. Mr. Congressman, of course it is natural on a question like this, but to be entirely clear and conscientious in your opinion we can not find fault with a man who does not think just as we do.

Mr. WINGO. I do not. That is the point I want to get at, that the wise man will not be befuddled. He will keep his feet on the ground and he will always make due allowance for the partisanship of parties on both sides of the controversy, will he not?

Mr. TREGOE. The man who wants to be fair will consider any big question from both angles. He will take both sides of the question; he will not become impatient with a man who does not agree with him. We have our views and we express them.

I want to say to you from what I know that the big body of business in this country—and by that I mean the mercantile interests of this country—are thoroughly persuaded of the vital importance of the Federal reserve system and the par-payment plan.

Mr. WINGO. They think they have demonstrated their wisdom!

Mr. TREGOE. They clearly do. After the deflation of 1920, Mr. Congressman, we have calculated that the depletion cost in two years not less than four billion. But we had no panic.

The CHAIRMAN. Does your analysis show how that four billion was distributed among the different classes of industry?

Mr. TREGOE. It was distributed all along the line in lowering prices of the commodities on hand; the manufacturers had overproduced.

The CHAIRMAN. You did not quite get my point there. Have you classified the losses to the different lines of industry; for instance, the steel industry, the manufacturers, and the farmers Was there a classification made as to how that four billion was distributed?

Mr. TREGOE. There was not any classification. The steel industry suffered tremendously by the lowering price of the commodities.

The CHAIRMAN. It has been claimed many times before the House Committee on Banking and Currency that a larger percentage of this deflation was loaded on the farmer.

Mr. TREGOE. No; no; that could not be so.

The CHAIRMAN. Is it your observation that the class of industry you represent suffered equally with the farmer?

Mr. TREGOE. Absolutely. Mr. Chairman, in 1919 we lost our heads; we went along—manufacture, wholesaler, retailer, farmer, and banker—as though we were living in one Arabian Nights parade. They took the credit of the bank and converted it into fixed capital, extended their plants, putting in new machinery, merely because they felt that this abnormal demand was going to be permanent, and they overproduced.

The CHAIRMAN. Was it not a fact, too, that in that same period there was a great pyramiding of orders, shortage of deliveries, and concerns who had plenty of goods yet on their shelves would place orders for perhaps ten times what they wanted, distributing orders around the country, with the hope they might get what they thought their requirements would be?

Mr. TREGOE. The pyramiding of orders is always the first sign of inflation.

Mr. WINGO. Do you have in mind, regardless of the merits or demerits of the proposition, that whatever the proportionate part of the loss might be it was a cold fact that inventories had to be marked down by everybody who held commodities?

Mr. TREGOE. Everybody who held commodities.

Mr. WINGO. Sooner or later they marked them down. Some of them carried their stocks on their books, deferring the evil day as long as they could, but finally everybody came around to the realization of the fact that there had been a loss and marked it down on their inventories.

Mr. TREGOE. Some of the inventories were marked down more stringently at the end of 1921 than at the end of 1920.

Mr. WINGO. Some are still engaged in marking down inventories.

The CHAIRMAN. Did you find also that the losses of inventory were so great that if they charged them off it would have wiped out all assets and a deficit would have developed?

Mr. TREGOE. Would that I had the power to give a description of the condition in this country in 1920. It was appalling. We maintain from our critical analysis that if it had not been for the support offered by the Federal reserve system, which let this liquidation come down in orderly fashion, failure in one-half of those enterprises would be facing me to-day. It would have been the most appalling disaster that ever befell the country.

I have sometimes marveled that we talk so much and magazines make so much of the increase in the rediscount rates. We never did get the science of the rediscount in this country. The science of the rediscount is that the rate of rediscount shall always be larger than the prevailing rate for money.

Senator GLASS. It is always so in the European countries where they have central banks.

Mr. TREGOE. The Bank of London claims to keep the rediscount rate a little above the market rate for money, to discourage speculation. We have taken the opposite view of it here, and if the rediscount rate is raised there is an awful howl.

Mr. WINGO. Do you not think in justice to the board and to the banks which initiate and the boards that approve the rates, that they certainly have used their judgment as practical men, recognizing different conditions in this country and England?

Mr. TREGOE. Mr. Congressman, the Federal reserve system is an American system, purely and simply, and I think when you get together a body of men such as has been gotten together over the country to constitute the Federal Reserve Board the have done remarkably well. That is the way I look upon it.

Mr. WINGO. Can you imagine what would happen if the Federal reserve banks, all of them tomorrow, should come up here and ask the board to approve a rediscount rate higher than the prevailing market? Could you contemplate what would happen?

Mr. TREGOE. It would create a revolution. We would not be able to live through it. But, that is the science of the rediscount.

Mr. WINGO. The American business man, as well as banker, sometimes feels that experience and horse sense are worth more than theory?

Mr. TREGOE. I was in the Middle West in 1920, and I found a leading bank in one of the larger cities of the Central West which had borrowed from the Federal reserve system ten times its capital and surplus; and that was the situation with many banks—loaning it out just to pyramid and to inflate.

Well, it was quite a story, Mr. Chairman, and now the thing is, have we learned the lesson well enough not to repeat it? The Federal reserve system did a magnificent piece of work, and because they did a magnificent piece of work we do not want it tampered with, and we just come here to tell you what we think of it and our equal faith in the par payment.

Mr. Chairman, we are in a crisis in this country now. We could not have the world out of order as it is without feeling it, and we are laboring with some very complex fundamental situations. The business world is struggling with high cost gold. It is a farmers problem; it is the mercantile problem—high costs. We have a system in this country of producing capital from profits. The largest part of the capital has come from the profits of business. The laborer would take a reasonable share of the income and the management and ownership would take a share. The portion left for the management and ownership has gotten so small that profit-making is exceedingly difficult. We are watching it very carefully, because it bears on the credit situation. As I told you, confidence is the backbone of credit; confidence is shaken when the material values are shaken; and this question is very big.

When you come down to the matter of exchanges and this par-payment plan—if exchanges were charged—take an organization like that of Mr. Pouch's here in the steel business. I venture to say that the collection of his items would be not less than $10,000 a year when you count the many billions of commodities circulated annually on the check payment plan, and subject those checks to tardiness of movement, the exchange—it is something enormous.

We believe in the community banker whom you want to build up. We believe the community banker can render this community a real service by so arranging his reserves that they will join with the facilities offered by the Federal reserve bank, whereby he can pay on the checks of his depositors without any cost to them, without any cost to the payees, and with a very slight cost to himself that can be absorbed.

Senator GLASS. Mr. Tregoe, you have spoken of the amount of loss that would accrue to a large corporation. Is not the exaction a very much greater hardship on the man of very modest means, with a very modest bank account?

Mr. TREGOE. Yes; proportionately it would be.

Senator GLASS. That is what I mean, because many of these banks instead of charging one-tenth of 1 per cent, as perhaps would very likely be the case on the large checks of large corporations, would charge a farmer or a poor man with a moderate bank account a minimum charge of 25 cents on his check, whether it be for a dollar or $10 or $15. So that the exaction in the last analysis is much greater on the man of moderate means than it is on the great corporation whose checks are frequently for thousands of dollars.

STATEMENT OF MR. W. W. ORR, NATIONAL ASSOCIATION OF CREDIT MEN, NEW YORK CITY, N. Y.

Mr. ORR. I have only to emphasize a point or two already made by Mr. Tregoe, that our interests lie in the increase of the general acceptability of checks throughout the country. We do not like the idea of the city merchant feeling it necessary to ask his country customer to pay his acounts in checks drawn on central cities. We think that tends to concentrate banking resources in the central cities, a tendency we have been aiming to head off. We believe that the extension and maintenance of the par system means that money will be kept at home for the building up of the community in which it originated. The acceptability of the checks of all banks in payment of obligations will have this tendency.

One of the powers of Congress was to make a uniform currency. I do not remember the exact wording. We find later in the time of the Civil War that laws were passed which resulted in the elimination of the State bank notes. They had been most unsatisfactory because some bank notes were at par and others at a discount. Then came the national-bank note with uniformity of value everywhere. To-day the check is the currency of the country; 95 per cent of our obligations are settled by checks and being practically the currency of the Nation we want to bring it up to a par basis no matter the name and place of the bank given on the check. Orderly business requires that the check currency be worth its face amount and uniformly acceptable in the liquidation of obligations.

The CHAIRMAN. In other words, if there is an expense on the part of the transit departments of banks, and the time consumed necessarily between distant points and centers, that that shall be paid and borne by some one outside of the person who draws the check and the party who receives it.

Mr. ORR. The Federal reserve system has provided a national facility such as was impossible under any other system. You can conceive of no system of collection that can do this great clearance work with so great economy.

The CHAIRMAN. I agree with you in that respect.

Mr. ORR. The cost is almost infinitesimal when you consider the great figures of Federal reserve clearings each day over $550,000,000.

The CHAIRMAN. Eliminating the entire expense, there are some additional steps to be taken.

Mr. ORR. Some of the clearing houses will have to be converted, but out of 330 clearing houses in the country, I believe there are only 30 at the present moment that are requiring member banks to make the interest charge.

The CHAIRMAN. Is there not a movement to get them to abandon excessive charges?

Mr. ORR. There is an effort to reduce them and an improvement in this respect is taking place.

The CHAIRMAN. How is it being proceeded with—being initiated by the Credit Men's Association?

Mr. ORR. We have taken that up through our local organizations, but already great progress has been made in the fact that

out of 330 clearing houses only 30 are requiring member banks to make an interest charge.

The CHAIRMAN. What is the highest rate of interest that is charged for the time that elapses on the collection of checks?

Mr. ORR. A rate I have been told about for a certain city amounts to a very heavy toll.

The CHAIRMAN. More than 6 per cent?

Mr. ORR. Yes; it amounts to more than 6 per cent. Of course, there is a minimum charge on every check, and most of the checks are small checks.

The CHAIRMAN. And the volume mounts up?

Mr. ORR. The volume of small checks is large and the charge as high as 85 or 90 per cent per annum in the city I have in mind.

The CHAIRMAN. Is it your hope that when you are through with your campaign you resolve the entire expense within the transit department of the Federal reserve banks, so that any charges made will be absorbed out of the net earnings of the Federal reserve system, so that will mean that ultimately no bank or merchant or anybody else will be making any profit out of the collection of checks?

Mr. ORR. Yes.

The CHAIRMAN. That it will be the part of the general routine business of banks and necessary part of the operation of banks?

Mr. ORR. I think, Mr. Chairman, that is a fair statement. It is not a proper place to make a profit in the payment of checks; I think it is to the advantage of commerce that there be no charge for the payment of checks.

The CHAIRMAN. Then, in other words, the charges being absorbed entirely in the Federal reserve system, that reduces the earnings of the Federal reserve system and inasmuch as the net earnings, after 6 per cent dividends to member banks who are stockholders has been paid, the balance reverts in the form of franchise tax to the United States.

Mr. ORR. It might diminish the revenue to the Government slightly, but I believe it has been figured out that the cost of handling this enormous amount of checks is almost infinitesimal compared with the volume.

The CHAIRMAN. As I recall, the statement has been made before the different committees here that the expense of the transit system of the Federal reserve banks is within $10,000,000 annually.

Governor CRISSINGER. About 26 per cent of the total expenses of the Federal reserve banks.

The CHAIRMAN. Twenty-six of the total expenses are attributed then to the transit deposits?

Mr. ORR. I think $10,000,000 is an outside figure.

The CHAIRMAN. So that probably through that method this expense is widely distributed as is possible?

Mr. ORR. Yes.

The CHAIRMAN. Because that money, going into the Treasury, reduces the taxes which all of the people have to pay toward the maintenance of government?

Mr. ORR. Everybody is interested in the settlements of commerce.

The CHAIRMAN. So there is where the final load ultimately rests?

Mr. ORR. All advantage—the fact that the Federal reserve performs the work with an economy that can not possibly be approached by any other instrumentality.

The CHAIRMAN. That is the correct analysis of that situation, is it not?

Mr. ORR. Yes.

Governor CRISSINGER. The record shows that it was four and a half million for the par collection checks, but that does not include the services performed for the collection of noncash items and free service for bonds, etc.

The CHAIRMAN. It does include salaries and services of employees and the distribution of overhead management of the banks in the transit departments?

Governor CRISSINGER. Yes.

STATEMENT OF MR. EDWARD BAINS, MANUFACTURER, NATIONAL BANK OF NORTH PHILADELPHIA, PHILADELPHIA, PA.

Mr. BAINS. We were talking at lunch time, and I said my observation of the banking situation in Philadelphia seemed to me to indicate that the effort should be made more to keep the national banks now in the system within the system—it was more important than to bring the smaller banks outside of the system into it. There seemed to be a feeling among the Philadelphia national banks that the requirements of the office of the Comptroller of the Currency would be so irksome that a great many of them were feeling that they could have a great deal more freedom under the State system than under the national system and still maintain their connections with the Federal reserve system, being in the State system. But, of course, the Federal reserve would lose their support as a national bank in the national system.

In Philadelphia there have been two large national banks in the last year which have gone into the State system, and that seems to be a tendency, which I should think would be a very good thing for the men who have the making of the laws in connection with the banking system to consider.

The CHAIRMAN. One of those banks was the oldest bank in the United States, was it not—the one Robert Morris started in 1781?

Mr. BAINS. The Bank of North America. I think it was the only bank that had national connected with its name.

And the other is the Ninth National. That is a bank that handles a great many manufacturing accounts and is located in the Kensington district.

All this talk about getting new banks to come into the system was not as important as these older banks going out of the system.

Senator GLASS. I suggested at the very first that this inquiry might be how to keep the national banks in rather than how to get the State banks in.

Mr. BAINS. I took lunch only this week with a banker who had been in the system for 45 years, and he said the banking business today is so surrounded by regulations that you refer to one regulation of the Federal reserve system to find out whether you can do a thing

and the proper way to do it, and then that refers to another regulation. He said when you got through you did not know the proper method to pursue; that it is so involved you do not know whether you are doing the right thing or not; and then the bank examiner comes around and says, "Why did you do this?"

I find from my connection with the bankers and conversation with them that that feeling is growing, and that a great many of the national banks are feeling a restraint that is becoming very irksome.

I am not president of a bank; I am not an executive. I simply sit on the board. I know we have what we consider a number of annoyances. They may all be for the good of the entire system. They may be irksome in some cases where it is necessary in some other case, but it does seem a pity that the big national banks are losing their interest.

I said the president of the Ninth National—I was talking with him while he was making the change—"Now, do you not feel kind of lonely giving up your national charter and going into this new organization?"

Governor CRISSINGER. He was going into the State organization because he did not have the same kind of supervision as he did under the national?

Mr. BAINS. I think he was going into the State system because they had a branch. They owned a trust company, and they realized that the State bank was more advantageous to turn the national bank organization into the trust company than it was the trust company into the national bank.

Governor CRISSINGER. I understand you to say they claimed there was something irksome about the supervision of the comptroller's office. Do you not think it a pretty good thing to have rigid supervision of banks, even if it hits your own bank?

Mr. BAINS. I think it is necessary.

Mr. ORR. Mr. Bains did not feel quite sure where it stood; that they seemed to be more or less of a conflict between two forces, the Federal reserve system supervision and the comptroller's office supervision, and that there was an uncertainty which left them in the air more than State institutions, where they got a direct and positive passing on questions that came up.

Mr. BAINS. I might say something to illustrate that very point: I know a transaction in Philadelphia that was criticized by the bank examiner from Washington, where a national bank with which I have a connection and which the cashier brought to my attention. You take the State banks: The principal loans are on real estate. That may be why so many State banks do not want to go into the national system, because they have no use of the rediscount privileges. They can get rediscount from their correspondent banks, but not from the Federal reserve bank, because most of their bonds are on real estate; that is, in Pennsylvania. But this national bank had made a loan to a party who owned a large property on which there was a mortgage. Now, the national bank could make a loan to that part on single-named paper. The party was perfectly good for it, but to protect themselves they took a judgment note covering this property. But the property was not clear, and the bank examiner came into the bank and made them throw out that loan with that

security, because they were not allowed to take real estate for security, which, as I understand it, was mortgaged.

Governor CRISSINGER. And filed with the prothonotary.

Mr. BAINS. Yes; with the courts. That is an everyday transaction with the State banks.

The CHAIRMAN. That was really a second lein on the property?

Mr. BAINS. We could have loaned that man money on single-name paper, as he was perfectly good for it.

Senator GLASS. Of course, the Congress could not adopt the national banking system according to all the varying laws of different States in matters of that kind. I believe that there have been a great many useless requirements, involving great and unnecessary annoyances in statements that were to be made in the inquiries that were to be answered. Of course, that can be and I imagine largely has been corrected, Governor? Is the interrogatory sheet of the comptroller's office as expensive as it once was?

Governor CRISSINGER. About half.

Senator GLASS. I imagine that that has been corrected and may be further cleared, but we could not adapt a national bank system to the multiplicity of permissible things that State banks are allowed to do.

Mr. BAINS. I do not want you to think for a minute that I am criticizing in any way the functions of the national bank. I am simply stating that that feeling exists. There is an undercurrent of that kind.

Senator GLASS. Did not that feeling arise some time ago when the banks of the country as a general proposition were not quite so favorable to the comptroller's office as they had been in times past and maybe hereafter.

Mr. BAINS. It might be that. Mr. Chairman, that is not made as a complaint of the bank with which I am connected.

Governor CRISSINGER. I want to say before I put these documents in that the board has authorized me to state to the committee that they would furnish a man at any time to help your secretary arrange these exhibits so that you will have them in proper order if you so desire.

I was asked to furnish these things, and I am handing to the stenographer a statement entitled "Earnings of Federal reserve banks from discount and other operations during 1922, and disposition made thereof."

I am handing you now a statement of "Daily average member banks' reserve deposits of Federal reserve banks during 1922, interest thereon at 2 per cent, and net earnings of Federal reserve banks after paying dividends and making transfers to surplus authorized by the Federal reserve act." It would show that at 2 per cent it would cost the system $35,622,440.

The next is "Number of member banks in each Federal reserve district accommodated through discount operations, number not borrowing from the Federal reserve bank, and the number borrowing in excess of basic discount line." This is a very illuminating statement and it would answer Governor Strong's question. It shows during 1920 and 1921 there were 2,688 banks in the system that did not borrow of anybody any money and that in 1921 there were 2,426

that did not borrow any money, or about one-third. It is significant, if you will look at this statement, that the greater number of banks that did not borrow anything was in the distressed districts in the United States during 1920 and 1921, which is a very wholesome observation.

Here is the "Franchise tax paid to the United States Government by the Federal reserve banks." It shows that the banks have paid $135,387,941; it also shows the surplus account in each Federal reserve bank up to October 9, 1923, which shows surplus of $218,369,000 in round numbers.

I next submit statement of "Gross earnings of the Federal reserve banks from the opening for business on November 16, 1914, to June 30, 1923." It shows the total of those earnings both from the discount operations, open market operations, and all other, a total of $572,959,219.

Senator GLASS. Are those earnings calculated as the earnings of a national bank are?

Governor CRISSINGER. They are the actual earnings for each year.

Here is statement of "Current expenses of the Federal reserve banks, also expenses of the fiscal agency departments reimbursable by the Treasury Department." It shows the current expenses for the whole time of the system to be $153,406,791. This is exclusive of the reimbursable fiscal agency department expenses shown in the last three columns, which amounted to $47,357,724.

I would like to say to this committee on this item that the board has been advised recently that in the last appropriation there was no appropriation made for the fiscal operations of the Government which would require, if they were made, the expenses of these operations of the Treasury Department to be paid out of the earnings of the Federal reserve system, and, to my mind, it is fundamentally unsound, which amounts to pretty much the same as issuing German marks to run the Government. The last appropriation bill omitted the item.

Senator GLASS. Do you want the banks to do that work for the Government for nothing?

Governor CRISSINGER. They take the position that the banks are making a lot of money.

Senator GLASS. If the banks are making a lot of money, that is, the banks do not belong to the Government of the United States?

Governor CRISSINGER. No; and it is the wrong principle to ask the banks to pay these charges and not be reimbursed for them, because it would be fundamentally unsound.

The CHAIRMAN. Does this come to the Congress through the Budget Committee?

Governor CRISSINGER. No; I think it comes through the Appropriation Committee.

The CHAIRMAN. It is reported by the Budget Committee or by the Appropriation Committee. What is the amount involved there, Governor?

Governor CRISSINGER. This year it will be, in round numbers, two and three-quarter millions. There have been as high as $16,000,000 spent.

Senator GLASS. On that theory, if the banks should happen not to earn their dividends, the member banks owning these banks would not get any return upon their investment?

Governor CRISSINGER. It would be imposing an expense that might deprive the banks of dividends.

I was requested to give you the cost of bank buildings and grounds at the present time, and this exhibit will give the cost of bank premises of Federal reserve banks and branches to June 30, 1923, which amounts to a total of $63,636,088.

Senator GLASS. Paid out of the surplus?

Governor CRISSINGER. Paid out of the surplus.

I was also asked to furnish this statement, "Number of State banks and trust companies in each Federal reserve district on May 31, 1923, connected in any way with the Federal reserve system." It shows that 21,566 total of banks, of which 1,644 are member banks and 181 are what they call affiliated banks carrying balances to take up their checks.

Mr. WINGO. In other words, it shows the actual member banks, and then shows affiliated nonmember State banks?

Governor CRISSINGER. Yes; and it shows the number of State banks to be 17,462.

And at this point, I would like to call your attention to a statement often made, that these par-clearing banks other than these 181 have to carry funds with the Federal reserve banks, which is not true. They make no deposits at all. There are only 181 State banks, nonmember banks, that carry any funds with the Federal reserve bank. There are a total of 2,279 banks of May 31, 1923, that were not cleared.

On the second page of this last exhibit you will find the total amount of money deposited with the Federal reserve banks by the 181 affiliated banks, amounting to $21,939,342.68, of which one bank in Cleveland——

Mr. WINGO (interposing). What districts now, are those banks in?

Governor CRISSINGER. Well, sir; Boston has no affiliated bank; New York has 14, with $15,937,782; Philadelphia has none; Cleveland has one, with $1,228,478 deposited for safe-keeping. They carry it across the road and leave it.

The CHAIRMAN. Most of those deposits are for safekeeping?

Governor CRISSINGER. Yes. They would not have to carry that much, because it is a great deal easier to carry deposits over.

Richmond has none; Atlanta has 5; Chicago has 7, with $378,000,000 in round numbers; St. Louis has 64, with $580,000,000 in round numbers; Minneapolis has 8; Kansas City, 1; Dallas, 1; San Francisco district, 8, with $3,840,258 in round numbers.

Mr. WINGO. You say that is a district. All of them are really in cities, are they not?

Governor CRISSINGER. Oh, yes; practically all of them, I suspect. I really do not know where they are, but I think they are largely city banks.

We were requested to get you a statement showing how the net earnings of the Federal reserve banks during 1922 would have been distributed if member banks had been entitled to dividends at the rate of 9 per cent instead of 6 per cent, which shows that the net

earnings for distribution are $16,497,736; the 9 per cent dividend would have amounted to $9,436,805. The surplus funds would have amounted to $2,295,723, or leaving a net earning of $4,765,208 this last year? It would have been just that close, while it is at 6 per cent the Government gets for franchise tax $7,450,543.

Of course, it shows pretty conclusively the necessity of going slow in loading upon the Federal reserve banks additional burdens in the way of costs, taxes, or whatever you put on them.

We were requested to furnish statements showing interest which would have been paid on member banks reserve deposits if Federal reserve banks had paid the Government—this is made up at 3 per cent, but you can very readily see what it would have been at 2 per cent—on paper secured by Federal reserve notes in circulation in lieu of a franchise; that is, covered by gold notes. It shows that during the year 1922 we would have been able with 3 per cent tax on these notes to have paid thirty-seven one-hundredths of 1 per cent, or a little over one-third of 1 per cent. If it was based on 2 per cent tax it would have amounted to approximately four-tenths of 1 per cent. I had it figured for you. This is for 1922. I had the computation made up for one year, 1921. In that year on the same basis of collection the banks would have received 2½ per cent on their deposits, paying 60 per cent to the Government and 40 per cent of the tax to the bank. So it pretty clearly shows that even that is a very dangerous experiment.

I think that if the committee would go over them they would then see some questions that they would want to ask in the future about it.

The CHAIRMAN. I will say to the governor that the committee will go over them, and if they want to have you later analyze these documents, they will call you.

Governor CRISSINGER. I was requested to furnish the violations of the use of the word "Federal" and the "Reserve" the other day, and I forgot to hand it in, and I am just handing you that now. There is a list of them that came through the legal department.

(Thereupon, at 4.25 o'clock p. m., the committee adjourned to meet to-morrow, Friday, October 12, 1923, at 10.30 o'clock a. m.)

INQUIRY ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM

FRIDAY, OCTOBER 12, 1923

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON INQUIRY
ON MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM,
Washington, D. C.

The joint committee met at 10.30 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. I would suggest that at this point in the record the Federal reserve statements for the current week be placed, showing the assets and liabilities of the Federal reserve system.

I desire to place in the record at this point, in connection with the discussion that has been taking place here for the last two or three days, a letter from J. W. Barton, of Minneapolis, who is chairman of a committee on exchange, pertaining to the collection through the Federal reserve system of noncash items, drafts of lading attached, notes, etc.; and a copy of the report of the committee on noncash items to the executive council of the American Bankers' Association at Atlanta, September 24, 1923.

(Following is the letter:)

MINNEAPOLIS, MINN., *October 3, 1923.*

Hon. LOUIS T. MCFADDEN,
House of Representatives, Washington, D. C.

MY DEAR MR. MCFADDEN: Referring to my conversation with you a few days ago at Atlantic City regarding the free-service operations of the Federal reserve banks, particularly their practice in handling noncash items for collection, such as miscellaneous notes and drafts, particularly drafts with documents attached such as we call bill of lading drafts—being drafts with order bill of lading attached covering carload lots of manufactured articles as well as all kinds of foodstuffs, which is a common form of handling such transactions as between manufacturers and wholesale houses and the purchasers, where goods are being shipped cash on delivery instead of against open account. Also drafts drawn by bond houses in different parts of the country with bonds sold to houses in other parts of the country attached.

We believe that this is not a function intended by the Federal reserve act and that its benefits are very much unbalanced as between members of the system; that the benefits accrue primarily to the manufacturers, wholesalers, and bond houses and to member banks in large financial and industrial centers of this country at a big expense to the Federal reserve system and at a loss to other member banks throughout the country; a loss for the reason that it deprives other member banks at the expense of the Federal reserve system to handle this business at a profit by making a reasonable charge for handling such transactions for which they are maintaining departments for that purpose.

Several months ago I was appointed chairman of a committee to make an investigation of this business being handled by the Federal reserve banks and under separate cover I am forwarding you a copy of my report made before the council of the American Bankers' Association at Atlantic City a few days ago.

During my conversation with you you stated that you were conducting a hearing on Federal reserve bank matters and I would like to suggest that you call the following individuals for an expression of their opinion and such information as they may give your committee on the question of the present practice of the Federal reserve banks in handling miscellaneous items for collection:

Robert B. Locke, vice president Merchants National Bank, Detroit, Mich. Mr. Locke, in my opinion, would be able to give you very valuable information on this subject for the reason that until a few months ago he was governor of the Federal reserve bank at Detroit.

C. B. Mills, president Midland National Bank, Minneapolis, Minn.

James Ringold, president United States National Bank, Denver, Colo. Mr. Ringold is a former president of the clearing house section of the American Bankers' Association.

Robert F. Maddox, president Atlanta National Bank, Atlanta, Ga. Mr. Maddox is a former president of the American Bankers' Association.

If I can be of any further service to you in this or any other matters, will be very glad indeed to have you write me.

With kindest personal regards, I am, respectfully,

J. W. BARTON, *Vice President.*

REPORT OF COMMITTEE ON NONCASH ITEMS TO EXECUTIVE COUNCIL, AMERICAN BANKERS' ASSOCIATION, AT ATLANTIC CITY, SEPTEMBER 24, 1923

President PUELICHER. Next is the report of the committee on noncash items, Mr. Barton.

Mr. BARTON. Mr. Chairman and gentlemen, for the information of those who probably were not present at the time this committee was appointed at the spring meeting, I would like to state that there was a committee of five, consisting of Mr. Hazlewood, of Chicago; Mr. Ringold, of Denver; Mr. McLucas, of Kansas City; Mr. Maddox, of Atlanta; and myself, appointed to make some investigations as to the handling of collection items, noncash items, through the Federal reserve banks.

About the time that this committee was appointed, the Federal Reserve Board appointed a committee of five governors of Federal reserve banks, including the larger Federal reserve banks, to consider the same problem, and the Federal Reserve Board invited our committee to meet with this committee and discuss the question of the collection of noncash items through the Federal reserve bank.

I went to Washington and met with the committee. They had about a three-hour session. They were just starting on their investigation and, in fact, they had not completed their work yet.

Besides that committee, there has been a committee appointed by the Federal Reserve Board, of which Mr. Miller of the Federal Reserve Board is chairman, known as the economy and efficiency committee, which is making a very thorough investigation as to the cost of the system of handling the collection business through the Federal reserve bank.

We had discussed the advisability of getting out a questionnaire to certain select banks throughout the country to feel out the attitude of the banks on this question. At the reques of he commitee of governors, however, our committee did not get out any questionnaire, but we did attempt to get the attitude of the clearing house associations in cities in which there was located a Federal reserve bank or branch. There are 35 Federal reserve banks and branches, and as the result of our letter to those clearing house associations, I will outline the nature of the replies received.

By resolution favoring discontinuing of the handling of collection of noncash items through Federal reserve banks, 11.

By resolution in favor of continuing the present practice of Federal reserve banks in the handling of noncash items, 2.

Indicating that their clearing-house association favors the discontinuance of the collection of noncash items through the Federal reserve banks, but have not yet adopted any resolution on the question, 6.

Indicating not favoring the discontinuance of the handling of noncash items through the Federal reserve banks, but upon which question no resolution has been adopted, 5.

Divided opinion on the subject. 3.
Not reporting, 8.
State associations having passed resolutions requesting that Federal reserve banks discontinue the handling of noncash items for collection, 5.

The advisory council at their May meeting, I believe, discussed with the Federal Reserve Board the advisability of curtailing the free-service operations of the Federal reserve bank, and recommended that the Federal Reserve Board arrange to have those free-service operations curtailed, thereby lessening overhead expense of the system. At that time this particular service of handling of noncash items was tackled.

There is a difference of opinion, we all know, on this subject. There is a very decided difference of opinion as between banks in certain sections of the country where the Federal reserve banks are located, but there is certainly no question as to the unbalanced benefits of the service to the members and the service at a considerable overhead cost to the Federal reserve system, thereby adding materially to their present overhead.

We believe you will agree with us that we should guard jealously any encroachment by the Federal reserve banks upon the rights and legitimate commercial operations of banking institutions and we do not believe it can be consistently argued that this thought emanates wholly from mercenary motives, but that it is in the interest of the future stability of the system itself that it does not be permitted to branch out into commercial activities in competition with its membership.

I am convinced, through discussion with the Federal Reserve Board and the committees that are considering this problem that the Federal Reserve Board (at least certain members who are giving this question careful consideration) is endeavoring to look upon the matter in a broad way, looking to the future and realizing the danger of the tendency within the system to increase rather than diminish their commercial activities.

It is not alone a question of the collection of noncash items. One thing calls for another, and an overhead calls for a revenue. The producing of revenue alone means competition. Therefore, if you unload a service like collections on the Federal reserve banks at a profit to a few members and a loss to others and enormous overhead to the system, you will be paid back by having to meet the system's activity in the open market and otherwise to produce sufficient revenue to meet the charges.

The Federal Reserve Board is desiring to wash as much of the soiled linen as possible before Congress convenes and they have given this matter very careful consideration. As previously stated, they have been working through their committees for several months, endeavoring to make an investigation as to benefits and the cost to the system for handling this business. The investigations are not entirely complete, but we have reason to believe they have been through in their scope.

Your committee has established a contact with their investigations and feels that the committee should be continued as an investigating committee, cooperating with the Federal Reserve Board and endeavoring to arrive at the most equitable solution of the problems at the earliest possible date.

Thank you.

President PUELICHER. What will you do with the report of the committee?

(Upon motion duly made and seconded, it was voted that the report be received and filed.)

The CHAIRMAN. Governor Cooper, of the Federal Farm Loan Board, we are ready to hear you.

STATEMENT OF HON. A. COOPER, FEDERAL FARM LOAN BOARD, WASHINGTON, D. C.

Mr. COOPER. Mr. Chairman, I confess to you that I have been at a loss as to just what assistance the Farm Loan Board could be to you in this inquiry, and for that reason I asked you some questions this morning.

As you know, we have under our supervision 12 Federal land banks, 70 active joint land banks, and 12 intermediate credit banks. We are concerned, of course, with the matter of financing agriculture.

The CHAIRMAN. I will say to you, Governor, that this committee is created under an act of Congress passed at the last session, a section of the agricultural credits act. The committee is authorized to inquire into the effect of the present limited membership of State banks and trust companies in the Federal reserve system, upon financial conditions in the agricultural sections of the United States, the reasons that actuate eligible State banks and trust companies in failing to become members of the Federal reserve system, and also what effect this nonmembership may have in the agricultural sections of the United States.

It occurs to me that the farm loan system is operating extensively in those sections of the country where this great nonmembership exists, and it would be of help, I am sure, to the committee to know something about what the Federal farm loan system is doing to relieve that situation, or any information which you may have to give the committee as to the financial condition in the agricultural sections of the country and any opinion that you might have in regard to the effect of this latter situation in those sections.

Mr. COOPER. I would be reluctant to give any opinion as to the effect of nonmembership in the Federal reserve system.

The CHAIRMAN. The intermediate credit banking system, of course, is operating, as I understand you, in the 12 districts?

Mr. COOPER. Yes, sir.

The CHAIRMAN. That system is relieving or attempting to relieve the same class of people that the banks are relieving?

Mr. COOPER. We are serving the same class of people.

The CHAIRMAN. In other words, you are furnishing short-time credits for agricultural interests in the United States.

Mr. COOPER. Yes; we are furnishing that in cooperation with commercial banks. The commercial banks take care of the credit needs for six months and less; the intermediate credit banks undertake to provide credit needs for six months and more.

I just recently made a visit to the Northwest. I went as far as Spokane. I could possibly give you a description of the situation out there which would be helpful. In the State of Washington the commercial banks are able to provide, I should say, all the credit the farmers' organizations have needed up to this time.

In the State of Montana the commercial banks are able to provide very little. I did not go into the causes, but the truth is the commercial banks in Montana are not able to give the service which is needed.

The intermediate-credit banks up to this time—Mr. Corey will give you this more in detail—have loaned to farmers' cooperative organizations and rediscounted for banks and trust companies and agricultural credit corporations about $15,000,000.

The CHAIRMAN. That includes both to member banks of the Federal reserve system and nonmember banks?

Mr. COOPER. Some to both; yes. I could not say what proportion; we have commitments for about $25,000,000 more. The cooperative associations are just now reaching their peak in credit needs. We anticipate now that we will reach $50,000,000 or more for the season.

In some communities the rediscounts are coming in very rapidly. We had not expected very much from that source for this season.

The CHAIRMAN. Rediscounts of farmers' notes through existing banks?

Mr. COOPER. Rediscounts of farmers' notes through existing banks or agricultural credit corporations. We find that some of the banks do not care to rediscount through the intermediate-credit banks, as possibly they can get better service from other sources.

The CHAIRMAN. As I understand, the intermediate-credit system is fully organized; that is to say, the 12 banks are open for business and the Treasury has deposited $1,000,000 in each one of those banks?

Mr. COOPER. It has deposited $1,000,000 in each one and $2,000,000 in eight of the banks. In other words, that amount of subscribed capital has been paid.

The CHAIRMAN. In those sections where the demand is the greatest, I imagine?

Mr. COOPER. Yes.

The CHAIRMAN. The system has issued some bonds, has it not?

Mr. COOPER. We have hold $20,000,000.

The CHAIRMAN. At what rate of interest?

Mr. COOOPER. Four and a half per cent.

The CHAIRMAN. So that there has been made available for the use of agricultural interests through this intermediate-credit system, first the $12,000,000—a million for each bank—and then eight of the banks $8,000,000 more, which would be $20,000,000; and you have already sold two issues of bonds of $10,000,000 each, making a total of $40,000,000 that has been made available for the relief of farmers' interests through this system.

Mr. COOPER. That is correct.

The CHAIRMAN. Indicating that the system is functioning to quite some degree.

Mr. COOPER. Yes; we feel that it is. It was a new and untried experiment, and we tried to proceed with caution. We want to extend service, and yet we must be conservative. We have spent a great deal of our time this year investigating conditions with a view to extending service through the intermediate-credit banks.

We, of course, have not approved every application that has been made.

The CHAIRMAN. What is the rate of interest of rediscount?

Mr. COOPER. Five and a half per cent. We established that rate shortly after the passage of the act, and so far we have been able to sell debentures at four and a half, which gives a reasonable spread, enough to take care of all overhead and some profit.

The CHAIRMAN. This demand for loans is coming from what sections of the country?

Mr. COOPER. Right now the most of it is from the South and the far West. In California the Bank of Berkeley has quite heavy demands. Wherever the farmers have organized cooperative associations we are getting the greatest demands. The St. Louis bank will finance the cotton growers of Arkansas. I believe there is an application pending from the rice growers, though possibly that has not been definitely settled.

In the Middle West there has not been as great a demand so far as in other sections. St. Paul is making some loans; in fact, a considerable volume of rediscounts from banks. The Omaha bank recently has handled considerable rediscounts.

The CHAIRMAN. Do you think that is due to the fact that those sections of the country are not organized in a cooperative marketing way?

Mr. COOPER. Yes, sir. Wherever they have organized what we call a cooperative association, a pooling of the commodity through a cooperative organization, we have been able to furnish them with all that they needed in the way of credit beyond the six months' period. We felt Congress never intended for us to handle a maturity less than six months—that is, where the turnover is within six months—and we have not found any community yet where that is necessary.

The CHAIRMAN. That was going on the theory that the banks would take care of the short-time paper?

Mr. COOPER. And they do.

The CHAIRMAN. It is really semicommercial credits?

Mr. COOPER. Yes.

Mr. WINGO. In other words, you are proceeding upon the theory that the intermediate credits proposition was not to overlap the lending of the Federal reserve system?

Mr. COOPER. But that we should supplement it.

Mr. WINGO. Upon intermediate credit paper that either was not automatically being handled by the Federal reserve bank or else by reason of other things that it was thought best to be handled by that institution.

Mr. COOPER. Our theory is that the maturities of 9 and 10 months is longer than a bank of deposit ordinarily should carry.

Mr. WINGO. In other words, you have undertaken to take care of that class of paper that in the judgment of the Federal reserve banks or of the board was not what they would call liquid paper against which currency might be issued?

Mr. COOPER. Yes, sir.

Mr. WINGO. But you have taken care of what might strictly be called the intermediate type of personal farm paper?

Mr. COOPER. Yes; we have tried to adhere to that; and I might say that in the southern banks, where we have had large commitments, they have made arrangements with commercial banks before they come to us for the credits within six months; that has been taken care of.

Mr. WINGO. Has any complaint come to you from any of these people who are eligible for loans above six months that they were having any difficulty with local banks handling six months and less paper?

Mr. COOPER. I have not heard of anything of that kind.

Mr. WINGO. You would not want to do injustice to a bank by calling attention to a complaint that you do not know whether it is well founded or not?

Mr. COOPER. No, sir.

Mr. WINGO. What is the maturity of these debentures you have issued?

Mr. COOPER. Six months.

Mr. WINGO. You have had no trouble floating the debentures at four and a half?

Mr. COOPER. No; we have been able to sell them; we have sold them to commercial banks.

Mr. WINGO. What is the round volume of rediscounts that you say you have made covering your 12 banks?

Mr. COOPER. Of rediscounts?

Mr. WINGO. Yes. Have you made a statement which you intend to put in the record?

Mr. COOPER. Rediscounts, $3,448,834.

Mr. WINGO. What other character of relief has been granted besides rediscounts?

Mr. COOPER. Direct loans to cooperative associations, $11,208,000.

Mr. WINGO. The total of all relief of either direct loans or rediscounts that have gone on this class of paper, either through cooperative associations or through the banks? What is that total?

Mr. COOPER. $14,658,836.

Mr. WINGO. You have the capital available to extend the $40,000,000 that you have testified to?

Mr. COOPER. Yes, sir.

Mr. WINGO. How is that additional amount being used; are you holding that available?

Mr. COOPER. That is invested in Government securities which can be sold on any day that we need money.

Mr. WINGO. In other words, you are treating that balance as working capital to meet demands that are expected to come in?

Mr. COOPER. Yes, sir.

Mr. WINGO. And to the questions of Mr. McFadden you have shown that the Government has got something like $20,000,000?

Mr. COOPER. Yes, sir.

Mr. WINGO. In other words, the Government has deposited this $20,000,000?

Mr. COOPER. $20,000,000 paid-in capital.

Mr. WINGO. You have that capital. Then, in addition to that you have received from the sale of debentures $20,000,000. That makes $40,000,000 available to meet your needs of either rediscounts or loans?

Mr. COOPER. Yes, sir.

Mr. WINGO. The total of your rediscounts and direct loans amounts to $14,000,000?

Mr. COOPER. Yes, sir.

Mr. WINGO. That represents a difference of $26,000,000?

Mr. COOPER. Yes.

Mr. WINGO. And that $26,000,000 is held in cash or readily convertible securities, so that you can probably take care of any rediscount or direct loan application that is current and coming in from day to day?

Mr. COOPER. On any day. This statement is up to October 6. Of course, there have been considerable loans made since then.

Mr. WINGO. Have you a table, or do you recall offhand the amount of total loans and rediscounts that have been extended first through banking institutions and next through farm cooperative market associations provided for under the law?

Mr. COOPER. That is shown right here [referring to tabulated statement].

The CHAIRMAN. Could that table go in the record?

Mr. COOPER. Oh, yes.

Mr. WINGO. I suggest that that table go in the record at the end of your testimony. That shows the information quickly for each individual item?

Mr. COOPER. Yes, sir; it shows here, first, Mr. Wingo, the amount for agricultural credit corporations, the amount for national banks, the amount for State banks, trust companies, livestock loan companies, and cooperative associations.

Mr. WINGO. In other words, it is a tabulation in detail of your operations, showing the different agencies through which these extensions have been granted?

Mr. COOPER. Yes, sir. This is the information we get from the banks.

Mr. WINGO. As I understand, you have been able to take care of every application that you thought squared with the law and your authority and the sound operation of your system?

Mr. COOPER. Absolutely.

Mr. WINGO. Of course, you felt the necessity in the beginning of proceeding with that caution that is always necessary in opening up a new organization?

Mr. COOPER. Yes, sir. We, of course, have had applications, Mr. Wingo, that we did not take care of because we did not feel that the facilities for carrying a particular commodity had been developed. There are some commodities that we have not put on the eligible list, because we have not as yet completed our investigations to satisfy us that loans may be safely made on that particular commodity.

Then there are other cases where the cooperative association offers business that does not in our opinion meet the necessary requirements. In such cases we suggested perfecting their organization. That was especially true with respect to the Montana Wool Growers. They organized their cooperative association, so-called, and this we did not regard as a proper cooperative pooling plan of marketing.

Mr. WINGO. You think that the strength of the paper and the pooling of their commodities must be taken into consideration?

Mr. COOOPER. Unquestionably.

Mr. WINGO. You think that was contemplated in the act, and you were trying to comply with the act?

Mr. COOPER. That is our view.

The CHAIRMAN. I imagine that in granting loans and credits to these cooperative marketing concerns you keep a pretty active bit of information as regards the disposition of the collateral which you hold on these commodities?

Mr. COOPER. Yes, sir.

The CHAIRMAN. And you do keep pretty close tab on that, I imagine?

Mr. COOPER. Yes, sir.

Mr. STRONG. What length of time do these bonds you have issued for the credit banks run?

Mr. COOPER. I just stated awhile ago, 6 months. We can sell that maturity to a little better advantage, we think, than a longer time, especially in the initial period of our operations.

The CHAIRMAN. What do you call those loans?

Mr. COOPER. Intermediate credit debentures.

The CHAIRMAN. In that way they are differentiated from long time securities or farm loan bonds?

Mr. COOPER. Yes, sir.

Mr. STRONG. Do you find a pretty ready sale for them?

Mr. COOPER. Yes; we have had no trouble selling them. As I said awhile ago, we sell those to commercial banks in the larger financial centers. I want to say that I believe the banks are doing it more from a sense of service to agriculture than because they really want them for investment.

Mr. STRONG. May I ask now what kind of farmers' cooperative associations you make these loans to that you speak of?

Mr. COOPER. The cooperative marketing association, Mr. Strong, is an association of producers where the members pass title to the commodity to the association. The association has authority to pledge that commodity as security for loans, and it is "pooled" as we term it. Each member will at the end of the season receive the season's average price for the particular grade of the commodity which he has delivered to the association. In that way, when you make a loan, of course, you have all of the commodity of all of the members pledged to secure that loan; that is, of a particular pool.

If you do not have that arrangement, then when the cooperative sells the commodity of a particular individual, full settlement is made with that individual. Maybe in the meantime the price has gone down. Your security is not sufficient, having released his commodity entirely, and you will be forced, in order to protect your margin, to sell the commodity of others and that you do not want to. It defeats orderly marketing. If you have given each member the season's average price for the commodity that is all he ought to expect.

Mr. STRONG. I agree with you.

Mr. COOPER. That is what we insist on.

Mr. STRONG. The reason I asked the question was, in my district there was advice given by one of the farm loan associations that farmers could organize cooperative associations, and through the assignment of their wheat or corn or other products to a cooperative association, and passing the title to it, they could secure funds through such association. Some of the farmers of my home county wrote to the bank in Wichita regarding the matter, and they wrote back that they were mistaken; that they could not do anything of the kind.

Mr. COOPER. I do not know whether I get your statement of the proposed transaction or not.

Mr. STRONG. One of the farmer organizations put out a statement from Washington here to the effect that for the first time in history the farmers cooperative associations could use their home graneries and through leasing them to cooperative associations and getting a warehouse receipt could then borrow money through the associations from these credit banks.

Mr. COOPER. That is a farm warehouse proposition?

Mr. STRONG. Through a cooperative association of farmers. Some of the farmers in my home county wrote to the bank at Wichita about it, and they wrote back that that idea was a mistake; at least, that is what they advised me. I wanted to get at the facts as to what was being done.

Mr. COOPER. The Farm Loan Board is not concerned whether a particular warehouse is a Federal warehouse, State warehouse, or whatever it is, but we must be satisfied that the commodity in the first place is suitably protected, that the receipt insures delivery of the commodity properly graded. If you have a dozen farmers' warehouses scattered all over a particular territory, the expense of ascertaining that would be almost prohibitive.

Mr. STRONG. Would not the cooperative association itself ascertain that, as it will indorse the paper?

Mr. COOPER. The cooperative association is a noncapital organization, you see. We look to the commodity for the security. If it was a capitalized institution, we would still want to make the investigation, because you would not want to do business even with a national bank unless you were satisfied that the paper you took was going to be liquidated at maturity.

Mr. STRONG. How are these loans that you speak of that are made through cooperative associations arranged?

Mr. COOPER. They are made on commodities in storage.

Mr. STRONG. Are they in storage on the farmers' farms, in their own warehouses?

Mr. COOPER. No; I think they are in licensed elevators or licensed warehouses.

Mr. STRONG. Could not the farmer himself without belonging to a cooperative association get a receipt from a licensed warehouse and borrow the money?

Mr. COOPER. He could not get a direct loan. Of course, he could borrow through a rediscounting agency.

Mr. STRONG. Borrow through a bank?

Mr. COOPER. Yes; but we are not authorized by the act to make a direct loan except to cooperative associations.

Mr. STRONG. Therefore, if there is a cooperative association they can, by storing in that licensed warehouse, get receipts from that warehouse and borrow money?

Mr. COOPER. Yes.

Mr. STRONG. Can you tell me if the bank at Wichita, Kans., is making such loans?

Mr. COOPER. The bank at Wichita is making loans on wheat in storage now. They have made by their last statement, I see, some $2,000,000; that is, to the Oklahoma wheat growers. The Kansas wheat growers, I believe, were able to make satisfactory arrangements with banks for their needs.

The CHAIRMAN. You spoke of a trip that you have just made through the Northwest. It may not be directly germane to this inquiry, but did you observe an improved condition over what it has been in the past?

Mr. COOPER. Yes, sir.

The CHAIRMAN. The experience of the Federal farm loan system indicates that the farmers are meeting their obligations in the way of payment of interest, etc.

Mr. COOPER. Yes; much better than a year ago. They are liquidating their indebtedness at the banks, some of them paying off notes this year in full which have been renewed in part for the last two or three years. That is the information I have. That does not mean that conditions are ideal, but there is improvement.

Mr. STRONG. It is getting better instead of worse?

Mr. COOPER. It is getting better, and I think any person who will go into that locality and inquire will get the same impression.

Mr. STRONG. I would like to ask you in regard to farm loans, if I might. How many inspectors or appraisers do we have at the Wichita bank; do you know?

Mr. GUILL. Well, Governor, I can tell you offhand, there are about 650 in the United States. I do not remember how many are assigned to that bank.

Mr. STRONG. I mean the men who investigate the land.

Mr. COOPER. Yes.

Mr. STRONG. There is considerable complaint in my home country regarding the delay in making loans, so much so that those who are making loans for loan associations tell the people who are making applications or who are about to make applications through our farm loan system, "Well, we think you can get the money, but it will take you one or two or three or four months," and, unfortunately, there have been some very good loans in my home country that have met with that kind of delays. A letter written by me to the Wichita Bank brought back the information that they were short of appraisers, that they had to take the loans in rotation and, consequently, they had not been able to reach the land that was offered as security and investigate it.

Mr. COOPER. Well, when was that letter written?

Mr. STRONG. Within a month.

Mr. GUILL. They are not short of appraisers there now?

Mr. STRONG. They may not be short of appraisers, but they are not giving service down there to applications that go from my part of the State, and I think I have as good security for real estate loans as there is on earth in my district.

Mr. WINGO. How long on the average is it after the application is approved before the inspector gets around?

Mr. STRONG. The loans I am particularly interested in take from 30 days to three months.

Mr. GUILL. That is a pretty good average throughout the system.

Mr. STRONG. Do you mean to say they have to wait three months to get a loan through this system?

Mr. GUILL. From the time the application is filed?

Mr. STRONG. Yes.

Mr. GUILL. The application, of course, first goes to the association.

Mr. STRONG. Yes.

Mr. GUILL. It is expedited there according to the custom of the association. If they delay in making their appraisal that delays the application. After they have approved it, they file their report with the Federal land bank. Of course, the appraiser makes his rounds, and it may be that he has just left that community. There may be a delay of 20 days or 50 days in that case. After the appraiser has appraised the property and it goes to the bank,

then the delay is probably caused by the failure of the applicant to bring his abstract up.

Mr. STRONG. Of course, if it is going to take the bank 20 days or more to get their appraiser to the land after they get the application approved by the local associatai, I do not think that is very good service. For instance, in one case I speak of, a young man farmer came to me who had 160 acres of land worth an average of $100, and wanted to borrow $6,500. I sent him to the local secretary of the farm loan association in my county. They made the application on the 1st day of September. It reached the Wichita bank, according to their acknowledgment, on the 12th of September. The appraiser was not sent out promptly to examine the land. The young man had explained in the application that his interest was due to the people who held his loan on the 1st of October, and he had to have the money by that time or he could not pay it off. They did not send the appraiser for three weeks after the loan got down there, a matter of 18 or 20 days. The young man did not get his loan in time to pay off the loan he has on the land now, and so has to pay another six months' interest on his old loan. It does seem to me that where the land is within 100 or 125 miles of the bank, as it was in this case, that the appraiser ought to reach there withi a week after the loan is O. K'd by the local association.

Mr. GUILL. I imagine the man ought to have anticipated his needs and put his application in a little earlier.

Mr. STRONG. Then your idea is that the bank can not make any better service than two or three weeks in getting the appraiser to the land after the loan is received? If that is true, I want to say to you that I consider such service rather poor.

Mr. STEAGALL. Did you say how long it usually took to put through one of these loans?

Mr. STRONG. He says from one to two or three months is a fair average.

Mr. STEAGALL. I am not criticizing the delay. I do not think a farmer who mortgages his home for a period of 20 or 25 years decides he wants that loan like a merchant who want a loan to meet a current bill, and a farmer does not expect a transaction of that sort to go over in a short time. It is an entirely different transaction from that of a loan to a merchant, for instance. I am not complaining about the delay; it may not be unreasonable; I do not know. But what becomes of the interest on the loan from the time the farmer makes application until he gets the money?

Mr. COOPER. It is all adjusted. If his mortgage is dated July 1 and he gets the money September 1, the bank pays him on two months' interest.

Mr. STEAGALL. It has been stated to me that that was not the case, is the reason I asked that question, because I really think that the farmer should be charged interest from the time he gets the money ; and I am not saying your statement is not entirely correct; but I have had complaints made to me that during this period they had to pay this interest.

Mr. COOPER. I am absolutely positive about it.

Mr. STRONG. They are not charged double interest.

Mr. COOPER. I want to say, in answer to Mr. Strong's question, that there are possibly some delays in the banks that are inexcus-

able. I do not mean to say there are not delays that can be avoided, but if you take any money-loaning agency which undertakes to serve a territory equal to that served by the Federal land bank, and making a proper investigation of each application, there is a limit to work the officers in the bank may do. Last year the Federal land banks loaned $224,000,000. That is about as much as I feel they could do with safety. There are cases where special investigations have to be made. You would not have to make that in your county, because you would know. But the bank officials may not know their entire territory as you know your county, and they get information that is not entirely reliable that causes them to make a further investigation before closing the loan. They must check up on these appraisals.

Mr. STRONG. I am not putting up a lot of cases that might happen; I am telling you about cases that did happen where the appraiser did not even get on the job for three weeks. If they have not appraisers they can send out to look at a piece of land until three weeks after they get the application approved by the local association, it seems to me they have not got enough appraisers to properly take care of the work.

Mr. WINGO. I have followed the rule, whenever a farmer wrote in or anybody wrote in and asked me to give the name of specific loan held up, the name of the man, through what associations, when they made application, etc., I immediately take it up with the land bank officials at St. Louis. The result of that was I was very insistent, as you recall, last session of Congress that no man who is a representative of a private loan company should be the local secretary-treasurer. In more than one instance I found evidence that satisfied me that the local secretary-treasurer had deliberately delayed sending in information and applications for the deliberate purpose of wearing a farmer out on the farm-loan system and inducing him to take a private loan. I am hoping that the law in reference to getting those gentlemen out of control of the local association is enforced rigidly. It was not always a direct method. Sometimes it would be a man who had a working agreement with the local agent of a loan company, and immediately that local agent of the loan company would appear at the farmer's farmhouse and tell him, "Oh, you have too much red tape on that; I will give you a loan right away." He has been tipped off by the local secretary.

I have tried to remedy that situation in my district wherever I can, and I will suggest to my friend that whenever you get a complaint you get the name of the specific loan held up and immediately put that specific case up to your farm-loan bank and ask them to give you a detailed report of what their records show the delay is. If it is a shortage of inspectors—and there has been, I think—I do not believe that there has been the number of appraisers out that ought to be put out, although I have not had any complaint the last few months from my district. But I want to suggest to you that there is more than one evil you will have to cure.

Mr. STRONG. I thank my friend for his suggestion, but I think I know how to find out what delays a loan.

Mr. WINGO. I asked you did you find any such delays in your district.

Mr. STRONG. Not on these cases.

Mr. WINGO. Did you find one case in your district where the local secretary-treasurer was either the agent of the loan company or was working in the same office?

Mr. STRONG. Yes; I find that, and I think it ought to be stopped. But in the case I am citing and within other places within my personal knowledge the application of loans had the approval of the local secretary and the local association when they reached the bank. Then, I want to know why it is——

Mr. WINGO. I agree with you on that——

Mr. STRONG (continuing). That the land can not be inspected for three weeks or more. If it is a lack of inspectors, we ought to have more of them.

Mr. WINGO. I won't go further. I want to clear up all of this delay.

Mr. STRONG. I am talking about my own State. If the trouble at the Wichita bank is that the inspectors down there all live in one district, and they prefer to inspect loans close to their own homes, so as to spend Sunday at home, they ought to be distributed over the State. There is something wrong if the bank can not make inspection of a loan for three weeks after they get the application. I do not know what it is, but I hate to have fellows come to me and say, "I made this application far enough in advance in order to meet the payment of my loan at the interest-payment date, and the bank did not get the inspector there to appraise the land until it was too late to pay off the loan at the interest-due date, and so I have to wait another six months." It is not very good service. It may be that it can not be remedied.

Mr. COOPER. Your problem there is this, Mr. Strong: Is it better than for the bank to have a great number of appraisers whom they can not keep in touch with and have confidence in their appraisals?

Mr. STRONG. Certainly not; and I am not asking for anything of that kind. I am suggesting that they might have a sufficient number of appraisers to appraise the loans within a reasonable time.

Mr. COOPER. They should have a sufficient number to do business in an orderly manner; and that is the point that we desire to have impressed.

Mr. STRONG. Of course, after having spent as much effort in behalf of this farm-land system as I have, I would like to have in my own county the good loans that are applied for served within a reasonable time; and I was just trying to find out the trouble.

Mr. COOPER. I think you are entirely right.

Mr. STRONG. So would I. I want, however, to express my appreciation of the manner in which the Federal Farm Loan Board have put into service the law pertaining to the intermediate credits act we passed in the last Congress. I think you have all done finely, and I think it is to your credit and to the great benefit of agriculture.

Mr. COOPER. I have something I would like to say in reference to the Federal farm loans. The Farm Loan Board has not been able to give the same attention to the farm loans this year as it did last, because our time has been very much taken up with intermediate-credit matters. It has been quite proper, of course, and we have tried to give it all the attention it deserved.

Mr. STRONG. My only thought by my inquiry was that if they have not enough inspectors or the right kind, I would like to have them get them.

Mr. COOPER. They have a sufficient number. Some of them may not be of the right kind.

Mr. STRONG. It may be that they do not live in my part of the State and delay coming up there. But we have as good land as exists anywhere.

(The table submitted by Mr. Cooper during his statement is as follows:)

Statement of rediscounts, direct loans, and advances upon the respective commodities of the 12 Federal intermediate credit banks by districts, as of October 6, 1923

	Direct loans	Rediscounts	Total
1. Springfield	None	$100,000.00	$100,000.00
2. Baltimore	$1,000,000.00	7,000.00	1,007,000.00
3. Columbia	2,840,000.00	17,000.00	2,857,000.00
4. Louisville	None	None	None
5. New Orleans	1,064,490.50	None	1,064,490.50
6. St. Louis	4,800.00	212,336.50	217,136.50
7. St. Paul	390,556.38	624,379.48	1,014,937.86
8. Omaha	None	343,311.85	343,311.65
9. Wichita	1,979,000.00	566,579.58	2,545,579.58
10. Houston	2,038,102.40	797,119.38	2,835,221.78
11. Berkeley	1,546,619.70	15,555.00	1,562,174.70
12. Spokane	344,431.60	765,552.58	1,109,984.18
Total	11,208,002.58	3,448,834.37	14,656,836.95

Classification of rediscounts

District	Agricultural credit corporations	National banks	State banks	Trust companies	L/S loan companies	Cooperative associations
First	$100,000.00					
Second		$7,000.00				
Third	15,000.00		$2,000.00			
Sixth	171,838.00		40,498.50			
Seventh	517,935.44	7,277.95	80,191.09		$18,975.00	
Eighth	150,562.09	9,051.50	48,335.76		135,362.50	
Ninth	137,655.79	18,366.00	410,557.79			
Tenth	89,900.00		16,402.85	$122,103.13	568,713.40	
Eleventh	15,555.00					
Twelfth					698,530.03	$67,022.55
	1,198,446.32	41,695.45	597,985.99	122,103.13	1,421,580.93	67,022.55

Classification of direct loans

District	Wheat	Wool	Cotton	Canned fruit	Tobacco	Redtop seed	Broomcorn
Second					$1,000,000.00		
Third			$2,840,000.00				
Fifth			1,050,000.00		14,490.50		
Sixth						$4,800.00	
Seventh	$390,558.38						
Ninth	1,500,000.00		429,000.00				$50,000.00
Tenth		$38,102.40	2,000,000.00				
Eleventh				$1,546,619.70			
Twelfth	194,431.60	150,000.00					
	2,084,989.98	188,102.40	6,319,000.00	1,546,619.70	1,014,490.50	4,800.00	50,000.00

STATEMENT OF HON. MERTON L. COREY, MEMBER OF FARM LOAN BOARD, WASHINGTON, D. C.

Mr. COREY. I doubt, Mr. Chairman, that I can say anything which applies directly to your inquiry. However, I would like to say a word on the point which Mr. Strong is talking about. I come from the same section of the country that Mr. Strong does, in the heart of the biggest loan territory in the Nation. The bank I was with—the Federal Land Bank of Omaha—was serving Iowa, Nebraska, South Dakota, and Wyoming, where more farm mortgages exist than in any other section of the country. Mr. Guill tells you the average time of closing a loan from the time the application was received until it was finally closed was from one to three months. You want to take into consideration the fact that in the great majority of those cases the application came in almost three months ahead of the time the party wanted the loan. So that is not representative of the speed with which the banks handled the business.

The Federal farm loan system is performing the services as expeditiously and efficiently as any farm loan companies in that section of the country. The farm-loan bank at Omaha and at Wichita, in cases where there is a necessity for prompt action, are closing loans as quickly as can be done upon a sound business basis.

I appreciate that you can pick out exceptional cases, but the exceptional cases ought not to be taken as the rule or practice in the banks. The system has made $750,000,000 of loans.

Mr. STRONG. I appreciate they have done very wonderful work, and I have been proud, very proud of it. And before I urged the farmers of my immediate district to apply to this system, I put a loan through on my own dairy farm so as to be able to speak with exact knowledge. Of course, I followed it up and attended to it. I got prompt service.

Mr. COREY. You probably had an exceptionally good loan.

Mr. STRONG. Now when I urge the people to apply for those loans and they are delayed, the mortgage banker says, "Mr. Strong is a Member of Congress and of course he got his loan promptly. But you fellows can not get that kind of service," and that kind of disturbs me. I want all farmers to receive prompt and good service.

Senator GLASS. Mr. Strong, you must be hitting directly on the point of this inquiry, because it has been suggested to me that no State banks are any longer remaining out. [Laughter.]

Mr. STEAGALL. This discussion is of interest to me as well as Mr. Strong, but inasmuch as Mr. Strong has developed the suggestion he had in mind and Governor Cooper covered it too, it might be well for us not to encumber the record of this investigation with too much reference to the farm loan system in the matter of the details of operation and the like of that, which is not contemplated under our resolution.

Mr. STRONG. It will not greatly encumber the record.

Mr. COREY. A word on the intermediate credit system: In view of the fact that in making the assignment of duties among the members of the Farm Loan Board it fell to my lot to have this special assignment, I think I might properly tell you something about the development of the system.

The theory of the agricultural leaders for the establishment of the intermediate credit banks was to correct the conditions which made possible the ruinous deflation of 1920. I do not know what the theory of the committee was, or whether I can express their views, but I doubt not that they accepted this view as proper.

The CHAIRMAN. The gentleman was in rather close touch with the committee during the enactment of that legislation, and I rather think he can express an intelligent opinion.

Mr. COREY. The theory of the legislation, of course, is that there is an amount of farm paper that has a longer turnover than the bank of deposit and the Federal reserve system can prudently handle. Personally I have never favored the idea of the enlargement of the Federal reserve system to the point where it will take care of all the long-term farm paper. I think the necessity for the preservation of the liquidity of the assets of the Federal reserve system in the sense of it being short term is essential.

Senator GLASS. It would not be a reserve system if it were to do that, would it?

Mr. COREY. That is it exactly.

The CHAIRMAN. In other words, do I understand that you feel the Federal reserve system has been amended sufficiently along those lines to take care of that class of paper at the present time?

Mr. COREY. I doubt if my opinion is worth very much, but I would say so absolutely; that there is no place in the Federal reserve system for what is essentially long-term farm paper.

The intermediate credits system is going to be utilized for that class of paper. The governor has covered that pretty thoroughly. The country banks have in their note cases, or did have in the deflation period of 1920, six months' paper. The country banker knew and the farmer knew that that was not six months' paper. They had been handling it through the Federal reserve system. It is essential that the country banker place the long-term paper with a system which is designed to take care of that class of paper.

The CHAIRMAN. Is it your observation that the country banks are analyzing those loans at this time and are suggesting to the borrowers that perhaps those that you might call long-term intermediate credits be placed with the intermediate credit bank?

Mr. COREY. Of course, you have this difficulty so far as country banks are concerned: A banker is only human and is humanly selfish. There is no limit on the spread of interest which he can get with the rediscounts which he places with the Federal reserve system.

You restricted in this law his profit to 1½ per cent. Some are not going very quickly to a system which limits their profit that way, which limitation however we feel is fair.

The CHAIRMAN. I would just like to make this statement: Supposing these country banks in dealing with this agricultural financial system would, when John Smith comes into his bank and wants to borrow $10,000, do you not think the banker should ask John Smith what he is going to do with the $10,000, and if John Smith answers and says, "$5,000 of that is going to have to run for a long time and is for improvements in my buildings and drainage and many other things which are permanent land-value improvements," don't you think the banker should say that $5,000 of this is really a real estate loan. He goes further into an analysis and he finds what the

farmer proposes to do with the other $5,000, that perhaps $2,500 of that is going into young cattle, we will say, which means it will be necessary to finance over a period of one to three years, and the balance of it might be utilized for fertilizers or seed, being temporary financing, which would be paid out of the sale of the crop in the fall, or, say, when the crop is sold.

Do you not think that the bankers of the country could greatly assist in financing the agricultural communities if they would say to John Smith, "$5,000 of that is long-time real-estate loan. You should go over to the farm-loan system and get that $5,000. You should then go to the intermediate credit bank on $2,500 loan, which runs from one to three years, and finance that through them. But this immediate credit here, which you need, is going to be self-liquidating within a year, and we will loan you the other $2,500 and we will cooperate with you and get this loan divided up in the shape that it should be in."

In other words, the banker can assist the farmer to a great extent by such suggestion. He can also assist the general financing and economic situation in rural districts by analyzing loans like that?

Mr. COREY. Yes.

The CHAIRMAN. Do you not think if the bankers would get that in their minds and follow that course it would be of great assistance in financing the agricultural sections of the country?

Mr. COREY. It would undoubtedly be very helpful, with this suggestion: That he will handle both those notes, rediscounting one through the Federal reserve system and the other through the intermediate credit system. You might be interested in the statement as to why we are pursuing this policy of selling debentures when we still have $40,000,000 upon call with the United States Treasury. We have determined upon that policy for two reasons: In the first place, we feel that it is wise to hold in reserve the $40,000,000 of callable funds from the United States Treasury against the day of emergency, when perhaps we could not sell debentures, and $40,000,000 would be most helpful. Second, we believe it is well to educate the public as to the value of these debentures and create a market for them as against the day when it might be necessary to sell them in largely increased volume.

The CHAIRMAN. In other words, you want to get the system started?

Mr. COREY. Yes, sir.

The CHAIRMAN. If you can operate the system without calling on the Treasury it will be your purpose to do it?

Mr. COREY. Yes, sir.

The CHAIRMAN. In other words, you are simply using the Government's capital as a revolving fund and get your money back through the sale of debentures to the investing public?

Mr. COREY. Yes, sir.

Mr. STEAGALL. You regard the market for debentures as a part of the Government's wise system?

Mr. COREY. We feel it should be.

Mr. WINGO. You expect your system to develop, do you not?

Mr. COREY. As the governor has said, we have made $15,000,000 of loans, and have commitments for $25,000,000. There are some sec-

tions of the country where it will not develop to any great extent, because when the farmer is borrowing money of banks that have adequate funds at the rate of 6 per cent, no special system is going to provide any special service for him.

Mr. WINGO. The old farmer is not as foolish as some people say he is, and he has heard this cry about liquidity and about his notes that were renewable, and everybody knows were renewable, and therefore not liquid; and he knows that across the street and in the portfolios of every bank there is a lot of commercial paper practically continuous loan where mercantile business is being represented by short notes at commercial rates that are renewed as periodically as the note changes, and he can not understand why his paper that is expected to be renewed is just about as liquid as his merchant's paper; and everybody telling him, "You have no part in the Federal reserve system; you have got no business in it;" and his leaders and advisers come along and tell him that "the Federal reserve system is not for you."

The net result is going to be that some of these days some of these nonmember banks are going to be rushing in trying to get in this system, and saying, "Look here; they are actually developing this competitive system and will limit the banker's spread." It is going to be pretty interesting when that day comes, is it not?

Mr. COREY. I think so.

Mr. WINGO. There is going to be some of these gentlemen running to cover, are there not, and wishing they were in there? I just happened to wake up and recall that we were figuring on when these banks were going to come in.

Mr. COREY. The system is going to be peculiarly helpful in the range sections of the country, in the intermountain States, where the current deposits of the country banks are inadequate to take care of the legitimate borrowing needs. Through the sale of debentures we are going to be able to supplement this inadequate capital.

Second, of course, it will assure to cooperative marketing associations an abundant supply of credit so that they can surely conduct their cooperative marketing program in an orderly manner throughout the whole year.

I will say, in short, that the system unquestionably is able to take care of every legitimate demand upon it. I do not think I ought to leave the witness chair without saying this about the Federal reserve system:

You know—you men who were sitting in on the discussions when this bill was reported out—that there was more or less contention that it was an infringement upon the activities of the Federal reserve system.

Mr. WINGO. That phrase "sitting in" is a good one.

Mr. COREY. I do not mean it in that sense.

I want to express my own and the board's appreciation of the helpful spirit of the Federal Reserve Board and the Federal reserve banks. They have cooperated in the development of the system; they are handling some of our rediscounts. They have expressed a friendly attitude in the matter of the purchase of the debentures, are helping us to establish a market for them, and we are working in the utmost harmony, feeling that we are supplementing each other in this work of financing the farmer.

STATEMENT OF MR. B. C. POWELL, LITTLE ROCK, ARK.

The CHAIRMAN. Please state for the record whom you represent and your banking and other affiliations.

Mr. POWELL. Mr. Chairman, I am not an active banker and have not been for about two and a half years. I am connected with about three small banks in the interior and the southern part of our State.

The CHAIRMAN. You were formerly connected with the Southern Trust Co.?

Mr. POWELL. The last banking connection I had was senior vice president of the Southern Trust Co., of Little Rock.

The CHAIRMAN. The committee are conducting an inquiry, in accordance with the section of the last agricultural credits act, as to why more State banks and trust companies are not in the system, and what effect that has on the agricultural sections of the country. We would be very gald to hear any statement you have to make, Mr. Powell.

Mr. POWELL. Mr. Chairman, it has been my observation that the country banks do not come into the system for two reasons, principally, firstly, they do not get any interest on their deposits in the system, and another is the question of the paring of foreign checks.

I served on the exchange committee of American Bankers' Association for a number of years. To my mind these are the primary reasons why more State banks do not come into the system. I do not agree with many bankers whom I have heard express themselves and who even have testified before this committee that it is not the question so much of the loss of exchange as it is the method adopted in coercing or forcing banks to remit at par. I do not believe it is so much the loss of dollars and cents as it is the methods heretofore used. Of course, I appreciate the fact that those methods are not now in use and will not probably be again. But we nonmembers resented the plan of sending a representative of the system to their bank to demand payment in cash.

Senator GLASS. Right there, inasmuch as there are 17,000 nonmember banks now members of the par-exchange system, how would becoming members of the Federal reserve system affect them with respect to that?

Mr. POWELL. No, sir; it not affect them now, but it was the methods used in forcing them—that is a pretty strong word—to remit at par. It was a "force" in a way, or nearly so.

Senator GLASS. It was the force of competition, was it not?

Mr. POWELL. Yes, sir; it was. Competition had largedly to do with it.

Senator GLASS. I was just curious to know that inasmuch as 17,000 nonmember banks belonged to the par-collection plan and only 1,600 of them are members of the reserve system, how now joining the Federal reserve system could possibly affect the par collection?

Mr. POWELL. It certainly would not now. But that was one of the reasons for the feeling of opposition to the Federal reserve system.

Senator GLASS. Then you think the opposition is not to the system but to the administration of the system.

Mr. POWELL. I believe I would answer yes to that question; that is my idea. The question that arises as to what method of invita-

tion would bring these banks into the system, I suppose, is pertinent to the inquiry.

Senator GLASS. That is very pertinent; that is what we want to know.

Mr. POWELL. Before coming to this committee—this is aside, perhaps—I called to Little Rock a number of bankers of the State. One was a man who had recently had presented a position on the exchange committee of American Bankers' Association at Atlantic City, Mr. Bell, former first vice president of the American Bankers' Association, and we discussed quite freely and informally this particular question. It was the consensus of opinion of the bankers present, all of whom are known to our Congressman, Mr. Wingo, that at this time it was ill advised for the Federal reserve system to contemplate a payment of interest. I know there are probably men on this committee who do not agree to this statement. But we do not think that the present earnings of the banks or the question of reserves entitles nonmember banks to receive interest. We do think that there are other things that may be done by the Federal Reserve Board to make the system more attractive.

The CHAIRMAN. Just before you leave that, did they also take into consideration that if the interest was paid that it would bring the Federal reserve system into competition with member banks, possibly?

Mr. POWELL. Yes, sir; but they did not think that that would be vital to their interests; most of those men present, practically all of them, had country correspondents who had reserve accounts with them. But they felt that the personal touch they had had for so many years would still abide and they would still continue to do business with them.

Mr. WINGO. Would you mind telling the committee just who was present? I know Mr. Bell.

Mr. POWELL. Mr. George H. Bell, executive officer of the largest bank in Nashville, the Planters Bank & Trust Co. Mr. Moorehead Wright, president of the Union Trust Co., Little Rock; Mr. C. S. McKain, vice president of the Bankers Trust Co. of Little Rock; Mr. Virgil Pettie, vice president England National Bank, Little Rock; R. E. Waite, secretary of the Arkansas Bankers Association and former president of one of the local banks; Mr. E. J. Bodman, vice president of the Union Trust Co.; and Mr. Fred Heiskell, the manager editor of the Arkansas Gazette.

Mr. WINGO. I had not heard of the meeting. I know all of the gentlemen you mention.

How many of the committee that was appointed by the State Bankers Convention on this question were present?

Mr. POWELL. I can not answer that directly, Mr. Wingo.

Mr. WINGO. The last State Bankers Convention discussed the purpose of the committee and the questionnaire that was sent out and voluntarily appointed a committee.

Mr. POWELL. Yes, sir.

Mr. WINGO. On this question, to consult with our committee, did it not?

Mr. POWELL. Yes, sir. Mr. Chairman, another question that we considered, and I am sure that it has been before the Federal Re-

serve Board, is the question of float. Of course, you as a banker know that this is a big and important question. The suggestion has been made that this might be made immediately available. This question is now being considered by the Federal Reserve Board.

The CHAIRMAN. It has been discussed before this committee, I might say.

Mr. POWELL. Yes, sir.

The CHAIRMAN. Is that accentuated somewhat by the fact that State banking laws permit the float to be carried as reserve, and is it the practice of banks who have accounts with State banks and trust companies to give them immediate credit?

Mr. POWELL. Yes, sir.

The CHAIRMAN. It is a matter of option.

Mr. POWELL. Yes, sir. They give them immediate credit. But most of the clearing house centers now charge them for outstanding.

The CHAIRMAN. In other words, they deferred credit on items at distant points?

Mr. POWELL. No, sir; they give immediate credit.

The CHAIRMAN. They give immediate credit, but do not allow them interest on it.

Mr. POWELL. Do not allow them interest on accounts until final returns.

The CHAIRMAN. For the time it takes to collect that check?

Mr. POWELL. And if customers persist in drawing against that balance the bank soon gets wise to that point and will charge them interest for the money they use.

The CHAIRMAN. Current rates of interest.

Mr. POWELL. Yes, sir.

Senator GLASS. It is really constructive interest, is it not?

Mr. POWELL. Yes, sir. We are of the opinion that the Federal Reserve Board could adopt a rule that would not be comparable to the present method of handling its business, which members could sell a part of (not all of) their float, at the prevailing rate of interest. The reason for that is that the charge back of items is so small that you really can not arrive at an estimate of it, and the outstanding is between two and three days. I have not the exact figures; and we feel that this is as liquid an asset as it is possible for a bank to have. If banks could have the benefit of using a part of their float it would prove very beneficial to them. The amounts so used to be determined by careful investigation.

The CHAIRMAN. In other words, if I understand you correctly, you are asking that instead of the Federal reserve banks deferring credit to the reserve and not until the final payment that that time be shortened so that the member banks would get an earlier credit; is that it?

Mr. POWELL. No, sir. My idea is that your members be allowed to sell a certain percentage of their float and discount it at the prevailing rates. A bank was carrying, for illustration, $800,000 in float, and should be allowed to sell as much as half of that at the prevailing rates.

The CHAIRMAN. At the Federal reserve bank?

Mr. POWELL. Yes, sir. Of course, if you could make it available without charge this would be better. But, in my opinion, the question

of return to the system is to be considered there, for this reason: You just can not imagine the amount of discounts that we member banks make for the simple reason of maintaining reserve to debit. I handled that in my bank for three years and we would discount paper almost every day to take care of not a thing in the world but reserves, while we had ample funds in Federal reserve banks for call.

The CHAIRMAN. You realize the importance of having a liquid reserve at the Federal reserve banks?

Mr. POWELL. Yes, sir.

The CHAIRMAN. And you recognize the distinction, I am sure, between a check in the air or a float in transit, and real reserves?

Mr. POWELL. Yes, sir; and that is the reason we feel there should be charges for this service, and that the member bank can well afford to pay for it.

The CHAIRMAN. That raises a new question that has not been raised before the committee, and that would appear as a part of loans of the Federal reserve bank then, would it not, on which they would be receiving income, would it not?

Mr. POWELL. Yes, sir.

The CHAIRMAN. They would be treated the same as open market transactions, for instance, or other loans made in the form of rediscounts to member banks?

Mr. POWELL. Yes, sir.

The CHAIRMAN. Instead of a note obligation, as is now the practice between the Federal reserve banks and the member banks, it would be a loan on an open account?

Mr. POWELL. Yes, sir.

The CHAIRMAN. The security would be the checks in the possession of the Federal reserve banks in the process of collection?

Mr. POWELL. Yes, sir.

The CHAIRMAN. It would really be a loan, then, on the part of the Federal reserve system to the member banks, secured by checks in the process of collection, and you would not suggest that any other security be given?

Mr. POWELL. No, sir; we do suggest, however, Mr. Chairman, that not all of any member bank's float be available.

The CHAIRMAN. Fifty per cent?

Mr. POWELL. That is a suggestion only. We do not know, Senator, it might be a third, or two-thirds. That would have to be determined by careful investigation.

Mr. Chairman, there is another suggestion that we would like to leave with your committee for inviting nonmember banks into the system, and that is I believe that membership results in cleaner banks. I believe that it will have a tendency to make the smaller bank that is eligible for membership maintain a cleaner note case, and that is a benefit to him, as he can only make his notes available by requiring from his customers statements of their conditions from time to time, at least once a year. I feel that this is a direct benefit to the borrower as well as the bank, as it makes him take note of his condition from year to year.

The CHAIRMAN. Mr. Powell, there has been diversified opinion as regards the necessity for these country banks becoming members of the Federal reserve system expressed before this committee. Do

you think it is important that these small country banks become members of the system?

Mr. POWELL. I do.

Senator GLASS. I take it from what you last said that you think it more to their advantage than to the advantage of the system to bring about cleaner and securer banking?

Mr. POWELL. I do, sir. I unhesitatingly say it would be to their benefit and also accrue to the benefit of their customers. The trouble in the rural sections—I have been a country banker all my life, having spent 23 years in one town in two banks, one a national and one State bank—and the trouble with the farmers I came in contact with was that they did not know, they did not have any idea of their condition. They just guessed along from year to year.

Senator GLASS. You do not agree with our former distinguished colleague, Mr. Bob Henry, that it is an insult to the farmer to ask him for a statement of his business affairs?

Mr. POWELL. No; I do not; and not only that, I did not find but very few farmers that did business with me that were not willing to give statements.

Senator GLASS. Why, of course. In Canada the banks require every man, whether farmer, merchant, or manufacturer, to make them a statement once a year—a budget, indeed, once a year—of the loans that they require for the ensuing fiscal year.

Mr. POWELL. There is yet another suggestion that I have in mind, and that is the question of capable, experienced bankers to go into the interior where there are now the largest number of nonmember banks for the purpose of discussing with them and meeting and mingling with them in an endeavor to create a better feeling toward the system, looking possibly to the induction of those banks into the system.

The CHAIRMAN. There has been testimony before this committee, or statements made, to the effect that the system was not sold even to its member banks, and it has been pointed out also that most of the Federal reserve banks have a contact department, a department of bank relations, and that they have been doing extensive work, but it has not seemed to have had much effect. You are suggesting now, if I understand, a committee of bankers outside of the Federal reserve system, are you not?

Mr. POWELL. Yes; but under the direction and control of the Federal Reserve Board, and not of the Federal reserve banks in each district. In our district I have personally known one, the active man there, Mr. Martin, for many years—I knew him before he went into the system——

The CHAIRMAN (interposing). He is chairman of the board of a St. Louis bank, is he not?

Mr. POWELL. Yes, sir; and I believe that the best feeling I know of anywhere exists between the nonmember banks and the bank at St. Louis, and I attribute it solely to the activity of Mr. Martin. I recall, the year I was president of the Arkansas Bankers' Association, he came down at my invitation and attended every meeting of the seven groups in our State. He did not have time to come, but he came anyhow, whether he had time or not; and you can have no idea what a good feeling it created among the bankers to have an active representative of the system sit with them and in their confer-

ences and visit with them from day to day. Since then he has, as you have stated, organized this contact department, and now has several assistants that he sends out at different periods to visit and advise with private banks.

There is another suggestion, Mr. Chairman, that we would like to leave with this committee, and that is this: We feel that this is an important question to the bankers of this country, whether they should become members or not, and I thing that this system, to function properly, should be carefully studied. I feel sure that this committee is making a careful study, and I hope that it will find the time or take the time to visit the sections of this country that you discussed with me this morning. I believe it will be very beneficial.

The CHAIRMAN. It occurs to me in that connection that this committee's life is limited to a report which must be made on January 31, 1924, and, of course, were this committee to go out, as you suggest, throughout the country, which was in contemplation perhaps in the early stages, would be physically impossible to do. As these hearings have proceeded, however, some members of the committee are feeling that perhaps the committee or a subcommittee should go into sections where the greatest nonmembership exists. That, of course, will be determined by the committee in the next few days.

Mr. STRONG. Of course, you appreciate when a committee goes out over the country at the expense of Congress—even though the membership gets nothing but their expenses and are considerable out of their own pocket for minor expenses that occur—that those who do not want the committee to function immediately get into the newspapers and brand it as a junketing committee. I feel that there are interests in the United States who do not want all of the banks in the Federal reserve system that are eligible to get into it, and they do not want this committee to get out into the West and get out among the banks that ought to be but are not in the system. I think there is a feeling of that kind now toward this committee.

Mr. POWELL. I know this, and that city banks have advised and are now advising their country correspondents who are eligible not to become members.

Mr. WINGO. Have they not gone further, too, Mr. Powell; have they not advised those same bankers in Arkansas to keep aloof from our committee?

Mr. POWELL. I could not answer that directly. I heard that. I could not give you a direct answer.

Mr. WINGO. Have you not been told by a gentleman who had advised that?

Mr. POWELL. Yes, sir.

Mr. WINGO. You have been told that, have you not?

Mr. POWELL. Yes, sir.

Mr. WINGO. He was given that advice by a man who ought to cooperate with this committee, was he not?

Mr. POWELL. Yes, sir.

Mr. WINGO. As a matter of fact, the suggestion that it was a junketing committee found its way into the papers of your State known to be unfriendly to me?

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Mr. POWELL. I do not know about that; I am not well enough posted on Arkansas politics to know.

Mr. WINGO. You are well posted on that, are you not?

Mr. POWELL. Yes; I believe I am.

The CHAIRMAN. Mr. Powell, have you observed in the last few years a tendency on the part of the banks in the reserves cities to broaden these personal services and entertainments—to the extent of purchasing prize-fight tickets for country member banks, and such things as that—in attempting to bring into social relationship these nonmember banks and the reserve city banks, with the idea of continuing their secondary reserve deposits?

Mr. POWELL. Yes, sir.

The CHAIRMAN. You think there is greater activity by these reserve city banks than there was previously?

Mr. POWELL. Yes, sir.

The CHAIRMAN. And that it is prompted solely by their desire to continue deposits and the relationships with these nonmember banks?

Mr. POWELL. Yes, sir; and they have done this in the many years I have been an active banker, especially the last 20 years. They get better qualified men, so much bigger men now than heretofore, and now pay large salaries to these representatives. I know of their paying as high as $25,000 a year to men who come to our State to attend the meeting of the State bankers' association. They do that for the purpose of having men of banking ability and experience to represent them, and they are often authorized to make loans when out in the field.

The CHAIRMAN. It is your observation also that these banks have divided their business up into districts, and they have a vice president or an officer of the bank in charge of certain sections of the country?

Mr. POWELL. Yes, sir.

The CHAIRMAN. And that they are keeping in closer touch with the banks and the big business concerns in those sections than they did previously; is that your observation?

Mr. POWELL. Yes, sir. In addition to that, there are banks in New York and Chicago and some in St. Louis who make a specialty of soliciting wholesale accounts in the interior, and they send out their representatives to visit not only the banks but the wholesaler as well.

The CHAIRMAN. Is it your observation that they have local offices to which these men report?

Mr. POWELL. Yes, sir. Several New York banks have St. Louis offices. One or two of them were almost forced to close on account of the objections raised by St. Louis banks because of their coming into St. Louis territory and interfering with business; in fact, I am informed some of these offices have been closed.

The CHAIRMAN. Is it your observation that many State banks and trust companies are kept out of the system because of those superrelations which are built up?

Mr. POWELL. Yes, sir.

The CHAIRMAN. Have you any suggestion to make as to a modification of the Federal reserve operations to meet that competition; in other words, do you think it is wise for the Federal reserve banks to attempt in the way of competition to offset that service which is being rendered?

Mr. POWELL. That was the real purpose of the suggestion I made in having representatives of the board rather than of the Federal reserve banks, because the point is that it will not be good policy for a Federal reserve bank to solicit membership. But I do not think that that applies to the Federal Reserve Board, because the Federal Reserve Board does not pass on loans; all loans are made by the board of directors of each bank.

Now, then, for illustration, a representative of the St. Louis Federal Reserve Bank goes into the eighth district to solicit membership. About the first thing a bank will do when called upon is to present his discount register for inspection, and it is natural to expect that this representative of the Federal reserve bank would probably commit himself on some of that paper. On the other hand, if the representative was sent by the Federal Reserve Board, he would go out for only the purpose of educating this banker as to the benefits that would accrue to his bank by becoming a member.

That was the very point that we had in making this suggestion that it would have a tendency to make these country bankers feel that managers of the Federal reserve banks were not different from other bankers and that you could approach them in about the way that you are now able to approach a correspondent when you go to him with a banking problem.

I have noticed in the press since I have been watching the sittings of this committee that there would be no benefit to accrue to the system by inviting in a lot of small banks; that you already had the strength of the small banks by reason of having their city correspondents as members, and that they would not inure to its benefit. I do not agree with that statement; nor do I think that the majority of the small banks' paper is not eligible. That is not a fact in our State. When I operated the bank at Camden, whenever a farmer owed me over $500 I knew he was expecting me to carry that loan over a year, and if he owed me less than $500 I expected him to pay at maturity. That farmer's note is available for discount on the statement of the cashier if it is less than $500, and for that reason I say of the assets of small banks who are not members but are eligible, a large amount of their paper is acceptable now.

Senator GLASS. Either from ignorance or design, I recall distinctly that when we had Federal reserve legislation in process of formulation here in Washington, one of the biggest bankers in the United States testified before the committee that there was no eligible paper of the character described in the act in the great city of Chicago. I sent a note up to the office of the Comptroller of the Currency immediately by messenger, and the answer came back that there were 269,000,000 of that eligible paper in the banks of Chicago alone.

Mr. POWELL. At that time?

Senator GLASS. At that very moment when this eminent banker was testifying before the committee that there was eligible paper in the banks.

Mr. POWELL. I believe, sir, that in the majority of inferior banks in the State of Arkansas who are not members, who are serving a strictly agricultural community, over half of their paper is now subject to rediscount.

Senator GLASS. Yes; and if not they can take that character of paper and rediscount it with their correspondent banks just as they do now?

Mr. POWELL. Yes, sir.

Senator GLASS. And take eligible paper and get accommodation at the Federal reserve banks?

Mr. POWELL. Yes, sir.

The CHAIRMAN. Mr. Powell, much has been said here about the relations existing between these reserve city banks and the country banks—the service which they are rendering and the desire is very apparent on the part of those reserve city banks to continue their customer's balances with these country banks. There can be no criticism of that relation that I can see except that if they may be carrying it to an extent of discouraging membership in the Federal reserve system. If those banks are doing that, of course, it interferes seriously with these banks coming into the system. Would you say that you feel that it would be necessary to break down that relation in order to get the State banks and trust companies into the system—I do not know that I should say "break down," but it is an important factor in this nonmembership matter. In other words, there is a relation existing there which no law can break down. It is a natural condition—the desire on the part of banks to maintain their customers' balances—and nothing that Congress could do would be justified, it would seem to me, in destroying a relationship like that. Just what have you got to suggest to alleviate that situation if that is a factor in membership?

Mr. POWELL. It is a factor, Mr. Chairman, beyond a doubt, because it is being used, and I know personally it is being used. But on the other hand, it would be unwise to break it down.

Mr. WINGO. Even if not unwise, Mr. Powell, it would really be impossible. It is very natural for these banks to cultivate that relation, just like a merchant with his customers. It is the natural and wise policy of all these banks to do like you say. They are glad to find a fine young banker anywhere and take him to these large places. I think you happen to know—take our own State; take one of the larger New York banks, a large business concern. One of those large business concerns is headed by a former Little Rock banker, and that very same banker is now vice president of one of the large banks of New York City, and he has carried several Little Rock, wide-awake, capable men to New York City to be put in his different organizations. That is a natural thing to do, is it not?

Mr. POWELL. Yes, sir.

Mr. WINGO. That relation naturally leaves a kindly feeling among these old men who are promoted to these positions; and even if it were wise, it would be practically impossible to do it?

The CHAIRMAN. It is not desirable to break it down, is it?

Mr. POWELL. No, sir.

Mr. WINGO. I suppose you do not think it is necessary?

Mr. POWELL. No. sir.

Senator GLASS. Is it not at least desirable to conduct an educational campaign, and to have these country banks understand that they are not obliged, for any reason of necessity to continue that relationship, but that, on the contrary, they may, as a matter of right, in the Federal reserve system get their eligible paper rediscounted and not as a matter of favor or personal relationship, as in the old time?

Mr. POWELL. I agree with you fully.

Senator GLASS. I should understand that is your recommendation.

Mr. POWELL. Yes, sir; it is.

Senator GLASS. That while we can not by law, certainly directly impair the relationship between the big correspondent bank and the outlying country banks, we can by such an educational process, as you have suggested, at least let these country bankers understand that here is a system to which they may repair by right, and not by reason of personal relations or favoritism, and get their rediscount conditions. I understand that is your suggestion?

Mr. POWELL. Yes, sir; it is my suggestion; and the question there as to where this representative shall come from, whether the bank or the board is, I say, to be determined by careful consideration.

The CHAIRMAN. You would not think that this relationship, in its effect on membership on the Federal reserve system, was sufficient to justify the forbidding of rediscount by these reserve city banks for these country banks, would you?

Mr. POWELL. No, sir.

The CHAIRMAN. Inasmuch as they resort through that source for relief in the Federal reserve system?

Mr. POWELL. No; they would not do that—the city banks would continue to serve them.

Senator GLASS. I doubt if they could by law constitutionally do that. Mr. Powell, those brilliant young men who have gone from Arkansas to the big banks in the money centers are getting good salaries now, are they not?

Mr. POWELL. Yes, sir.

Senator GLASS. Vastly better salaries than they got at home, are they not?

Mr. POWELL. Yes, sir.

Senator GLASS. You speak of one of these field agents of a correspondent bank getting as much as $25,000?

Mr. POWELL. Yes, sir.

Senator GLASS. Suppose the Federal reserve bank were to hire a man for $25,000 as field agent, what do you think would happen?

Mr. POWELL. At the present salary the board gets, he would not get an offer like that.

The CHAIRMAN. Your suggestion is that a committee of bankers go out and do this work. You pointed out also the fact that city banks in relation with country banks see fit to hire men at high salaries, sometimes as high as $25,000. You are proposing a committee of banks who will do this work in a public-spirited way, who will leave

their own work and go into sections of the country and meet with the bankers individually and point out the needs for their membership in the Federal reserve system. I wish you would elucidate that.

Mr. POWELL. You mean without salary?

The CHAIRMAN. Yes.

Mr. POWELL. No, sir; that would not be possible, because the type of man that would be employed to do that work should be well qualified.

The CHAIRMAN. Is it your idea they would devote their whole time to that?

Mr. POWELL. Yes, sir.

Mr. WINGO. I understood it would take at least a year to investigate the very things this committee is investigating and to give judgment, and your idea is that you would not be able to get men to give that year of free service.

Mr. POWELL. Yes; they could not do it, and the very question raised by Senator Glass as to whether the board would feel authorized in paying salaries to get good men. If you expect to handle a situation of that kind it would be necessary to organize the country into districts. Naturally these representatives would first go into States where there are the fewest banks eligible for membership; and when this work was undertaken it would be necessary to have not one man but several, and this would be expensive.

The CHAIRMAN. You would lead us to believe that this question of getting nonmembers, State banks, and trust companies into the system is quite some undertaking?

Mr. POWELL. Yes, sir; it is; and it is a question largely of education, and I believe that having men who are practical bankers to invite nonmembers into the system will do more than anything I have heard suggested to accomplish the end you seek.

Senator GLASS. I do not know that I dissent from anything you say or approve everything you say. But I want to say that your testimony here has been directed to the point and has been very helpful to me. I do not undertake to speak for the rest of the committee.

Mr. WINGO. You have had very intimate relations and have practical knowledge of the workings of the system. You were connected, as I recall, with the Southern Trust Co. for some years, and the branch bank of the Federal reserve system is in that building, is it not?

Mr. POWELL. Yes, sir.

Mr. WINGO. Your experience is such that you know the intimate workings and details and know the problems?

Mr. POWELL. Yes, sir; I do.

The CHAIRMAN. We are very glad to have had you here before us; and I second everything Senator Glass has said.

(Thereupon, at 12.45 o'clock p. m., the committee took a recess until 2 o'clock this afternoon.)

AFTER RECESS

The committee resumed its session at the expiration of the recess.

The CHAIRMAN. We will hear you, Mr. Marsh.

STATEMENT OF MR. BENJAMIN C. MARSH, MANAGING DIRECTOR FARMERS' NATIONAL COUNCIL, BLISS BUILDING, WASHINGTON, D. C.

Mr. MARSH. My name is Benjamin C. Marsh, managing director Farmers' National Council, with offices here in the Bliss Building, Washington.

Before I start my statement, Mr. Chairman and gentlemen of the committee, I would like to ask permission to read a brief excerpt from an article entitled "What is a farmer?" which appeared in the New Republic for August 29. It is signed with the initials D. R. M. I have no legal evidence as to who "D. R. M." is, but D. R. Murphy is editor of Wallace's Farmer published in Des Moines, Iowa, and this statement occurs in this article:

> Only at the extreme left of the farm organization movement do we find any attempt to treat economic and political problems from the working farmer's point of view. The groups associated with the Farmers' National Council take this attitude.

I do not want to ask to have the entire article incorporated, but it states that the farm bureau and the grange are controlled by the landlord farmers, also by the banking farmers, or the inference is such. If there be any objection to have this article "What is a farmer?" incorporated in the hearings, I don't ask it, but as it is rather a clear statement of the position of the different farm organizations there possibly would not be any harm in having it, if the committee would agree. It is about two and a half pages long.

The CHAIRMAN. I see no objection.

Mr. STRONG. What is it about?

Mr. WINGO. In other words, you desire it in as a part of your statement?

Mr. MARSH. Yes; I would because it indicates the differences of the different farm organizations.

Mr. WINGO. On the Federal reserve system?

Mr. MARSH. No; on general points affecting farmers.

Mr. STRONG. I have no objection to Mr. Marsh getting it in.

(The article entitled "What is a farmer?" submitted by Mr. Marsh, is here printed in full, as follows:)

WHAT IS A FARMER?

What is a farmer? When Congress instructs the President to put a farmer on the Federal Reserve Board, when salaries of officers of farm organizations go higher than those of Cabinet members, when political jobs of all grades beckon to men who can appeal successfully for the votes of their brother farmers, the question—to many ambitious men—becomes a practical one.

When a legislative representative of an organization like the Farmers' Union or the Farm Bureau or the Grange goes to Congress and says, "The farmers want so and so," it is the custom for some Congressman to ask somewhat pointedly, "How many farmers do you actually represent? A more significant question, as yet unasked, would be, "What kind of farmers do you represent?"

Unfortunately no ready answer is possible. Getting into a farm organization is a very easy job. Any man who once lived on a farm and now owns farm property has a good claim. Even a man who never actually farmed in his life, but who owns farm land and shows a little interest in farm affairs, is often classed as a farmer so far as farm organizations are concerned.

Actually farmers split up into several distinct classes by virtue of their economic position. The man who lives in town and operates half a dozen farms,

the man who owns a big farm clear and whose income comes largely from the interest upon his investment rather than from his labor, the farm tenant, the farm laborer, all have interests that differ and differ very widely. Yet they are all classed as farmers and urged to join the same organizations. So many different classes of farmers grouped together in one association is a reason for the gift of the average farm organization for compromise and ineffectual action.

The classes named above group into two main divisions—working farmers and owning farmers. A working farmer looks to the wages he gets for his labor and his management for the bulk of his income. The owning farmer relies for his income upon the interest on his investment, and is mainly concerned in finding ways of increasing that income by increase in land values, increase in rentals, and so on.

Working farmers, under this division, are in the majority all over the country, but it is the owning farmers who seem to provide the officers of farm organizations, and control the policies these organizations adopt. This is particularly true in the corn belt. The officers of leading farm organizations include professional politicians who happen to own land, retired professional men who run farms as a hobby, men who got their start on the farm but who have spent their later and more profitable years in handling real estate or selling insurance, retired farmers with a big income from rent of land. Many are excellent men, but they all have the point of view of the owning farmer. They are concerned in getting a fair return on farm investments, and not especially worried about increasing the labor income of the average farmer.

Only at the extreme left of the farm-organization movement do we find any attempt to treat economic and political problems from the working farmer's point of view. The groups associated with the Farmers' National Council take this attitude. Benjamin Marsh, the secretary, has gone so far as to recommend the passage of the Keller bill for a modified type of single tax. This offers an interesting contrast to the attitude of the Farm Bureau, which still boasts of its defeat of the Nolan bill, a single tax measure drawn up along the same lines.

In all the other organizations the owning farmer seems to dominate. The Farm Bureau is absolutely controlled by this type of mind. The Grange in most States comes in the same class, although there are liberal-minded State granges that have broken away from the national organization. The Farmers' Union has a more liberal tinge. Several State organizations have joined the Farmers' National Council and most of the others are somewhat less under control of the landowner than the other organizations.

In the requirements for membership in these organizations there is little difference. In a good many States any man who owns land can be a member of the Farm Bureau. As a result a good many bankers have been enrolled. In addition to bona fide agriculturists, the Farmers' Union admits some professional men, though excluding bankers, lawyers, and merchants. It is especially strict about the farm antecedants of its officers. This, however, appears to be more a matter of sentiment than anything else. In a State Farmers' Union convention in the Middle West I heard two leading candidates for president debating their qualifications. One wound up his speech with the statement that he was the youngest of 11 children and was born in a log cabin. The second candidate declared amid cheers that he was the youngest of thirteen children and was born in a sod hut. The sod-hut candidate won.

Membership in the grange is presumably limited to "persons engaged in agricultural pursuits." According to one of its officers, however, this provision is "very liberally construed in most granges. Bankers, lawyers, and merchants belong to the grange in many places." In many respects the grange is the most conservative of the lot, dominated by the sort of elderly farmer who has made something more than a fair living through the increase in the value of his land in the last 20 years.

Farmers, like all the rest of the population, look up to wealthy men, particularly to wealth accumulated in the handling of farm land. With this prestige and with more time and money to spare than their neighbors, the big landowners found it easy to come to the front in farm organization affairs.

There is, however, a decided revolt beginning against this condition. In many cases this sentiment has taken the form of an insistence that only dirt farmers be elected to office. "Dirt farmers," unfortunately is an elastic term. Anyone who at some time has actually farmed seems to qualify. Your dirt farmer who is a big land owner, the bulk of whose income comes from

interest on his investment or from rentals, is, of course, as much of a conservative as is your absentee landowner. The attempt to get dirt farmers into office, however, indicates that the membership has a notion that something is wrong.

In the past the job of developing an organization of working farmers with its energy directed toward getting a bigger labor income seemed rather hopeless, because every farmer, no matter how poor, clung to the hope some day to live on his income as a baby capitalist. He remembered, as many still do, the increase in land values that brought prosperity to the previous generation, and he, too, hoped for similar returns.

A period of hard times, however, gets this point of view out of the head of the average working farmer. Up in the Northwest, where the grain farmer has had hard sledding for some years, it has proved possible to appeal to the interest of farmers as workers rather than as land speculators. Even in the Corn Belt, always recognized as conservative until recent years, the tendency now seems to be in the same direction, fair testimony of which was in the Iowa election last year.

The conservatives' standard bid for farm support has been that the farmer is really a capitalist and has nothing in common with the forces of labor, or with any group which puts human interests above property rights. On this claim a farmer in a letter to a Corn Belt farm paper, says:

"To my notion, that's just old-fashioned bunk. I suppose it comes nearer to being true in Iowa than any place else, because we have a number of wealthy farmers, but more than 90 per cent of the farmers of the country and anyway, I should guess, more than 80 per cent of the farmers of Iowa, haven't a clear investment in their farms of over $10,000 apiece. Figure 4 per cent on that, a pretty good rate for farm property, year in and year out; that's $400 a year. Now take out taxes, repairs, depreciation, etc. What little is left certainly proves that the thing the average farmer is interested in is the wages he gets for his work and his management of the farm. His income as a capitalist very often won't keep him in chewing tobacco."

How soon will class-conscious working farmers of this type be able to gain control of the leading farm organizations? If hard times for the farmer continue, it ought not to take more than two or three years. If a wave of prosperity for agriculture comes soon, it may take a generation. Until that happens, there will be no chance for effective cooperation of farm organizations with organized labor in either the political or the economic field. Until that time will there be no effort by farm organizations to tackle with vigor the problem of securing a higher labor income and a higher standard of living for the average farmer.

D. R. M.

The CHAIRMAN. I was just going to call the attention of Mr. Marsh to the fact that this committee are proceeding under authority of portion of the law passed at the last session of Congress. We are authorized to inquire into the effect of the present membership of State banks and trust companies in the Federal reserve system upon financial conditions in the agricultural sections of the United States; the reasons which actuate eligible State banks and trust companies in failing to become members of the Federal reserve system; what administrative measures have been taken and are being taken to increase such membership; and whether or not any change should be made in existing law or in rules and regulations of the Federal Reserve Board, or in methods of administration, to bring about in the agricultural districts a larger membership of such banks or trust companies in the Federal reserve system.

We have been, so far as we could, holding the hearings to that point. The question of par clearance and branch banks has crept in, as have perhaps several other matters. But so far as we can, we are confining it to the law, and we will be glad to hear you along those lines.

Mr. MARSH. The proposition which you have before you, Mr. Chairman and gentlemen of the committee, is a very difficult one. I

have just spent the summer speaking at farmers' meetings most of the time, sometimes at labor meetings in States from Arkansas, Texas, and Oklahoma, out through Iowa, Nebraska, Wyoming, Utah, Colorado, and States on the Pacific coast, and back through the Northwest States; and I am going to suggest that to get the maximum amount of information in the minimum of time you invite Mr. John Skelton Williams, the former Comptroller of the Currency, before your committee, and he can give you a vast amount of pertinent and very important information on this subject, which I will be perfectly frank to say as an individual I could not give you. No one, I believe, except some one who has made such a thorough study as Mr. Williams has made on this subject could give the committee that information. I am sure if Mr. Williams had notice to arrange his affairs he would be glad to come. Of course, he has been most generous in giving information on this vital subject.

I would also like to suggest that the members of your committee or a subcommittee go out and visit these country banks and country bankers, and do not fail to invite into some of your hearings, if I may make the suggestion, the farmers from the different parts of the country in which you hold these hearings. I think I can assure you that after you have been through this "ordeal by fire," if you please, there is no danger that you will be accused of having taken a junketing trip, because you will come back, I am confident, with a lot of information which you can not get from people who come here to the National Capital, and it is a matter of extremely great importance to the farmers of the Nation.

I should like to give you my own impressions, and I can not go into the technical aspects of this question. My impression of why the country banks have not gone more into the Federal reserve system, particularly in the past few years, I base not upon any theory but upon the literally thousands of conversations I have had with farmers all over the United States, excepting in the East—I have not been in the East much, although I spoke in your State in August, Mr. Chairman.

A few years ago the country banker was in some States inclined to regard the farmers who went into movements such as the National Nonpartisan League as undesirable citizens and thorough menaces to the welfare and prosperity of the people.

Well, last week I spoke at Cambridge, Minn., a town some fifty-odd miles northwest of Minneapolis, I believe, with Mr. A. C. Townley, formerly president of the Nonpartisan League, who is now organizing the National Producers' Alliance; and whereas in some of those States the country bankers previously were fighting the farmers, they now realize perfectly well that these country bankers have no community of interest with the great financial institutions of the Nation; that when the farmers are up against it that the country banker is busted; and so they are going into this organization that Mr. Townley, formerly president of the Nonpartisan League, is now organizing the National Producers' Alliance; and so in this organization that Mr. Townley is organizing the country bankers and little merchants are all coming in to help the farmer ascertain the exact cost of production of his product, and that information is going to be generously afforded to all Members of Congress from the State from which this organization is functioning.

I spent nearly seven weeks this summer talking for a farm organization which is very strong in the States of Arkansas, Mississippi, and Oklahoma, and particularly in the State of Texas—the Farm Labor Union of America—and they are adopting a similar program. The fundamental plank in that platform is to ascertain by a system which they have devised the exact cost of production of farm products and to try to get that cost of production. In case they can not get that cost of production among the cotton growers of the South, corn growers, or wheat growers, or among the grain growers of the Northwest, of course, they are going to try to limit their crop, not only as to acreage but as to the crop.

It is perfectly evident that a very large proportion—I can not give the percentage—but a very large proportion of the farmers of the country feel that their present disaster is due to the Federal reserve system. It is not my task to undertake to prove that such is the case, but this statement has a bearing upon the subject of inquiry of this committee, which is, "Why do not the country banks come into the Federal reserve system?

Those bankers are realizing very thoroughly that they have got to keep in touch with their constituents—that is, with the farmers in the country districts—and the farmers do not want to have anything to do with the Federal reserve system. They believe it has been captured—that seems to be the word, "captured," not devised—by interests antagonistic to the farmers and interests which are playing the game of the big speculators through the country and trying to crush the farmers.

I fancy the reason some of the country banks do not come into the Federal reserve system is that they would not qualify, if I understand the expression, because I was informed in a number of these Northwestern States that the State banks supervisory agency—whatever it may be—was not attempting to enforce the banking law with reference to these banks, because they would have to close most of the rest of them; and a lot of them have been closed in many of the States already.

This fact is evident, that the power granted under our banking system for a bank to use the deposits made by farmers, or by wage earners, or by anyone else as a basis for pyramiding $9 of credit upon $1 of deposits is not such a system as to get the confidence of the farmers of the Nation; and it is difficult for one who has not been actually out, as I have been, talking to the farmers of the back country districts down in Texas and in the backwoods regions of Washington State and many other States to be able thoroughly to appreciate the feeling of resentment among the farmers of the Nation—and they feel the Federal reserve system, in large measure, is responsible for their condition. Whether wisely or not—they incurred an indebtedness with wheat and other farm products at a certain price, and by some feat of legerdemain their indebtedness is now doubled—roughly, not exactly, but approximately doubled—through reduction of prices which they get f. o. b. on the farm for their products.

I repeat that I believe this committee will be thoroughly justified in making a trip of inquiry. I can not conceive of any legitimate criticism on the ground of a junketing trip, this committee or a sub-

committee make such a careful inquiry in a number of these States and sections where relatively few of the country banks have gone into the Federal reserve system.

It is difficult to believe that the farmers are going to get on their feet for some time. As a matter of fact, as you are doubtless aware, the Secretary of Agriculture, Mr. Wallace, reported that last year some 2,000,000 of the farm population left the farms. A year ago last September I requested Mr. Wallace to make an investigation of the number of farmers who had actually lost their farms during 1922. He declined at the time to do it. He has since done it. He had this information practically complete and available about the middle of February this year when I saw some of the figures confidentially, and he suppressed that information. He has consistently and persistently suppressed it. I am informed that when the new Congress which will be changed as to personnel in some respects, convenes that action will be taken to get that information.

The real point, however, it seems to me, is this: That the farmers do not need more credit. They need cheaper credit. But the very least need of the farmers of the Nation to-day is more credit for any extended period of time.

The long-term mortgage against farm values is roughly $8,000,000,000. The short-term indebtedness is about $5,000,000,000. I recommend that Congress make an investigation of the rates of interest which farmers are paying for short-term credit. I was reliably informed and can give you the name of the prominent lawyer in Texas who said that in that State the farmers are paying at the rate of 2½ per cent per month for short-time credit, and, of course, they can not possibly carry that sort of a burden.

Senator GLASS. In what State is that?

Mr. MARSH. In the State of Texas.

Senator GLASS. Paid it to whom?

Mr. MARSH. To the local banks and individuals; I have not the full detail here now. It is a matter of such importance that I think Congress ought to investigate it and then ascertain whether any amendment is feasible to the Federal reserve system or to this intermediate credit law passed by the last Congress which would remedy that situation and enable these farmers with adequate security to borrow at a reasonable rate of interest.

Senator GLASS. You understand, of course, that no member national bank of the Federal reserve system can do anything of that sort?

Mr. MARSH. I understand that no member national bank of the Federal reserve system can do anything of that sort.

Senator GLASS. They are prohibited by law from doing anything of that kind.

Mr. MARSH. Quite so.

Mr. STEAGALL. And not only is that true, but all national banks by the national bank act are prohibited from charging a high rate of interest in the States in which they do business.

The CHAIRMAN. I may also say to you, Mr. Marsh, that Governor Cooper, who is a member of the Farm Loan Board, stated before this committee this morning that the intermediate-credit bank system had been provided and there is available for loans through existing agency, which includes banks and cooperating organizations, a total

amount of $40,000,000, and that that is being furnished to the intermediate-credit banks on their bonds at 4½ per cent; that is to say, they have been able to sell their debentures in the open market at 4½ per cent, and that that is available at not to exceed 5½ per cent to be loaned through the credit banks to existing local agencies.

Mr. MARSH. One and a half per cent spread?

The CHAIRMAN. One per cent spread, he said this morning. They are only charging, as a matter of fact, 1 per cent spread, and that is available. Those borrowers in Texas should get in touch with the intermediate-credit situation, I should think, if they are being charged that. They evidently do not know that agency is available to them.

Mr. MARSH. That is the point I am trying to make, and it is of vital importance, as to how this can be brought to the attention of the borrowers in Texas and elsewhere so they can avail themselves of the relatively low rates of interest which are available to them if they know about it.

The CHAIRMAN. That was one of the reasons for the enactment of this intermediate-credit legislation, lower rates of interest to borrowers in the agricultural sections of the country and making available to them at all times sufficient credit so that they would not have to pay these excessive rates which were being charged by existing agencies.

Mr. STRONG. If local banks not members of the Federal reserve system or the national banking system, but local State banks in Texas or any other place, charge usurious rates of interest, how can we prevent it by act of Congress?

Mr. MARSH. I do not know that you can prevent it by prohibitive legislation. The question is whether you can prevent it by substitutional methods; that is, expedite the reaching of these people who do not know about this system and informing them.

The CHAIRMAN. Those loans are largely made by private bankers and State banks and trust companies which are entirely under control of the State laws. The State officials are ones who are dilatory in that respect if those interest rates are being permitted to be charged to farmers.

Mr. MARSH. Quite true; but whether those State banks have the funds to loan to the farmers, I do not know. I understand that such funds and adequate funds for short-term or intermediate credit can be made available through this system of intermediate-credit banks created by this law passed by the last Congress.

Senator GLASS. How can Congress by law control interest rates charged by State banks in Texas or any other State?

Mr. MARSH. Why, I do not know what Congress can do. That is an interesting question. I understand that they are considering now a uniform divorce law, and, frankly, I think usurious interest rates are hurting the farmers of this country very much more than varying degrees of severity in the marriage and divorce laws of the different States.

Senator GLASS. The uniform divorce law is sought by constitutional amendment. Do you mean that you advocate a constitutional amendment giving the Congress of the United States the right to fix rates of interest throughout the country?

Mr. MARSH. I am not advocating anything except the investigation by this committee, which you have facilities, I understand, to make. I do not know whether that would be wise or not, but I do feel it is unwise and unfair to permit any Shylock of Texas or a New England deacon, either, to extort interest rates like these on short-term credit from the farmers.

Senator GLASS. Is not that a question for New England? It is not a question for this committee.

Mr. MARSH. I do not know. It seems to me it would come within the purview of this committee's work perhaps in investigating it, or of the Banking and Currency Committee; I can see that that point may be well taken. But sometimes not merely prohibitive legislation but making available a better system and having that system is just as effective as saying "Thou shalt not."

Senator GLASS. You understand this is not the Banking and Currency Committee, but a special committee created by this act for certain purposes?

Mr. MARSH. I understand.

Mr. WINGO. To what extent do you think this financial condition referred to results from failure of State banks to come into the Federal reserve system? Do you thing if they get into the Federal reserve system they would still charge these excessive rates unless some amendment was made to the Federal reserve law that controlled the spread between the discount and what they charged?

Mr. MARSH. I am sorry to say I fear some of them would, if they were permitted to do so. Of course, if it was made a statutory offense and prohibited perhaps they would not do it.

Mr. WINGO. One thing within our jurisdiction is to inquire into the effect of present limited membership of State banks and trust companies in the Federal reserve system upon financial conditions in agricultural sections of the United States. That is one of the things we are directed to inquire into; that is, the effect of the present limited membership of State banks and trust companies in the Federal reserve system upon financial conditions in this agricultural territory you have been talking of. What, in your observation and experience, is the effect, if any, on the financial condition of the farmer of their failure to come into the system.

Mr. MARSH. To be perfectly frank, Mr. Wingo, it seems to me it is not a question of credit as much as a question of the farmer's cost of production, particularly the high price of farm lands; and, second, the farmer's inability to get a fair price.

Mr. WINGO. You think, so far as credit is concerned, it is not a question of volume but it is a question of the rate he has to pay for the volume.

Mr. MARSH. I will say that the volume of credit to-day of the farmer is altogether too high. It is a mighty serious question in my mind, frankly, whether the Federal farm-land bank has been a benefit to agriculture as a whole or not, with our present land system, because of the low interest rates, because it has produced terrific speculation in farm lands out of all proportion to prices which can be gotten for farm products. So that we see ourselves to-day, I will state it frankly, up against the difficulty of getting a foreign market for American farm products, partly because of the high selling price of the farm lands.

Mr. STRONG. Is that statement true—that the farm loans made at low rates of interest have increased the price of land?

Mr. MARSH. I say it is an open question in my mind.

Mr. STRONG. Had not the land reached its high peak before the farm-loan system got into operation?

Mr. MARSH. Oh, no.

Mr. STRONG. I mean got in operation and doing business on a rather ample scale, as within the last two years.

Mr. MARSH. Of course, the immediate cause of the recent speculation in the farm lands was the fact that the farmers capitalized the temporary war selling price of farm products into the selling price of farm land. Not till 1916 did they get over the land boom following the Civil War, and they then jumped into another. But, other things being equal, a low interest rate on real estate, meaning a lower carrying charge, tends to permit a higher capitalization of the rental from the security for that loan; in other words, a higher selling price of land.

Mr. STRONG. Is not this true, that the farm-loan system has only been actively making loans within the last two years?

Mr. MARSH. Of course, it was held up during the time that the case was before the Supreme Court of the United States. I understand that they made about $300,000,000 of loans before that case was appealed to the Supreme Court.

Mr. STRONG. Yes; and then while that case was being carried through the Supreme Court was when the peak in land values was reached. Then the farm loan system was not making any loans.

Mr. MARSH. Are you entirely correct?

Mr. STRONG. I am asking you if that is not true. I think it is.

Mr. MARSH. I think that speculation in farm lands began about 1917, and in 1918 and 1919, particularly in 1918, 1919, and 1920. That was before that case was pending, if I remember correctly.

Mr. STRONG. No; it was pending in 1920.

Mr. MARSH. In 1920; yes.

Mr. STRONG. That was when the peak was reached in land values.

Mr. MARSH. Well, it was simultaneously.

Mr. STRONG. The loans, as I understand it, now being made are practically to take up loans that are already on the farms at higher rates of interest, and that are maturing every five years and requiring the payment of commission every five years; while the present farm loan system loans to the farmers money over a long range of years and takes in amortized payments a small payment each year until the whole loan is paid. It stops the pyramiding of commissions every five years and reduces rates of interest. I think it is the farmer's salvation and makes it possible for him to pay out on his land rather than tending to cause speculation in farm lands.

Mr. MARSH. I would be glad to see an amendment to the law so that the Federal farm loan bank—and this is just what I urged before you when this present rural credits bill was pending—could not loan any individual farmer $25,000 on any piece of property until all the small loans bearing a higher rate of interest were paid off.

Mr. STRONG. They would never all be paid off.

Mr. MARSH. Then, I would not loan any man $25,000. I see you get the point very clearly; I would not have the Government go into the business of helping the big man, because as that article in the New Republic says, the groups affiliated with the Farmers' National Council and the Farm Labor Union of the South, which has 320,000 members, are considered working farmers, and perhaps very close to half of the farmers are tenants.

The CHAIRMAN. You are drawing attention to the two classes of farmers—the big farmer who farms improved land, frequently thousands of acres, and then the small farmer, and also the tenant farmer who raises a family and does his work, perhaps, with his own family or hired man.

Mr. MARSH. There are really three classes.

The CHAIRMAN. And your idea is that it would be better for the farm loan system to help that little fellow rather than to finance farming as an industry.

Mr. MARSH. Certainly, they should have the first consideration. I would make three classes—the big land-owning farmer, who is really establishing the factory system of farming, and we are trending very rapidly toward the factory system of farming, so that today 2½ per cent of the farmers own about one-sixth of the total farm wealth. Second, comes the little owning farmer, with land subject often, of course, to a mortgage, but his total investment is often a comparatively small part of the total value of his farm; and, third, the tenant farmer. It is becoming more and more difficult for the tenant farmer to acquire a farm, and more and more difficult for the home owner to pay off the indebtedness he has incurred; and I will admit that I think that little fellow should be helped to pay off that indebtedness as soon as possible, before the Government extends its credit or the advantages of low rates of interest to large-propertied farmers.

Mr. STEAGALL. There is one member of the Committee on Banking and Currency who shares your opinion that the little farmer should be first helped and that that is the first object of the Federal land bank system. But he found himself in the minority in the House.

The CHAIRMAN. That was my position exactly, as I think you know.

Mr. STRONG. As it is now, the little farmer who needs the small loan has been taken care of and also the farmer who wants to borrow up to $25,000. There is abundance of money for all of them.

Mr. MARSH. If the little farmer has been taken care of, he has not discovered that fact.

Mr. WINGO. If you will permit me, Mr. Strong was complaining this morning that the system did not have enough appraisers to take care of all of the land appraisals or applications received. Your point is that no $25,000 loan should have been made until these smaller men, if this machinery, which is slow at best, which Mr. Strong demonstrated this morning has been able to change these short, five-year loans, now thinks these small farmers' loans have been turned into this amortized loan. Your theory at the time we passed the $25,000 loan was that that was a big enough task

for the farm-loan machinery to take care of and they ought not to take care of the other until they had been able to take care of the small farmer first.

Mr. STRONG. This loan I referred to was not a little loan.

Mr. WINGO. The big fellow will naturally get the preference and the appraiser would rather go and investigate a large farm than a small one.

Mr. STRONG. In the case I complained of he did not do it, and why should he prefer the large loan—he works by the day and is so paid?

Mr. WINGO. I opposed the $25,000 for the reason that I thought it would be natural to go after the big business.

Mr. STRONG. No; it does not do anything of the kind; you are trying to patch up an argument.

Mr. WINGO. You said the "little fellow" you complained of. Which was it, the little one or large one?

Mr. STRONG. If you had got my language instead of making it up yourself you would have known. I said the loan I complained of this morning was not a little loan.

Mr. WINGO. How big a loan was it?

Mr. STRONG. A fair-sized loan—$6,500.

Mr. WINGO. I want to save the much needy first and let it come gradually for those less needed.

Mr. STRONG. That is what they are doing. There is ample funds for all now. No loan, large or small, need fail for lack of funds.

Mr. STEAGALL. We hear some suggestions here about the Federal reserve bank system and about the Federal farm loan law. What do you think about the effect on the country of repealing the Federal farm loan act and the Federal reserve act? Congress could very easily do that.

Mr. MARSH. I think it would be unwise to repeal it, because you have embarked on a policy. I think the companion measure which involves State action, the companion measure to secure to the individual farmer who wants to be a home owner, the small owner, the best advantage of this is to exempt all improvements from taxation and tax land more heavily. That will leave us "57" other varieties of taxes. But it is a significant fact that every one of the hundreds of thousands of farmers in State and National organizations which indorsed this marketing bill are also in favor of exempting all improvements from taxation.

Mr. STEAGALL. I am talking about the helpfulness or harmfulness of the Federal reserve act and the Federal farm loan act. I understood you to say that you were in a doubtful state of mind as to whether the farmers of the country were being benefited by the Federal land bank system and similar suggestions are being made here with reference to the Federal reserve act; and I am just asking you what you think would be the effect on the country of repealing those two laws?

Mr. MARSH. It is an important fact that economic legislation enacted by the National Congress for the United States as a whole is affected very directly by conditions which in the main can be controlled only by State legislation. Beyond a doubt the selling price

of farm lands in the United States is too high. The deflation in such values is going on faster and faster, and it is bound to continue. But I would not repeal the Federal land bank act. You are investigating the Federal reserve system. I think that has got to be changed entirely.

Mr. STEAGALL. Would you repeal that?

Mr. MARSH. Absolutely, or amend it.

Mr. STEAGALL. But let remain the Federal farm loan act?

Mr. MARSH. Let remain the Federal farm loan act, and I tell you there are millions who agree with me on the repeal of the Federal reserve law and who know under the Constitution the powers granted by that act are not constitutional. There is only one agency that has the constitutional right to issue credit, and that is the Government of the United States, and the growth of that sentiment will be indicated by the votes recorded in November, 1924.

Senator GLASS. Do you think the national bank act, which has been in existence 58 years, is also unconstitutional?

Mr. MARSH. Anything which turns over to private banks the issuance of credit is unconstitutional.

Senator GLASS. The national bank act, which has been in existence 58 years, you think is unconstitutional?

Mr. MARSH. In that respect; yes.

Mr. STRONG. You think the national bank act ought to be repealed?

Mr. MARSH. I think the national bank act ought to be absolutely limited—to restrict the issue of credit to the Government or to cooperative organizations. In other words, not farm it out for private profit.

Senator GLASS. You think cooperative associations ought to be allowed to issue currency?

Mr. MARSH. Credit to their own members.

Senator GLASS. Do you think the cooperative associations ought to be allowed to issue currency?

Mr. MARSH. No; let the Government issue currency but not upon a fictitious and fluctuating value known as the gold standard.

Senator GLASS. Let us get back to your concrete proposition, that the Federal farm loan act has resulted in an orgie of land speculation.

Mr. MARSH. It is encouraging it, Senator Glass.

Senator GLASS. And that the amendment made by the last Congress raising the maximum loan limit to $25,000 has contributed to that result?

Mr. MARSH. May I correct you as to understanding my statement?

Senator GLASS. Yes.

Mr. MARSH. I did not naturally say that we had got any effect of the loan of $25,000. It would tend to do that and enable some rich farmers to hold land for higher price who otherwise would be obliged to sell it at a relatively reasonable price.

Senator GLASS. Not if any farmer who is not rich and who desires a loan of as much as $10,000 or $1,000 applies for a loan, because the law exclusively provides that preference shall be given to all applications for $10,000 and under.

Mr. MARSH. But it would to the extent that those high loans were made, and I was so interested in the matter that I requested former

chairman of the board, Lobdell, if it were appropriate for him to do so, to notify me if applications should be received for $25,000. I have not received any word from him on the matter.

Senator GLASS. As to the extortionate interest rates charged to farmers in the State of Texas and a feeling which you say exists among farmers against the Federal reserve system, do you conceive that the Federal reserve system has anything to do with these extortionate charges down there?

Mr. MARSH. Oh, no; and I made that clear. I suggested the fact that another agency has been created—to wit, the intermediate-credit bank system—to make credit available at cheap interest rates to farmers, short-term credits, and that it should be more generally made known, so that the folks who needed it may get it. Those banks and institutions and persons who have been getting existing high rates, as far as I have been informed, do not want to have the fact that there is any agency ready to loan at low rates known.

Senator GLASS. Do you think any number of those banks which have been charging Texas farmers 25 per cent interest would be willing to forego that advantage of becoming members of the Federal reserve banking system?

Mr. MARSH. Not if they were going to be deprived of that opportunity, probably.

Senator GLASS. Of course, they would be.

Mr. MARSH. Because we are still in the acquisitive society, from top to bottom.

Senator GLASS. Just exactly why should the farmers of Texas have a dislike of the Federal reserve system, because banks which are not members of the Federal reserve system are permitted to charge extortionate rates of interest to farmers?

Mr. MARSH. Possibly because too great claims were made for the Federal reserve system at the time it was put into operation, and farmers got the idea that they were going to be prosperous under it.

Senator GLASS. As a matter of fact, Mr. Marsh, do you know that the Federal reserve bank at Dallas, of all the Federal reserve banks in the system, loaned the farmers of Texas so much money at a reasonable interest—I say loaned the farmer; loaned member banks to be loaned to the farmers of Texas—so much money on cotton and other agricultural products that it dissipated its entire surplus and had to call on other Federal reserve banks to rediscount its paper in order to avert failures?

Mr. MARSH. Whether that went to the cotton growers or not, I do not know.

Senator GLASS. The record shows that the loans were principally on cotton.

Mr. MARSH. Does the record show whether those loans went to the individual cotton grower?

Senator. GLASS. They were loans on cotton. Of course. I can not tell you whether they were loans to the cotton grower or cotton factor. They were loans on cotton; loans on agricultural products.

Mr. MARSH. I remember that former Governor Harding of the Federal Reserve Board, gave out lumped figures of loans to agri-

culture and allied interests and I made a personal inquiry, "What do you include in 'allied interests'" and learned that it included the packers and the fertilizer manufacturers and the millers and the manufacturers of agricultural machinery.

Senator GLASS. I want to get you back to this proposition, whether or not you think the farmers of Texas ought to feel any resentment against the Federal reserve system that dissipated its entire reserves in the Federal reserve bank located in that State in rediscounting upon bills for farmers' produce, simply because the banks that are not members of the system are charging them extortionate rate of interest?

Mr. MARSH. Your question is really a compound question, and I will have to answer it in two parts. In the first place, it depends on what those who advocated the Federal reserve system got the farmers to believe that the farmers themselves were going to get out of it, if I may be allowed—if you don't mind, Senator—to put the question in my own way. It may not be the proper way. I am going to attempt to be logical in my statements. There was a general understanding that the farmers were to be relieved—his credit needs were to be relieved by the Federal reserve system. I am not saying that that contention was justified, but that is what farmers anticipated, and the fact remains that for the last two or three years those cotton growers of Texas have not been making much money, the most of them. The only reason that some have been making any money is because the boll weevil has killed off enough of the cotton so that the growers who were able to market their cotton got a fair price, pretty near cost of production.

Senator GLASS. I understood you complained awhile ago that Congress had provided credit facilities beyond the requirements of the country, and to complain that the credit systems provided by Congress were producing a saturnalia of speculation.

Mr. MARSH. I was referring, of course, to the Federal farm land bank, which makes long-term loans instead of intermediate-credit loans; and I also stated, I think you will recall, that the real proposition of the farmers to-day is not how to go more in debt—lower interest rates are essential—but getting a price that will enable them to get out of debt. They can not carry $13,000,000,000 of debt.

Senator GLASS. The Federal reserve system was not instituted to fix prices of farm products or any other prices.

Mr. MARSH. Quite so; and I think too much was claimed for it as to what it would accomplish.

Senator GLASS. Whoever claimed it would fix prices, high or low? What is the rediscount rate at Dallas to-day?

Mr. MARSH. I can not tell you exactly what it is.

Senator GLASS. It is not 7 per cent a month, is it?

Mr. MARSH. Oh, no; nothing like as high as that.

Senator GLASS. It is perhaps 4½ per cent a year.

Mr. MARSH. Five or six; I do not know what they are charging.

Senator GLASS. You think, then, the rediscount rate of the Federal reserve banks should be based upon the commodity prices of the country rather than upon the credit demands of the country?

Mr. MARSH. It depends upon whether you want to have credit used as an agency to benefit those who take farm products and specu-

late in them, or whether you want to have it or some other agency to help the farmers and producers generally get a fair price?

Senator GLASS. Do you think Congress by legislation can create credit?

Mr. MARSH. I think Congress certainly has created credit and turned over the making of credit, if you please, to private institutions.

Senator GLASS. Congress has created facilities whereby people who have credit may borrow money, but Congress can not pass a law that will give you credit at a bank.

Mr. MARSH. I beg your pardon; Congress has done practically the same thing in permitting private banks to pyramid credit upon the deposits put in their banks.

Senator GLASS. Then you think the way to get all these State banks to join the Federal reserve system is to repeal the system and let the Government issue currency exclusively.

Mr. MARSH. I think the Government should be the one exclusively to issue credit. I do not think you should repeal the Federal reserve act now. I will say that very frankly.

Senator GLASS. And you think that is the way to get these banks and trust companies, Mr. Marsh, to join the system?

Mr. MARSH. I do not know whether they would come in, but if they did not I am quite confident some other Government agency could be found to get the credit where they need it and have adequate security.

Senator GLASS. It is the people's Government?

Mr. MARSH. It is the people's Government—I can tell you better after the next election.

Senator GLASS. You do not know whether it is the people's Government?

Mr. MARSH. I should hardly judge so from the conditions of the country as a whole.

Senator GLASS. You think the condition of the country indicates whether it is the people's government or not?

Mr. MARSH. It would indicate either whether it was efficient government for the people or whether the people's government; you can take your choice.

The CHAIRMAN. You have stated frankly that you think the Federal reserve act should be repealed. One witness before this committee the other day suggested that somewhat along similar lines, and that the localities should be served through the postmasters. He stated that was a method by which the country districts could be served. Do you concur in such a plan as that?

Mr. MARSH. I would not say that it would necessarily be through the post office, but that we certainly ought to either repeal or amend the Federal reserve act, I do not care which way you do, so that the issuing of credit becomes a Governmental function, and that no profit can be made out of issuing credit by any private agency.

Senator GLASS. Then, you would abolish the banks?

Mr. MARSH. As far as the extra profit is concerned, I would limit that, not abolish banks.

Senator GLASS. Banks do not do business just for the love of it.

Mr. MARSH. I have observed that.

Senator GLASS. Do you think they should?

Mr. MARSH. No, I am not advocating anything of the sort, Senator Glass; I am advocating that the present system under which the deposits of the people are used by the bankers. You remember Mr. Sydney Anderson said in answer to my question a few months ago right at this table, that there was a theoretical pyramiding of twelve times the deposits, and a practical credit volume of nine times the actual deposits. I think those are his exact words, or the substance thereof.

The CHAIRMAN. That is not quite clear what you mean by the issuance of credit by the Government. Would you not elucidate that?

Mr. MARSH. May I ask you a few questions, as a banker? Suppose I borrow from a bank, with which you were unfortunate enough to be connected, $10,000, and I deposit that in your bank. What do you do with that $10,000?

The CHAIRMAN. I credit it to your account.

Mr. MARSH. Can you issue loans on the basis of that?

The CHAIRMAN. You would have to keep sufficient reserve against deposit liabilities.

Mr. MARSH. How much?

The CHAIRMAN. It is different in different localities.

Mr. MARSH. In Pennsylvania, we will say?

The CHAIRMAN. In country banks, the reserves against deposit liabilities is 7 per cent.

Mr. MARSH. Then, how much can you loan? I simply made a loan of you of $10,000 and put it in subject to check. How much can you loan on account of my borrowing from you? How much has your loaning capacity increased?

Senator GLASS. He can loan all of it out except 7 per cent.

Mr. MARSH. Then, I am paying interest on the $10,000 I borrow, which he is good enough to loan me.

Senator GLASS. You do not pay a bank interest on your deposit; the bank pays you interest on your deposit.

Mr. MARSH. I borrow $10,000——

Senator GLASS (interposing). You said you deposited $10,000 in the bank.

Mr. MARSH. I borrow, and then I place the money on deposit back in the bank, subject to check.

The CHAIRMAN. You pay interest on your loan to the bank?

Mr. MARSH. Surely.

The CHAIRMAN. Under the processes of utilizing that back and forth the average deposits of the bank can be loaned out, and they can get interest at proper rates.

Mr. MARSH. But you have to hold 7 per cent of that $10,000?

The CHAIRMAN. As legal reserve.

Mr. MARSH. And the rest you can issue as credit over again.

Mr. STRONG. Until you check it out.

Mr. MARSH. Until I check it out, but that gives you a lot of time to use it.

Senator GLASS. What does the man borrow $10,000 for—to have it put in the bank?

Mr. MARSH. To have it put in the bank to have it available if he wants it.

Mr. STRONG. Does a man borrow $10,000 if he is not going to use it?

Mr. MARSH. Take $1,000.

Mr. STRONG. Do you borrow $1,000 when you are not going to use it?

Mr. MARSH. If I think I am going to need it. A business man always has to have a little bit of reserve. I will not continue this analysis with the chairman.

Mr. STRONG. Nobody borrows money to deposit it again in the bank without interest. If you borrow money you borrow it for a need and you use it.

Mr. MARSH. Sometimes you do and sometimes you do not. I will ask at this point the privilege of inserting some figures on this subject. I have not them here, not knowing this subject would come up.

Mr. STRONG. We had better know what they are, because we are trying to find out why State banks and trust companies do not join the Federal reserve system.

Mr. MARSH. I am glad to know what the purpose is. It makes me all the more anxious to insert these figures.

Senator GLASS. The real purpose is to find out why State banks do not come into the Federal reserve system and what means may be taken to get them in, and your suggestion is to get them in the Federal reserve system by repealing the law and abolishing the system.

Mr. STRONG. I think there would be no objection if those figures would give us some light as to how to get the State banks into the Federal reserve system. I think it would be all right. If they do not do that, I do not see any use of it.

Mr. MARSH. May I assume, Mr. Chairman, that this committee has made up its mind before starting the investigation? I assume from the remarks of the illustrious Member of Congress from Kansas that it is your purpose to get the country banks into the Federal reserve system or to ascertain why they do not come in.

Mr. STRONG. He has addressed his questions particularly to me. The purpose of this committee is to try to follow out the purpose of the law under which we were appointed, and that was to see if we could determine why State banks and trust companies do no come into the Federal reserve system and to suggest proper legislation to induce them to come in.

Mr. WINGO. We were also to inquire into the effect on the financial conditions of the agricultural sections by reason of the present limited membership?

Mr. STRONG. Yes, sir.

Mr. MARSH. Senator Glass asked me some personal questions about my views of the Federal reserve system. Without expressing any personal opinion, I will say that some of the members of the Farmers National Council are very much more advanced and go further in their views than I do in this matter. But I have heard the Federal reserve system administration denounced in pretty nearly every State I have been in this summer.

Mr. WINGO. Your position is that unless materially amended it ought to be abolished?

Mr. MARSH. I think that the practical proposition is to amend it very materially.

Mr. WINGO. And then, furthermore, your objection to the system goes to certain things that are permitted under it, and you take the position that you are so unalterably opposed to those things that if we do not change and get them out of the system it ought to be abolished?

Mr. MARSH. Yes; and that will be the line of least resistance.

Mr. STRONG. Are you going to suggest some amendments?

Mr. MARSH. No; not at this time. I made this suggestion, if I might call attention to it for the benefit of those who came in since I began: That you invite Mr. John Skelton Williams, the former Comptroller of the Currency, who can give you an infinite amount of information on this subject.

Mr. WINGO. The Federal Reserve Board advises that a great many member banks during the trying period of 1920 and 1921 did not rediscount a single dollar with the Federal reserve system even though they were members of the Federal reserve system; they did not take advantage of that benefit. What explanation do you think there is for that, or what did you learn that would throw any light on that in your travels through that territory? They were in the system. Why did they not use it when their need was so pressing and it was claimed that the Federal reserve bank could not take care of them? That was one cry; and it is contended here that some of those banks were "passing the buck;" what is your idea about that?

Mr. MARSH. I think the gentlemen who control the financial destinies and the industrial destinies of this country realize what has been done in this country. They realize very clearly that we have opened up a continent very rapidly and that we have in farms in this country to-day enough acres if intensively cultivated to support a domestic population of at least 300,000,000; that these free lands have been used under the homestead system to allay industrial discontent. When those in the cities in industries were not content with their condition they were told to go out and get a homestead; and we brought in immigrants by the hundreds of thousands a year. They realized that under our present conditions breaking a large proportion of our six and a half million farmers would be a dangerous menace to labor.

These financial interests tried to crush organized labor after the war, first by the open-shop drive, and, second, by breaking down immigration restrictions. They failed in that, and then they said, "We have got to freeze millions of farmers off of the farms; let them go into industry, factories, transportation and mining, and they will smash labor's standard." Secretary Wallace has stated with rather great frankness that driving farmers off the farms will result in restoring the parity between the prices which farmers get for their products, and wages of labor.

The failure of the banks which are members of the Federal reserve system to take advantage of the discount privileges which they have under the law, and their further refusal to extend credit to the farmers tended at certain periods to drive the farmers off of the farms,

and worked right in with the plans of the 23,000 millionaires who own one-third of the national wealth and all of the National Government.

Mr. WINGO. That is about the highest during that period?

Senator GLASS. That was the average.

Mr. WINGO. Those member banks that had the privilege of the Federal reserve system could go down and rediscount the farm paper for 5 or 5½ per cent; that is about the highest during that period?

Mr. MARSH. That was the average.

Mr. WINGO. And then turn around and get 10 per cent, even assuming they did not charge 2 per cent a month, as you suggest. They are selfish, as you contend. There was a chance for them to make a profit on that rediscounted paper. What was it you think restrained them from taking advantage of that opportunity to make that profit? Was it because they were afraid of the system; was it because they were controlled?

Mr. MARSH. I think it was partly a scheme to drive a lot of farmers off the farms.

Mr. WINGO. What advantage was it to those local country bankers to play that game, as you say, of the financial interests?

Mr. MARSH. Very often, I think you will agree, the country bankers do not know where their interests lie, until both farmers and wage earners are smashed and then they wake up and find they have put their eggs in the wrong basket. I think a great many of those country bankers were misled and took that attitude on that account. I simply asked the farmers and wage earners what system they liked.

Mr. WINGO. Those who say they do not need any more members in the system and ridicule this committee and say it has no business inquiring into things that point to the fact, "You have a lot in who are not using it. Why do you want any more in?" I want your viewpoint on that proposition.

Mr. MARSH. That is my position. But I am going to repeat my suggestion and request to this committee that they go right out to these country banks and invite some of the farmers, and I will be glad to give you a list of several localities where they could be found.

Mr. WINGO. You should address other members of the committee about that. That is what I wanted to do last spring.

Mr. STRONG. That is what I thought we were going to do.

Senator GLASS. Your opinion is unique and interesting. I would like to ask your opinion of a banker who would get his rediscounts, who would borrow his money from a Federal reserve bank at 4½ per cent interest and loan it to the farmers of the neighborhood at 8 per cent interest in time of emergency; who would not only borrow his basic line from his Federal reserve bank to which he was properly entitled, but who would borrow 700 per cent more than his basic line at 4½ per cent and loan it to the farmers of his neighborhood at 8 per cent, thereby making a margin of profit of 3½ per cent on his rediscount operations with the Federal reserve bank.

Mr. STRONG. In the time of their misfortune?

Senator GLASS. At any time, for that matter.

Mr. MARSH. What would I think of him?

Senator GLASS. Yes.

Mr. MARSH. I think a man who would help out a client of his, a patron of the bank, in that condition was doing what he conceived

to be and I would admit—other things being equal—quite a distinct service. If I understand your question, it was rather wrong to make such a profit.

Senator GLASS. And who——

Mr. MARSH (interposing). May I conclude?

Senator GLASS. Yes.

Mr. MARSH. I do not know just exactly what rate of interest it is expected that American citizens shall pay to be gotten out of a wholly precipitated financial condition, brought about by the failure of the Government to finance the Government during the war by taxing war profits instead of issuing bonds.

Senator GLASS. That does not answer my question.

Mr. MARSH. Not in the way you want it answered.

Senator GLASS. I wanted a real answer. What I want to know is your personal opinion of a banker who professed great affection for the farmers of his neighborhood and to be greatly distressed over their condition; who would borrow money from the Federal reserve bank at 4½ per cent rate and loan it to those distressed farmers at 8 per cent rate, and you said you thought he was doing a great service.

Mr. MARSH. I said I thought he was doing a great service if he had to do it to help them. I presume I should explain when I am sarcastic, but I ought to label my sarcasm.

Senator GLASS. What do you think of a banker who would do that? Ought not he to be in jail instead of in a bank?

Mr. MARSH. I should imagine that that would be more appropriate, but it is almost impossible to conceive of his ever going there. Therefore, I am not going to suggest he should be sent to jail. That does not change the system. Very few rich people ever get there.

Senator GLASS. This fellow is not rich; he is a farmer's friend.

Mr. MARSH. Who told you so? He himself or the farmers?

Senator GLASS. He is at the head of a great farm organization.

Mr. MARSH. Would you mind mentioning his name?

Senator GLASS. Oh, yes; I do not care to mention his name. I can show you the record, if you will come to my office.

Mr. MARSH. I will be pleased to do so. I find that we are trying to work for these small home owners and tenant farmers who are in very desperate straits and very bitter against the whole condition to-day. I outlined some investigation or suggestions for investigation by the committee, Mr. Chairman. I did not intend to get into this protracted discussion.

The CHAIRMAN. You have been before the committee a little over an hour, and we have Doctor Atkeson yet to hear.

Mr. STRONG. I would like to ask Mr. Marsh a question. Do you own any farming land?

Mr. MARSH. No; I do not own any farming land.

Mr. STRONG. The reason I asked you that is this: You have given this committee the mistaken idea that farm land was too high and it ought to come down. My observation is that about the only hope many farmers have is that by farming the land and taking care of it that it would advance in price and make them a profit. If you take that hope away from them, it seems to me you are going to deprive them of an opportunity to eventually accumulate and own some property.

Mr. MARSH. That raises a question. I am just going to quote from a recent release of the Farmers' National Council, as follows [reading]:

> The increase in the selling price of farm lands has in the past been a big part of the profits of many farmers. They got paid for their work when they sold their farms—that is, when they unloaded on some one else. Prices of farm products didn't pay expenses under the marketing system.
>
> The prosperity and even the fair pay of many farmers has been based upon this land and marketing system which endanger the future of American farmers.

Mr. STRONG. You wrote that?

Mr. MARSH. I wrote that, and let me state, I think that is coming to be generally accepted.

The farmer, and not the land speculator. I do not want the land speculator. A fellow who is a money shark, a fellow who speculates in farm products, is the fellow who is killing off the dirt farmer. My friend Strong does work on the farm occasionally, I understand, and he also owns farm land, and I do not consider it a crime to own farm land. But I know Mr. Strong is patriotic enough and human enough to be interested in the fellow who does work on his farm for Mr. Strong, the owner.

Mr. STRONG. We split 50–50. I furnish the land and stock. He does the work. I think he has the best of it.

Senator GLASS. The fellows on my farm not only get all they make but all I make, pretty nearly. [Laughter.]

Mr. MARSH. I am pleased to have this solution for the agricultural problem and perhaps we should have more Members of the Senate and House landowning farmers to enable more farmers to break even.

STATEMENT OF MR. THOMAS ATKESON, WASHINGTON REPRESENTATIVE THE NATIONAL GRANGE, WASHINGTON, D. C.

Mr. ATKESON. Mr. Chairman, as most of you know, I represent the National Grange organization in Washington, which is a farmer organization extending over the country from Maine to California. It is not very numerous in the cotton States. During the last few months I have been as far north as Massachusetts and as far south as Florida, as far west as central Kansas, and I was impressed with one general situation from the car window. As I rode through these sections of the country, the most outstanding thing that I observed was the lack of building improvements and the amount of briars and sprouts growing up in the fence corners, and where there were wooden fences they were largely rotted down, and where there were wire fences the posts were rotted and the fence had fallen down. When I approached a city like Atlanta in the South I began to see magnificent residences going up, with street cars running all over; and when I got out in the suburbs there were magnificent homes costing perhaps $100,000 or more. But just as soon as you get out of the immediate environment of Atlanta, when you go south on the way to Florida, everywhere there were very few improved farm homes, very few evidences of improvement.

That means that the farmers are not spending anything on what the railroad people call "upkeep." They are plowing and hoeing

and cultivating with limited man power the fields with a view to direct production of farm commodities.

That same condition manifests itself as you go up to Massachusetts and if you go out to Kansas. Occasionally you see an exception to the general rule.

But I did not come up here this afternoon to discuss the general farm situation. I think you gentlemen and everybody who reads the newspapers know it. They are up against a serious situation. And if any of you gentlemen are wise enough to solve the problem I pass it up to you. I am not.

Lending to men to enable them to continue in an unprofitable business only puts off the day of calamity. They better liquidate now, unless there is a prospect of increased market values in the future, and certainly it is not in the interest of American agriculture to deflate the farm-land values. Perhaps they are too high. But my observation after a half century or more dealing with people and situations has convinced me nothing is too high that anybody will pay the price for.

If I could sell my farm for $200 an acre, I would do it, and I do not think I would consider I was a profiteer. Values have been inflated abnormally during and following the war, and undoubtedly a deflation of farm-product values followed very suddenly in the summer of 1920. I do not know who is responsible or whether it is one political party or another that was responsible. But Mr. Houston was Secretary of the Treasury when Mr. Harding was governor of the Federal Reserve Board, and a good many people think those two men brought calamity to the American institutions in their management of the Federal Reserve Board. I have never said those things. I say a lot of people think that. I assume all of the men in public office have been judiciously selected by the people or by the appointive power, and, therefore, since they were particeps criminis they ought to have selected better men, if the best selections were not made. I see no way of improving these conditions except by orderly and legitimate methods.

I am inclined to think that the Federal Reserve Board needs some modification. I think most people who have studied it, even the leading bankers of the country and the smaller bankers of the country, seem to have agreed after some experience that like other human undertakings it was not perfect and that it might be improved.

It happens that I own one-fifth of the capital stock of a little country bank, and I am one of the members of the board of directors. The bank was organized about five years ago. I met with the board of directors last summer. We went over the assets of that little country bank, which is in a little town of 300 or 400, with no interests outside the village except agriculture within a radius of 10 miles. We started the little bank as a local convenience, and we were surprised within a very short time there were $150,000 in that bank, and it has been puzzling ever since where the money came from. I did not think that within 10 miles of that little country town there was that much surplus money. But men who had never gone to a bank, who had never transacted any business through a bank of any kind, dug up their loose change and deposited their money in that little bank.

We sent out a notice to the depositors of this bank that as long as we had any money and the collateral was satisfactory the money would be loaned to the people who had deposited it and not to exceed 6 per cent interest would be charged, and we have never charged anybody above 6 per cent interest in the neighborhood.

It has rather surprised us that more money was put in the bank than the neighborhood wanted to borrow out, so that neighborhood is not bankrupt. When we go to the capital city of Charleston or some place else to find borrowers we get all the traffic will bear.

When we organized this little bank about five years ago—I think it began operations four years ago—the 1st day of last March—the stockholders, four of us, lived in the neighborhood—one a local doctor; a farmer who lived on his farm; I lived on my farm when not in Washington; a local merchant in the town and a gentleman in the capital city of Charleston about 35 miles off, who is connected with one of the oldest and strongest banks in the State, whose capitalization runs up into the millions and which has been there ever since before I was born.

When we organized this bank the question of joining the Federal reserve system came up. I had a sort of irridescent dream that the Federal reserve system was a good thing, and that we should hook up and function through the Federal reserve system. But this banker—I did not know anything about the banking business, and neither did the other three stockholders who put their hard-earned cash into the capital stock, and which has been paying very nicely ever since. It has not made anybody a swollen fortune, but the bank is a neighborhood convenience.

This banker, who is the president of that local bank, when the question was raised as to our connecting with the Federal reserve system told us a whole lot of reasons why it would be better not to be connected with the Federal reserve system; and I think it is that question you gentlemen are now primarily interested in, judging from the letter I got from your chairman, as to why country banks have not operated through the Federal reserve system.

I wrote this banker a few days ago asking him to tell me definitely why this little bank of which I own one-fifth is not functioning through the Federal reserve system. We did not make any effort to, because he said it was not to our interest to do it, and we took his word for it. He has not answered my letter up to this time. I do not know why. Maybe he did not want me stating his reasons before this committee. I sent him a copy of the chairman's letter and said, "Write and tell me just what you would tell this committee if you were in Washington." I wanted him to put on paper the reasons I did not know—and I do not know as I have them—just why his strong bank and one little country bank were not connected with the Federal reserve system.

Senator GLASS. Does your bank carry any balances with his bank?

Mr. ATKESON. The bank in Charleston? No. Occasionally something goes through the Charleston Bank. We have a correspondent bank in New York and others scattered over the country, the usual banking practice of State banks.

I happen to know the parties to a case that it seems to me ought to be interesting in this committee, dealing with the basic proposition

that you have under consideration, and that is why these banks are not connected with the Federal reserve system. The gentleman who wrote this letter—this was in answer to another letter I sent to a Kentucky local bank whom I happened to know very well, and I know all the people connected with it, and this is what he says [reading]:

Your letter of September 18 requesting a statement from me as to why my bank has never become a member of the Federal reserve system has not been answered sooner because of my doubts as to how to answer you.

Perhaps, in short, the main reason has been the lack of confidence that I, as a country banker, have had in the purposes of the Federal Reserve Board, which is intrusted with the administration of the policies of Federal reserve banks.

Its powers are not to be limited wholly by the wording of the act, because there is a power incident to the accumulation of large funds that the act does not confer, except, perhaps impliedly; and from the first incorporation of our State bank in 1916 we were impressed with the idea that the act was being administered with very little, if any, consideration for the success of country banks. Certainly no advantages from the old and established methods in use by country banks has ever been offered by the Federal Reserve Board. The only contract that my bank has had with them has been of the most unpleasant kind.

I have a personal letter from him that would be more interesting than this:

In 1919 the regional bank of Cleveland, Ohio, in whose district my bank is located, first solicited our membership, and then solicited our signing a contract agreeing to remit at par.

Of course, we understood that all nonmember banks clearing through Federal reserve banks of this district were required to keep a reserve fund on deposit with such reserve bank sufficient at all times to cover the items in transit; that no interest on the daily balance in that fund could be paid by the reserve bank. We had few, if any, items with them to have cleared for us in exchange for the free service they were demanding of us. For this reason we declined to become a party to such an agreement and instead of recognizing our right as a legitimate creature of the State where we are doing business, they used every unfair method in trying to coerce and compel us to sign such a contract. They sent representatives here to the town of Catlettsburg, who carried letters of introduction as authorized representatives of the Federal Reserve Board of Cleveland, and they went about among our depositors and so interfered with our business and attempted to plant the seed of suspicion in the minds of our depositors that the grand jury of Boyd County indicted their duly authorized representatives for violation of that section of Kentucky Statutes which makes it a penal offense to circulate false rumors concerning the standing and credit of a bank.

This agent had been coming to our bank at that time every few weeks during a period of some 8 or 10 months. After the indictment was returned against him he never returned. No apology was ever made by the Federal reserve bank of Cleveland for his action, and whilst the work of enforcing par clearance was carried on by other agents they never indulged in quite the same kind of practice. After the indictment was had, however, agents merely presented items coming into the hands of the Federal reserve bank for collection in cash at the counter each day and demanded the payment of those items in cash, and thereupon if payment were refused to protest the checks for nonpayment.

Each day we offered them a draft on our Cincinnati correspondent in lieu of cash on these checks, and a draft would have been, to all intents and purposes, as good as payment and even more convenient payment to them than cash. They had to maintain an agent here for the purpose of making these collections on a monthly salary and, in addition to this expense, they had to pay express charges on all currency collected by the agent at our window. This currency was shipped to the Cincinnati branch and our correspondent in Cincinnati is located but a couple of squares from the office of the Cincinnati branch; and our drafts against the fund with the Cincinnati correspondent bank have been handled by the Federal reserve bank at much less expense and with no amount of inconvenience. They held out to us from time to time the privi-

lege of paying these demands in a draft if we would sign up the agreement to remit at par. Of course, their purpose in collecting in cash over the counter was to so deplete our cash funds as to drive us out of business or make us sign their contract.

We brought an injunction suit against them in 1921 and the Federal court here granted a temporary restraining order. Since that time, of course, we have had no trouble with their agents at the window. However, their local resident agent here is still retained by them under salary notwithstanding the ruling of the Federal Reserve Board to withdraw all such agents.

Of course, these matters could be better ascertained by any committee seeking the true facts relating to charges of unfair practice by the Federal reserve if they would visit the communities where friction has arisen or complaint arises.

They could thus learn that these complaints are based upon legitimate claims and are not fancied.

In August, 1921, the action of the Federal Reserve Bank of Cleveland in its campaign of coercion against my bank was condemned by the Kentucky State Bankers' Association, a copy of whose resolution is inclosed herewith. You understand, of course, that this meeting was largely attended by representatives from the entire State.

The actions complained of by my bank and which were enjoined by the Federal judge, A. M. J. Cochran, may be found in 286 Federal Reporter, page 610.

The action of the Country Bankers' Association referred to in the letter supplements this. This was not just one bank. That shows what was going on all over the country and what happened in reference to that particular case. [Reading:]

The State bank section of the Kentucky Bankers' Association held its annual meeting in the Seelback Auditorium, Louisville, Wednesday afternoon, August 24. President Solon L. Palmer, of Boston, called the meeting to order, and requested Howard G. Skiles, of Bardstown, to state its object.

The following resolution was offered by Mr. Skiles and was adopted by unanimous vote:

"*Be it resolved by the State bank section of the Kentucky Bankers' Association in convention assembled—*

"1. That we have learned with deep regret and grave concern of the harsh and unfair methods that have been used during the past 19 months by the Cincinnati branch of the Federal Reserve Bank of Cleveland and its agents against the Farmers & Merchants Bank of Catlettsburg in an effort to force said Catlettsburg bank to clear checks for the said reserve bank at par and thus render a valuable and expensive service to said reserve bank without compensation—methods which were characterized by the United States Supreme Court, in an opinion delivered on May 16, 1921, as 'warfare upon legitimate creations of the States.'

"2. We most heartily commend the said Farmers & Merchants Bank of Catlettsburg, Ky., for its staunch and effective resistance against these methods and its stand for the charter rights and independence of the State banks of Kentucky.

"3. We hereby pledge the support of the State banks, both moral and financial, to the said Farmers & Merchants Bank of Catlettsburg in all phases of its campaign of resistance, and particularly in its suit for injunction filed in the circuit court of Boyd County against the Federal Reserve Bank of Cleveland and its agent at Catlettsburg.

"4. We accept the offer of the National and State Bankers' Protective Association to take charge of the organized Kentucky fight, through Mr. Ernest Meek, of Catlettsburg, as secretary of the fourth district, and Mr. Howard G. Skiles, of Bardstown, as assistant secretary for the eighth district, said association to allow all 1921 dues to remain in the hands of said district secretaries for use in the Kentucky fight to such extent and for such time as needed.

"5. We recommend that all State banks of Kentucky now on the par lists of the Federal reserve system that desire to resume exchange charges notify the reserve banks of their intention to resume such charges and demand that their names be removed from said par lists at the next monthly revision thereof, and that they send in signed agreements to said district secretaries allowing the use of their names as parties plantiffs in any litigation that may be neces-

sary to protect them from possible attempts to coerce them into continuing to remit at par, accompanying such agreements with checks for an amount equal to the average receipts for exchange per month during the year 1919. We further recommend that all other State banks send checks to said secretaries to cover 1921 dues in the National and State Bankers' Protective Association, such amounts to be used so far as needed in protecting the rights and independence of Kentucky banks against the illegal aggressions and encroachments of the Federal reserve banks.

"6. We commend and approve of the national campaign that is being led by the National and State Bankers' Protective Association in opposition to the unfair and destructive methods and policies of the Federal reserve system along various lines, and we pledge the assistance and support of the banks of this section in such campaign."

Senator GLASS. Do you happen to know how many nonmember banks and State banks and trust companies are members of the par clearance system?

Mr. ATKESON. No; I do not. But I have seen the figures quite frequently, and there are more banks not in the Federal system than there are in it.

Senator GLASS. Do you know how many State banks and trust companies are members of this par clearance system not of the Federal reserve banking system?

Mr. ATKESON. I do not know.

Senator GLASS. They are in excess of 17,000. Do you know how many banks are members of this so-called National and State Bank Protective Association?

Mr. ATKESON. I do not know, because I have not looked up the statistics.

Senator GLASS. It is testified here somewhere, in excess of 3,000.

Mr. ATKESON. From the resolution passed by Kentucky Bankers' Association, practically all of the State banks of Kentucky either are not in the Federal system or would like to find some way to get out.

Senator GLASS. I am not asking you about the Federal system. I am asking you about this par collection system, which is the gravamen of all this literature that you have read.

Mr. ATKESON. I could not answer that question.

Senator GLASS. For your information I will tell you that in excess of 17,000 State banks in the United States are members of the par collection system, representing 19 per cent of the banking resources of the country. So that the case you have cited could not be of general prevelance. It an exceptional case.

Mr. ATKESON. Possibly that is so. But evidently the State Bankers Association of Kentucky thought it was of some importance to all the State banks so they undertook to finance the case.

Senator GLASS. It is quite evident there are some 17,000 State banks that do not take that view.

Mr. ATKESON. Possibly so.

Senator GLASS. As aginst 3,000 that do?

Mr. ATKESON. How many are there that do take that view?

Senator GLASS. Three thousand—a little in exces of 3,000.

Mr. ATKESON. I think it a pity that the law could not be so constructed that all the State banks would be in the Federal reserve system. Certainly in this case, they are maintaining an agent there and undertook to force this State bank to comply with their demands. The evidence is in the judge's opinion——

Senator GLASS (interposing). Not in the Federal reserve system. You are entirely mistaken about that. Conceding that all of the statements in your letter are facts, and what they were trying to do was to try to compel that bank to clear at par. That does not mean they were trying to force them into the Federal reserve system.

Mr. ATKESON. I understand, but that is what they were trying to compel them to do, and according to your figures they seem to have succeeded pretty largely. I know some bankers have told me privately that they did it as a matter of policy, but they resented it. They rendered a service for which they received no compensation.

Senator GLASS. Of course, there is a difference of opinion about that.

Mr. ATKESON. Certainly. Seventeen thousand of the nonmembers think they do.

Senator GLASS. You know of the 30,000 branches of the country in excess of 26,000 are members of the clearance system.

Mr. ATKESON. I did not try to hunt up the statistics as to how many banks are operating under that system. I happened to know about this particular case, and so I wrote for the facts and I have submitted them to the committee.

I am thoroughly convinced, so far as I am concerned, that the Federal reserve system is a good thing compared with the conditions existing before. But I am just as thoroughly convinced that it is not perfect as I am that very few human institutions are perfect, and it would be remarkable if after the 10 years or more since the establishment of the Federal reserve system if in its operation we had not discovered some changes that would meet the objections that are being made to it in the country. In other words, if it is accepted as the central monetary system of a great Nation like this, it should be made as nearly perfect as possible. Nobody thought it was perfect when the bill was enacted; Congressmen and Senators raised all kinds of objections to it, and it certainly is not perfect.

Senator GLASS. We want you to tell us how to make it perfect.

Mr. ATKESON. That would be a presumption on my part to tell you gentlemen who are bankers and lawyers how to do that.

Senator GLASS. We want you to help us.

Mr. ATKESON. At least, I will not assume to tell you gentlemen how it should be perfected. It is not perfect. Of course, if you assume it is perfect, that is all we can do.

Just one word on the general subject. Somehow I have never felt that the collapse that overtook agriculture was very largely attributable to the Federal reserve bank.

Senator GLASS. No; I read a very interesting article from you which was just the contrary of that assumption.

Mr. ATKESON. We have produced more agricultural products in this country than anybody wanted at a price which would pay cost of production under existing conditions, and that seems to have been the chief difficulty. It is possible that deflation took place too suddenly. I talked to one or two of the Federal Reserve Board, and they said if they had had foresight equal to hindsight that they would have begun deflation earlier and more gradually, but when they were con-

fronted with going over the precipice they put on the brakes and jammed the machine. That is probably true.

We have placed a farmer on the Federal Reserve Board and we have a new governor, and the board has probably learned some things.

I have had some acquaintance with most of the members of the Federal Reserve Board and I believe they are pretty high-class gentlemen, and I do not think they want to wreck the finance of this country, or the farmers or anybody else. The question is under the law, what can they do that will ameliorate in any measure a rather calamitous agricultural condition? That is the issue, so far as the farmers are concerned; and I think it is doubtful whether for this present situation that even the farm loan law or the intermediate credit has been worth much to the farmers, at least farm prices have not gone up. They have gone on at about the same price.

I think both of those measures are fundamentally sound, and in the course of time will be substantially of benefit to the people in the country that did not have ready access to the financial resources of the country.

It has certainly accomplished something in that direction. There is no doubt about that. I favored, and all the farm people favored, both those measures, but we were confronted with a condition that nobody could foresee, at least I could not; and nobody seemed to be wise enough to suggest a remedy. I put it up to the chairman of your committee a number of times two or three years ago for him to show us a way out, but he did not do it.

So we are confronted with this present situation. I have lived through parallel conditions. I saw figures this summer showing wheat sold off of my farm at nearly $3.50 a bushel in 1866. Within about eight years we sold wheat off of that same farm at about 55 cents. I sold wheat at 60 cents a bushel in 1894. But we are confronted with a condition now that did not confront us then, and that is the difference in the cost of production. The year that we sold wheat at 60 cents a bushel we could hire all the men we wanted at 60 cents a day; and I remember the day we started in the harvest field we fed more than twice as many men at the back kitchen door who were tramping the highways as we had any use for in the harvest field at 60 cents a day.

We can grow 60-cent wheat with 60-cent labor, but we can not grow dollar wheat with $3 or $4 or $5 labor. I do not know what the remedy is. I am not going to suggest any; but I know that is a fact.

Senator GLASS. Yes; so do I.

Mr. ATKESON. I know another thing that is a fact—I am taking too much of your time, but it bears on this whole problem. I know a man who lives on a good farm and he is neglecting his farm to go into the garage business. His taxes have more than quadrupled in the last six years, and, considering the cost of production, the products are not worth half as much as they were before the war; the cost of production is two or three times as great, considering all the elements of cost. He decided that he would leave his family on the farm and put up a garage in a little country town where he could make more money separating the boobs running up and down the road from their cash than he could on his farm.

Senator GLASS. As the runner of that garage, does he not have as much use for banks as he did when he was simply farming?

Mr. ATKESON. A great deal more, because he puts his money in the bank every day.

Senator GLASS. The banking system?

Mr. ATKESON. The same banking system.

Senator GLASS. Do you ascribe his failure to run his farm successfully to the existing banking system and the reverse to his success as a garage runner?

Mr. ATKESON. Not at all.

Senator GLASS. I did not think so.

Mr. ATKESON. That is another condition that confronts American agriculture, and I do not know of any solution for it.

Senator GLASS. Nor I, either.

Mr. ATKESON. It is up to you, gentlemen.

The CHAIRMAN. I think Governor Platt, before we go into executive session, would like to make a statement.

Mr. PLATT. You have heard about the Catlettsburg case in the record two or three places, but I want to correct a statement about the permanent injunction. The case was never tried on the evidence, tried on ex parte evidence. The other side has not been heard, and I have no doubt that the agents of the Federal Reserve Bank of Cleveland might have been overjealous and might have done some things they ought not to have done. But there is considerable evidence on the other side. The girl who did the collecting was annoyed by the paying teller giving her the dirtiest money they could rake up all over the country, and small coins, and loaded her up so she could hardly get it out of the bank.

Senator GLASS. Do you happen to know, Mr. Platt, how many Kentucky nonbankers are members of the par clearance system, and how many are not?

Mr. PLATT. I have not got that, but I could get it, I guess.

Mr. WINGO. In Kentucky, 99 per cent of them are in the par-clearance system, but there is another table in here that will give you all of that, too.

Mr. PLATT. Generally speaking, the Federal Reserve Bank of Cleveland has been one of the most successful in dealing with country bankers and persuading them to come into the system. We are not collecting over the counters of any banks now.

Senator GLASS. Mr. Willis, of the Cleveland bank, was perhaps the most agreeable and most successful bank official in the Uuited States in engaging the sympathetic cooperation of the bankers of the Cleveland district.

Mr. PLATT. I think that is true. I find there are two banks in Kentucky that are not on the par list and 457 that are.

Senator GLASS. So that they did not accept the advice of the State convention of the Kentucky association to retire from the par collection.

Mr. PLATT. No.

(Thereupon, at 4.57 o'clock p. m. the committee proceeded to executive session, and at the conclusion of the executive session adjourned to meet at the call of the chairman.)