

STENOGRAPHER'S MINUTES

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THE RESERVE BANK
ORGANIZATION COMMITTEE.

258

"FEDERAL RESERVE DISTRICT DIVISIONS AND LOCATION
OF FEDERAL RESERVE BANKS AND HEAD OFFICES."

At New York City, N. Y.

January 5, 6 & 7, 1914.

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vs.

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TELEPHONE, 2820 RECTOR

BEFORE THE
RESERVE BANK ORGANIZATION COMMITTEE.

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 IN THE MATTER :
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 of :
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 THE DIVISION OF THE UNITED STATES :
 FEDERAL RESERVE DISTRICTS AND THE :
 LOCATION OF FEDERAL RESERVE CITIES :
 THEREIN. :
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New York City, Chamber of Commerce,

January 5, 1913.

Before:-

THE SECRETARY OF THE TREASURY.

THE SECRETARY OF AGRICULTURE.

Appearances:-

The Secretary of the Treasury: The committee desires to express its appreciation of the courtesy of the Chamber of Commerce in permitting it to use these rooms for these meetings.

The Federal Reserve Act provides that an Organization Committee shall divide the country into not more than twelve nor less than eight reserve districts. These meetings are designated to elicit all information possible to enable the committee to arrive at as intelligent a conclusion as possible as to what the divisions should be, as to the number of districts, and also as to the cities which should be selected as the headquarters for the reserve banks in the particular districts.

In proceeding with the task, it is the purpose of the committee, in each one of the cities visited, to ask the representatives of the bankers and business men who may attend, what their opinion is, not only with respect to their particular city and as to the territory contiguous to that city which should be placed in the district, but also as to what is their best judgment as to the number of districts into which the country as a whole should be divided, and as to what is the best division of the country as to those districts. It is not, of course, the

purpose of the committee, and the Act so provides, to be governed by state lines. Manifestly it would not be possible to adhere strictly to state lines in dealing with a problem of this character.

This question has to be approached in a very broad and patriotic spirit. It is not one which concerns only the local communities where the headquarters banks may be; it is a very large and important economic problem; and the committee is very anxious that it shall be dealt with in that spirit, and that purely local considerations will not be allowed to bias the judgment of the witnesses. Of course, we all understand the very natural local pride which every community has and which prompts it to use every legitimate endeavor to secure one of the headquarters of these banks, but when you take into consideration that no matter where the headquarters bank is to be, there will be branch banks established in all important cities of the district, and facilities will be extended to every part of the district, for that reason the headquarters is not of such supreme importance as some people are inclined to believe. When the system is fully organized and the branches are established in all the important localities,

the facilities of the system will, of course, be readily accessible to all parts of the district. I do not mean by that to say that the headquarters itself is not a matter of very great importance; it is a matter of the greatest importance. The committee wants all the light it can get from bankers and business men and others interested, and it is for that reason that we have determined to have these hearings throughout the country.

In order that gentlemen who wish to testify here may not be kept too long from their places of business, as we know how busy people are, in New York City particularly, we will arrange as far as practicable for definite hours at which the witnesses may attend. And I may say further that the hearings of the committee are entirely public and we should be glad to hear from anybody who is interested and who wishes to come here to testify; of course, we mean within the limits of the time which the committee is able to allot these communities.

Mr. Secretary Houston, have you anything you would like to state?

The Secretary of Agriculture: No, I think not, except to ask whether at this time there are those here who may want to testify, so we could arrange a time for them.

The Secretary of the Treasury: Gentlemen here who may want to testify, may arrange with Mr. Elliott, Secretary of the Committee pro tem, for a definite hour in which they can be heard, if they prefer to do that.

Now, Mr. Hine, will you be good enough to give us your views as to the desirability of having a Reserve Bank in the State of New York, and as to what territory contiguous to this City you think ought to be embraced in the District, upon the assumption first, that there are to be a minimum of say eight Reserve Banks in the country, and then again on the assumption that there might be a larger number, up to the maximum of twelve. I will state the question generally, and you may deal with it as you think best.

STATEMENT OF FRANCIS L. HINE.

I will simply say that the fact that New York is the great money market and commercial metropolis of the Western world, constitutes in itself a sufficient reason why a Reserve Bank should be located here. I do not know that there is anything I can add to that statement. As to the territory which should be included in this Reserve District, the extent of the territory, seems to me, should be somewhat commensurate with the importance of New York as a money market. However, the New bill having

determined the minimum number as well as the maximum, in case of the establishment of a bank in Boston, it seemed to me, offhand, that this district might include New York State and Connecticut, and assuming that there is also to be a Reserve Bank in Philadelphia, I would say the State of New Jersey down to a line across the State, say parallel with Trenton. Mr. Sherer, how does that agree? Mr. Sherer is Manager of the Clearing House, and I would like to ask him if that agrees with his view. I am here in rather a dual capacity, as President of the Clearing House and also President of the First National Bank. Do you agree with that, Mr. Sherer?

Mr. William Sherer: Yes, entirely.

The Secretary of the Treasury: Is that an assumption, Mr. Hine, that there would be eight Reserve Banks, or a larger number in the country?

Mr. Hine: My mind has not gone so far as that.

The Secretary of the Treasury: Is it your idea that the whole of Connecticut should be embraced in the New York District?

Mr. Hine: I would think that desirable, because the

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State of Connecticut does its business largely in New York now. I would say that that would be the natural lines. If they are made geographically, why, the Connecticut River might be a dividing line, perhaps.

The Secretary of the Treasury: Is it your idea that any part of the Western part of Massachusetts, for instance, should be embraced in this District, or would that business very naturally drift to Boston as the most convenient point?

Mr. Hine: Well, probably the Western part of Massachusetts would incline this way -- Berkshire County probably incline to New York. If the Connecticut River were made a dividing line, you see that would take care of itself.

The Secretary of Agriculture: Would you contemplate including Vermont in that case?

Mr. Hine: Vermont would go to Boston -- Maine, New Hampshire and Vermont.

The Secretary of the Treasury: You spoke before of the entire State of New York as being included in this District, Mr. Hine. Do you think it essential that the Western part of the State should be a part of this district?

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Mr. Hine: I do not know that it is essential. I think it would be their preference, probably.

The Secretary of the Treasury: Well, looking at it from the other point of view, simply as to what would be best in the division of country, best for business generally.

Mr. Hine: Yes.

The Secretary of the Treasury: Where should Buffalo go, or the Western part of New York I will say?

Mr. Hine: Buffalo? Replying to that, I would prefer to give the matter a little more study, because the Bill is now an established fact. It is law. I am probably wrong, but it seems to me that the smaller the number of Reserve centers the better, and if this is going backward, the central reserve cities are the natural places for Reserve Banks, so that beyond those three, I really have not given the matter much thought, Mr. Secretary.

The Secretary of the Treasury: Would you be good enough to give that some thought during the time the Committee is here, and give us your views about that, Mr. Hine.

Mr. Hine: On the assumption of the establishment of 8?

The Secretary of the Treasury: Eight, or even more, or

even a larger number of districts. We should be glad also if you would review the map of the country and submit your views as to what you think would be the best division of the entire country into districts. As I said before, we expect to ask that question everywhere, because we want to get the concensus of opinion all over the country as to what will be the best general division of the country, and as banking exchanges, related to the entire country, we assume that you gentlemen, of course, have large knowledge of that question, and that you may be able to give us a great deal of light on it. I may say further, that the Committee will be very pleased to receive briefs from any of the clearing houses, written briefs, statistical and containing all the information they may choose to put into them, as well as from commercial bodies and other organizations interested. Those may be submitted as early as practicable.

Mr. Hine: I should be glad to give the matter further consideration, of course.

The Secretary of the Treasury: I will be very glad to have you do that.

The Secretary of the Treasury: Can you give us some information as to the comparative amount of New England business which is done here and done in Boston?

Mr. Hine: I could give some estimate, but not a very close one, except to say that the large volume of miscellaneous New England business, apart from Connecticut and Rhode Island, now goes to Boston, and a very large percentage of the business that we get is from Boston.

The Secretary of the Treasury: How is it with respect to Philadelphia and Pennsylvania generally?

Mr. Hine: Pennsylvania of course naturally gravitates to Philadelphia, and at the same time I presume there is no bank of importance in the State of Pennsylvania that has not a banking connection in New York City. My judgment would be that Pennsylvania carries a larger proportion of its balances in New York than in Philadelphia, that is speaking of the banks outside of Philadelphia. Would that be your judgment, Mr. Law?

Mr. William A. Law, of Philadelphia: I really could not say.

The Secretary of the Treasury: Is there anything else that we desire to ask Mr. Hine?

The Secretary of Agriculture: No, I think not.

The Secretary of the Treasury: That will be all, thank you, Mr. Hine. You will submit the additional data that we have asked for, will you, as soon as you possibly can?

Mr. Hine: I will submit my view, yes.

The Secretary of the Treasury: Your view, rather. I meant to say that.

Mr. Hine: Yes.

STATEMENT OF E. H. OUTERBRIDGE.

The Secretary of the Treasury: Mr. Outerbridge, will you kindly tell us what your occupation is?

Mr. Outerbridge: A merchant and manufacturer.

The Secretary of the Treasury: You represent the Chamber of Commerce, I believe?

Mr. Outerbridge: I have been asked to represent them, but I may state that under the rules of the Chamber of Commerce it is not possible really for anybody to represent them unless specially designated at a general meeting of the Chamber. The Chamber has not had a meeting since you determined to hold these hearings, and the president of the Chamber is away; but I have been asked by other officers of the Chamber to appear here as a member of the

committee which made a report on this bill when it was in Congress. Therefore I wish to disclaim that I am exactly representing the Chamber officially. I am representing it only as a member of that Committee.

The Secretary of the Treasury: Mr. Outerbridge; are you familiar with the present law?

Mr. Outerbridge: I am.

The Secretary of the Treasury: I believe you have given a great deal of thought to this financial question for some time past?

Mr. Outerbridge: I have, for a good many years.

The Secretary of the Treasury: You have heard the questions we have just asked Mr. Hine. Will you be good enough to give us your views about the establishment of a Federal Reserve Bank in New York City, and also what territory contiguous to New York ought to be embraced in the District?

Mr. Outerbridge: Mr. Secretary, if you will permit me, I should like to say that so far as expressing any views as to the exclusive territory of any one Federal Reserve Bank is concerned, I do not feel competent or qualified

to express an opinion on that point, because I think it is very much a technical banking matter dependent upon the way the current of business and exchanges has run heretofore in the past; but so far as certain general principles are concerned, if you will permit me I should like to express an opinion that I have very definitely formed on that subject.

First of all as to the number, the report of the Chamber and the opinion of the Committee of the Chamber was that the smaller the number could be kept, the more effective the results would be in furnishing a discount market and in making commercial bills liquid and interchangeable in different parts of the country at different seasons, when there was a plethora of money in the banks of one part of the country, and a drain upon the resources of the other; also that the fewer there were, the more powerful these banks would be, the larger their reserves and their deposits, and therefore the greater confidence they would instil throughout the country and their immediate districts.

It seems to me that after determining upon the number, the main factor that should govern the location should be

that each Reserve Bank should represent a variety of interests in the district which it covers; in other words that a reserve bank should not be so located as to embrace a territory or a district which is all of one class in its main commercial or agricultural interests; because under those circumstances the drain for rediscounting facilities would all come on that bank at one time. For instance, in the South, in the cotton season, if a Reserve Bank embraces a district which has no other interest than cotton, every member bank and everybody in that district will be wanting accommodation at the same time, and therefore there will be a serious drain upon the resources of that one institution; whereas if the district embraces not only a locality interest of that sort, but also large industrial or commercial interests of some other kind, there will not be the same pull all at one time upon the resources of the institution as there would be if it was a purely local interest; and for the same reason, as provided in the law, when such a time does come, that one bank needs the assistance of another, when the Federal Reserve Board can require another bank to rediscount, it

seems to me that there must be somewhere one or more of these federal banks so powerful, and embracing so wide a number of interests in its district, that it will practically always be in a position to afford that facility when called upon, without distress to itself and its own district.

Therefore, in so far as this district here in New York is concerned, it seems to me that either it, or it and the Central District -- I am assuming that that would be the Chicago District -- should be large enough to have one or two of these Reserve Banks surrounded by such a diversity of trade interests that they will practically always be in a position to lend that assistance to the smaller regional banks when the necessity or stress may come, and that that is much more likely to be possible if the district embraces a variety of different interests, some of which are not active in their demands for money at the time when others are.

The Secretary of the Treasury: Have you any definite idea as to what the limits of the New York District should be?

Mr. Outerbridge: I have not attempted to cover that, because I thought you would get so much testimony from bankers who are so much better qualified to speak than I could possibly be, that I really wanted merely to express an opinion on certain fundamental principles.

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The Secretary of the Treasury: Well, upon the theory you have expressed, and in order to get the necessary diversification of industries in the New York, Chicago and St. Louis districts, for instance; those being the several reserve cities to which reference has been made here, you would consolidate into those three banks so much of the resources of the country as would make the other banks comparatively lean and ineffective, would you not?

Mr. Outerbridge: I cannot answer that question unless I were to go over the reports of the Comptroller of the Currency and make a careful study as to the capital of the banks in those districts and determine on their percentage of contribution and the capital any bank would have. It seems to me this is susceptible of so many mathematical calculations, when you come to draw lines upon a map and make your checkerboards of the country, you can pore over that a long time and still perhaps bring them all within the limit of four millions of dollars, which I think it is at present.

The Secretary of Agriculture: That is exactly what we have to do, Mr. Outerbridge. Can you not think over it and submit your views in a definite form?

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Mr. Outerbridge: Frankly, I was only notified on Saturday morning I would be asked to be here this morning, and prior to that time had not time to give any study to the detail of districts or to map it out on the map or to study the capitalization of the various banks that would . . . within that district, to see how that would work out with the capitalization required in the law. The question of trying to arrange them so that they will be strong enough to stand on their own bases, to paddle their own canoe, under ordinary conditions and not always be in the position of having to call on some other one, or some other one call on those to re-discount them, which it seems to me to be a material question of importance if they are going to fulfill the purpose for which they have been designed and which everybody hopes they will do.

The Secretary of the Treasury: I suppose you have taken into consideration the provision of the law that the banks may apply directly to the Federal Reserve Board at Washington for the currency against certain forms of liquid assets?

Mr. Outerbridge: Yes.

The Secretary of the Treasury: And that relief may be

had from that quarter without resorting to that provision of the bill which authorizes the Federal Reserve Board to require re-discounting.

Mr. Outerbridge: They can only get that when they can set up a sufficient^{gold}/reserve for it.

The Secretary of the Treasury: Exactly; but it is a measure of relief.

Mr. Outerbridge: Yes.

The Secretary of the Treasury: You are not relegated solely to re-discounting by one reserve bank for another.

Mr. Outerbridge: That is true.

The Secretary of the Treasury: So with that provision in the bill, it would be safer to divide the country into a larger number of districts than it would be without it.

Mr. Outerbridge: Yes, I agree with you.

The Secretary of the Treasury: I suppose, of course, you concede that the amount of banking capital that will be available for these banks has an important bearing upon the division of the country into districts.

Mr. Outerbridge: In so far as the banking capital of these banks should correspond to the general business of the district; the general business requirements of the

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district. Naturally a district of very congested business, manufacturing or other classes of business, is going to require a great deal more powerful reserve bank and a great deal larger facilities than a widely spread agricultural community, not largely populated; but when they want their money they want it at once and at one time. For instance, in speaking of the cotton business; the grain crop is moved generally earlier than the cotton crop, and if a southern district embraces partially a grain district and partially a cotton district, the amount of exchange or money which had been required in the earlier part of the season for moving the grain crop, if that was a normal season, those crops would be marketed and that money would be released in time to take care of the cotton crop when it began to move in large quantities.

The Secretary of the Treasury: Mr. Outerbridge, you heard Mr. Hine's views as to what should be incorporated into the New York District. How does that appeal to you?

Mr. Outerbridge: Well, so far as he went, I thought it was no doubt based upon his own banking experience, of the tendency of exchanges and bank business in this District. It seemed to me that it embraced a very small territory for this district, in a general way.

The Secretary of the Treasury: Will you be good enough to give us your views on some of the points we have raised, Mr. Outerbridge?

Mr. Outerbridge: If you wish me to, while you are here, I will take the reports of the Comptroller of the Currency and the map and see if I can get any more definite ideas on those points and present them to you.

The Secretary of the Treasury: We will be very glad to have you. Mr. Elliott, have you some other gentleman in view to make a statement at this time?

Mr. Elliott: I suggest Mr. Conant.

STATEMENT OF MR. CHARLES A. CONANT.

The Secretary of the Treasury: Mr. Conant, will you state briefly what your occupation is, and what has been your ex-

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perience in financial matters?

Mr. Conant: I am a sort of consulting specialist in regard to monetary systems. I prepared the plan for the coinage of the Philippine Islands and was consulted by the Government of Mexico in their monetary reform and by the Government of Panama and by the Government of Nicaragua in the adoption of the monetary reform which has been put in operation there.

The Secretary of the Treasury: You were connected with the Philippine system, were you not?

Mr. Conant: Yes, I prepared the monetary reform for the Philippine Islands, which was put in force under the Act of March, 1903, and which is now in successful operation there.

The Secretary of the Treasury: What has been your banking experience?

Mr. Conant: I was Treasurer of the Morton Trust Company for some five years, which has since been absorbed by the Guaranty Trust Company, but my duties there were special, rather than routine.

The Secretary of the Treasury: Are you familiar with the Federal Reserve Act?

Mr. Conant: Yes, I am.

The Secretary of the Treasury: You have given a good deal

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of study to it, have you?

Mr. Conant: Well, as much as I could incidentally as it passed through the two Houses of Congress, and I have studied it some since it acquired final form.

The Secretary of the Treasury: You are aware, of course, Mr. Conant, that this Organization Committee is required by the Act to divide the country into not less than eight nor more than twelve districts, and establish a Federal Reserve Bank in some city in each one of those districts. Have you given any thought as to what would be the wisest division of the country into such districts?

Mr. Conant: Well, only generally, until I received on Saturday afternoon your despatch asking me to appear here. I have some quite decided opinions on the general issues involved. I do not appear here as a special champion of the interests of New York. I am not representing any banking organization and I at present personally hold no bank stock and am not an officer or director of any bank except the National Bank of Nicaragua, which, of course, is in no way affected by this legislation.

In my opinion the number of institutions should be kept as small as possible. I should have preferred that it

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should be less than eight rather than more, but, of course, the law having fixed the minimum at eight, we must adjust our future examination of the question to that number. My reason for favoring^a low number is that there is a greater concentration of reserves and greater power in the individual reserve banks than there would be if that power were split up and distributed amongst small institutions.

In appearing here today, as I said, I do not appear in any respect as a champion of the interests of New York, from a local point of view. I propose to consider the whole question from the National point of view, of the relative efficiency of the new system as a whole. And from that point of view I think it is very desirable that there should be created as large and strong a district as possible in the Northeast. I think it would be very unfortunate from the standpoint of the public interest to have separate institutions at Boston or Philadelphia. I should say that the whole country northeast of the Potomac and including Pennsylvania, should constitute one district; the essential reason being to create in New York City a power, representing the Federal Government, strong enough to deal with the other great private and joint stock institutions which are located in this district.

I will amplify that idea perhaps a little further along. But I have taken out the amount of the capital and surplus and also the amount of deposits which a Federal Reserve Bank in this district would derive in certain territory. I find that if the whole country northeast of the Potomac, and including the whole of the State of Pennsylvania, but not West Virginia, were taken, the capital and surplus of the National Banks as of October 31st, 1913, I believe, the date of the last report to the Comptroller, was \$852,521,000. Now if three per cent were paid up by all these institutions these are all national banks; I am not dealing now with state banks and trust companies -- but if the three per cent required by the law were paid up by all these institutions, the amount of the capital of the Federal Reserve Bank would be \$25,575,000. That would create a strong institution, which would command the respect of the big joint stock banks, that is, the national banks and state banks and trust companies in this city and in other parts of the district.

Now New England, excluding Connecticut, if she were erected into a separate district, would have a reserve bank with a capital paid up of about \$4,000,000, --\$4,033,000 and some odd.

The Secretary of the Treasury: That is upon the assumption that three per cent only is called.

Mr. Conant: Yes, I am assuming that the three per cent is to be called, and the other remain as a reserve resource, just as in many European banks, there is so much capital called and the other is subject to call, but which never is called, except in case of liquidation or something of that sort. But of course if the intent of the Committee of the Federal Reserve Board is to call more than three per cent, that would, to some extent, alter the figures, but I do not think it would alter the essential principle.

The Secretary of the Treasury: It would not alter your conclusions.

Mr. Conant: No, not essentially, as I will go on to indicate. It would be possible to take off one or two small portions of this district without doing much harm; take Maryland and the District of Columbia, for instance, if it were desired to create a Federal Reserve Bank in Washington or Baltimore, the capital paid in by Maryland and the District of Columbia, including their reserve cities, would be, on the three per cent basis, \$1,220,820. Of course if it were desirable in framing the districts, to deduct that amount from

from the twenty-five million odd representing the whole territory northeast of the Potomac, it could be done without seriously impairing the strength of the Federal Reserve Bank of New York.

Further, if it were desired for geographical or other reasons, to eliminate Pittsburgh, the capital paid in by the Pittsburgh national banks, at three per cent, would be \$1,395,420. I suppose, of course, if Pittsburgh were put into another district, it would necessarily carry a chain of country banks adjoining Pittsburgh, but I had not the data or time yesterday to compute those by individual banks. But if it were desirable for geographical or other reasons to eliminate those two factors, Maryland and the District of Columbia, and Pittsburgh and the country around it, there would still be over \$20,000,000 left. And taking Pittsburgh out alone, and Maryland and the District of Columbia, there would be left nearly \$23,000,000; and allowing for the country around Pittsburgh, would probably bring it down to the neighborhood of \$22,000,000 or \$22,500,000.

I have also assumed the ultimate compulsory deposits as far as they could be readily calculated, I mean the reserve deposits required by law to be made in the Federal

Reserve Banks, taking the figures, of course, at the expiration of three years, when the new system is in full operation. I find in that case if we had a district limited only to the State of New York, with Connecticut and New Jersey, we would have reserve deposits in the Federal Reserve Bank of \$84,763,000. If we take in all of the territory I have named northeast of the Potomac, except Maryland and the District of Columbia, we would have additional deposits of \$68,130,000, giving us deposits in the Federal Reserve Bank in that aggregate district, excluding Maryland and the District of Columbia of \$152,000,000.

Now, with a capital of, say, \$23,000,000, and deposits of \$152,000,000, there would be aggregate resources of, say, \$175,000,000.

I have taken no account of Government deposits, because I do not know what proportion the Secretary of the Treasury may, in his judgment, see fit to leave with the Federal Reserve Bank of New York. That matter is left by the law entirely within his discretion. I suppose it is fair to assume, however, that there would be some millions accumulate in the Federal Reserve Bank in New York from customs and other sources, even if it were not the policy to make deposits

as such, and leave them in New York. But those figures, while respectable, are none too formidable with which to equip the Federal Reserve Bank of New York in dealing with the Clearing House banks and its member banks.

I need not remind you how large the figures are of the resources of the New York banks. The legal net deposits, according to the statement of last Saturday, of the Clearing House banks along with national and state banks, were \$1,308,000,000; trust companies belonging to the Clearing House had additional net deposits of \$409,000,000; loans and discounts of the combined Clearing House banks, national and state banks and trust companies, were \$1,874,000,000. And these figures of legal net deposits, as you are doubtless aware, are somewhat less than the gross deposits, owing to the deductions allowed by the Comptroller of the Currency.

I ought to have stated by the way, that in computing the deposits of the banks which are to be reserve deposits in the Federal Reserve Bank I took only the individual deposits of the banks involved, because in my opinion nearly all the other items will be eliminated by the abolition of the present reserve deposit system. Of course the figures may not be absolutely exact, but I think they convey a suffi-

ciently accurate approximate idea of the strength of the new bank.

Now it seems to me of very considerable importance to create a bank of this magnitude and character in New York City. The financial conditions of the country as a whole would not be greatly improved, in my opinion, if we did not have a bank which commanded respect abroad as well as at home. I hardly think that a Federal Reserve Bank with two million dollars paid up in some of the districts of the country will have a very important status in Europe, or that in case of crisis it could establish credits or borrow largely there. The country must look to the two or three largest Federal Reserve Banks to maintain the national credit abroad, and naturally those would be New York, Chicago, and possibly some one other.

So far as the claims of Boston and Philadelphia are concerned, I think they would be adequately served and would be in a much stronger position by having branches of the Federal Reserve Bank of New York, which branches are permitted by the law as finally enacted. Either of those cities is in a much stronger position in case it needs help, to appeal to the consolidated resources of the entire district northeast

of the Potomac than to appeal to the segregated district, including in the case of New England, a capital of four million dollars and other resources of about twenty-four million dollars, making twenty-eight million dollars. And Philadelphia would be much stronger in appealing to the consolidated resources of a bank with \$200,000,000 capital and deposits than it would be simply with a district made up of Pennsylvania and Delaware, giving her a capital of seven million odd and deposits of some forty millions, for the Pennsylvania District, if it included the whole state of Pennsylvania, Philadelphia, Pittsburgh and Delaware, would have deposits of \$43,000,000; and obviously these would be overshadowed very greatly by the resources of some of the Philadelphia banks .

I think in the mere matter of note issue, to have the strongest note issuing bank in this country have a capital of only ten or twelve million dollars, would be a very unfortunate position in which to put us before the world. To say that the strongest bank of issue in America had only a capital of ten or twelve million dollars, and that that capital was all that stood behind the hundreds of millions of notes which are ultimately to be put out, would be a

very unfortunate situation. I do not mean to say that is exactly the proposition. Of course they would have all of the capital of all the banks and a vast number of other assets; but it would not be a very creditable situation, to have it said that our vast currency system rested for its strength upon a Federal Reserve Bank with ten or twelve million dollars capital.

The Secretary of Agriculture: What district have you in mind?

Mr. Conant: A district made up of New York alone, with New Jersey --

The Secretary of the Treasury: And Connecticut.

Mr. Conant: Yes, Connecticut possibly, but shutting out the rest of New England and Pennsylvania and Delaware and the District of Columbia.

The Secretary of the Treasury: You are proceeding on the assumption there, that only three per cent of the capital would be paid in?

Mr. Conant: Yes.

The Secretary of the Treasury: You might have 20 per cent.

Mr. Conant: That would be better, but that would look small for a country with the resources of this country. I shall

discuss later on the relation of these banks to the Federal Reserve system. I am speaking of this, not that it would be possible through representation of the system, but it would be a situation which would not strengthen our international credit.

The Secretary of the Treasury: As I understand you, you are suggesting that New York be made the headquarters of a bank or district which shall embrace the states of Maryland, Delaware, Pennsylvania, New Jersey, New York, Connecticut, Rhode Island, Massachusetts, Vermont, New Hampshire and Maine.

Mr. Conant: Yes, that is my suggestion except that I --

The Secretary of the Treasury: Now that would embrace probably about 40 per cent of the banking capital of the country, would it not?

Mr. Conant: Yes, I think all of that.

The Secretary of the Treasury: Between 40 and 50 per cent of the combined banking capital, and in banking capital I include not only the capital but the surplus of banks.

Mr. Conant: Yes, capital and surplus we are speaking of, because that is in accordance with the law.

The Secretary of the Treasury: And you consolidate one half of it in one bank in this district?

Mr. Conant: Yes, 45 per cent. I am willing to have eliminated Maryland and the District of Columbia, if that will contribute to a better distribution of the remaining districts.

The Secretary of the Treasury: Would not that leave the remainder of the banks which must be established by the Bill, as rather puny institutions?

Mr. Conant: Relatively speaking, perhaps. But I think it is better to have one strong and seven puny banks than eight puny banks.

The Secretary of the Treasury: But how would you be able to command the minimum capital required to establish the other seven?

Mr. Conant: The amount is adequate, I think. The minimum paid up capital is \$2,000,000, and there is about \$28,000,000 available, so there is capital for 14 banks with a minimum paid up capital of \$2,000,000.

The Secretary: You would starve Chicago on that plan.

Mr. Conant: I do not see that it would affect Chicago materially, for Chicago, I assume, will be made a pretty strong district from territory appurtenant; and while, of course, you may argue that you would have to take something

from Chicago's territory to make the other six districts, I do not think that would be a very important factor. I

should say that Chicago should be strong, and possibly one of the southern districts, and it would necessarily follow that the others cannot be banks of very large capital. If you take your whole \$53,000,000 paid up and divide it among all the other banks, you would have \$6,000,000 each, or a little over for each bank and that is impracticable.

You cannot get New York down to that figure by any ingenuity, unless you isolate the city and make the state a separate district, and I do not suppose that is a practical solution.

The Secretary of the Treasury: Would you not have to do violence to the course of commercial exchanges and transactions in the very large territory west of the Mississippi River, upon the plan you are now suggesting? For instance, take Chicago and St. Louis. Their exchanges cover a very much greater area, perhaps, than New York. I am speaking somewhat tentatively when I say that. I mean the area embraced there would be greater, naturally, than that of New York. Now, if you consolidated so much of the available banking capital of the country in one bank in the East here, you would have to dislocate to a very great degree the ordinary and normal course of exchanges and businesses in other parts of the country, in order to establish the other seven banks required by the bill?

Mr. Conant: You mean you could not make a large concentration in Chicago, without leaving inadequate capital for the remaining six?

The Secretary of the Treasury: Yes, in order to give Chicago and St. Louis what would be necessary, because of their own importance, you would have so very little left for the remaining five, that you probably could not get

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the minimum capital.

Mr. Conant: I think you could. I have not figured the thing out as minutely as you have, but I think you would find after locating those three, you would still be able to locate your five, with two millions paid up. It is impossible, of course, to have them all large capital under the bill, because we have only got 53-1/2 millions available in all, and the question is whether to attempt to divide it mathematically, creating eight or more puny institutions, or to have two or three that are strong, and the others of less consequence. At the first, as I intend to show later on, the theory of the bill I think is that the Federal Reserve Bank shall be related in its magnitude to the business of the district which it serves. It would be preposterous to put a two million dollar bank in the New York District and a twenty-five million one in the Oklahoma District. In other words, you must make your capital according to the banking capital of the district, and that is provided for, in a way, through the provision that each bank shall pay up its three per cent of the capital and surplus.

The Secretary of Agriculture: You say that these regional banks could normally serve in their district. If you are to make these uncertain sections so small as you indicate, would not those districts be normally dependent and steadily dependent on banks outside of their district?

Mr. Conant: Not necessarily. Of course, if you have a district where the capital of the member banks permits them to pay up two million capital to the Federal Reserve Bank, the presumption is -- in fact it almost mathematical-ly follows that the resources of the banks of that district are in that proportion to the Federal Reserve Bank, and that their calls for help, if there are such calls, will be in that proportion. In other words, if you have a community whose capital is sixty millions, whose aggregate capital and surplus is sixty millions, and they pay up two millions capital for a Federal Reserve Bank, their calls for aid will not be anything like a district with a billion three hundred million capital or resources. Of course I should not compare capital with resources, but with a capital amounting here in the northeastern district to 852,000,000, necessarily a district with 852,000,000

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of capital and surplus and correspondingly large deposits,
will demand much more than with sixty millions capital
and corresponding deposits.

The Secretary of the Treasury: How much importance do you attach to the suggestion that there should be such a diversity of industry and agriculture in these different districts as to make the banks independent of a purely seasonal demand?

Mr. Conant: Well, there is some force in that. I take it that that question is wrapped up to some extent with the powers which the Federal Reserve Bank is going to exercise, which I propose to refer to, if you will let me go on a little further. I just want to emphasize this point: That we must have a system which will command respect abroad. You will recall that in 1907, when specie payments were suspended throughout the country, almost, the Bank of France was willing to lend any amount of gold to this country, if there had been any strong guarantor for its repayment, but they asked the government of the United States if they would guarantee it, and the government said "No, we have no constitutional power to do any

such thing and there was no bank in New York, representing the nation or its power, and, therefore, the only way it could be done was in a roundabout way, or through permitting New York banks to establish credit in London, and through some English commercial paper. The annual report of the Bank of France for that year stated that while they had been anxious at all times to render what help they could to the New York market -- this was a report to their shareholders -- they wanted to say to their shareholders that they would never make any loans or use any of the resources of the bank in a manner which was not in conformity to the requirements of their statutes in regard to the character of the assets which they must keep, and the same attitude would be taken again if we had a two or three million dollar bank here, and it was the only thing which stood between the country and specie suspension.

The Secretary of the Treasury: That is not the only thing which could stand between them, under the conditions that now exist.

Mr. Conant: I appreciate the fact that the law contem-

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plates providing an adequate currency, and that it contemplates putting some influence over the discount and rate and the gold stock of the country through the Federal Reserve Banks, but right there is where the weakness would be. It would not be possible for a ten million dollar bank in New York to "buck up", if I may use the slang phrase against the great banks and trust companies, doing millions and millions of dollars in foreign exchange. It would not be possible for them to fix a discount rate and maintain it. Those institutions would laugh at them when they said the Federal Reserve Bank up here has decided to fix the discount rate at 7 per cent. Unless you have a strong institution, that by its magnitude will at least bear some proportionate ratio to the resources of the rest of the banks, you will not be in a strong position in that respect in fixing the discount rate, in fixing the outflow of gold or bringing in gold.

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The Secretary of the Treasury: Do you think a bank⁴¹ of the kind you suggested would be strong enough to do that in any event?

Mr. Conant: They do not have to be but the proposition of the Federal Reserve system is to create a power stronger than private institutions to protect the gold system of the country. It is not up to the City National Bank or the Guaranty Trust Company to protect the gold, but as I understand it is supposed to be a function of the Federal Reserve Bank. That is the difficulty. But perhaps the greatest difficulty would be to maintain the discount rate.

Of course, it might be said in criticism of my position that it tends toward the creation of the central bank; but I think if you will examine the matter a moment you will see that it is just the contrary. If you have a strong institution here, your system will function without much friction and without the assertion of undue powers by the Federal Reserve Board; but if you have a weak institution, then the Federal Reserve Board must in effect become a central bank. It must command some of the Federal Reserve Banks to re-discount for others under the compul-

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sory clause. It must watch the stock of gold in these more or less puny institutions and see that they are welded together into a harmonious whole. Now it can do that, but it will do it only by exercising meddling and initiatory powers instead of merely supervisory powers. Even in ordinary times, when there is no special pressure, it will have to say to one bank, "You had better pull up on your discounts; you had better loan some gold to another bank, you had better re-discount some paper for them". The whole fabric will take care of it, that is, will be strong enough, but the Federal Reserve Board can only do it by going into practical everyday banking instead of simply supervising the eight or twelve institutions which the law permits. I do not know but what it might ultimately work out in the direction of a central bank, with a governing board of a central bank, and the local institutions would be in effect only branches, but it has got to be one or the other of those two tendencies. Either you will have a very weak chain binding them together, or you will have to have a Board at Washington strong enough to take charge of this whole fabric and administer it practically.

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If you are ready for that, I do not know but it is a desirable thing, but I want to point out that by creating a strong institution you escape that liability at the initiation of the system. Of course, only time can tell how this system is going to work out. It may be that it will work very successfully with eight regional banks, with one here in New York with a capital of \$20,000,000 or so, and the others with a total of \$33,000,000 split up among the other seven, an average of say \$4,000,000 or ^{or} whatever it may be, it may be that the chain will prove weak in the beginning, and that the Federal Reserve Board will have to step in and exercise these initiatory and administrative powers in addition to purely supervisory functions. I think that is a point that should be very carefully considered, as to whether you wish to make such a distribution of the districts as will make the Federal Reserve Board practically an administrative central bank, or whether you shall avoid that for the present until you see how the new system works out.

I think those are the principal points that I had in mind. I prepared them very hastily after receiving your telegram Saturday afternoon. But I shall be glad to

answer any further questions you may wish to ask.

The Secretary of the Treasury: Assuming the hypothesis you have just stated, that the district you have described should be organized, as one of the districts, how would you divide the rest of the country? Have you given that any thought?

Mr. Conant: I have not undertaken to do that in detail. I assumed that the other reserve centres would be Chicago, St. Louis, San Francisco, Denver and New Orleans -- that with New York makes six -- and that the location of the other two was rather an open question, with probably one in Atlanta and possibly one at Washington, because it would put under the eyes of the Federal Reserve Board the actual administration of a going institution.

The Secretary of the Treasury: Have you figured out what the capitalization of these different banks would be, and what territory each one would embrace?

Mr. Conant: No, I have not.

The Secretary of the Treasury: Would you be willing to think further about that and give us a definite suggestion?

Mr. Conant: Yes, but of course must be tentative.

I should say it was desirable to get the views of the banks as to the place with which they desired to correspond. I do not care so much for the views of a city that is trying to get a reserve bank. That is a mere matter of local pride; but take a bank in the outlying territory between Denver and San Francisco, I should ask them which district they preferred to belong to. It is only in that way that you can make the distribution logical; but if the Board desires me to submit a mere tentative suggestion without any such correspondence, I have no objection to doing it.

The Secretary of the Treasury: We shall be glad to have it.

Mr. Conant: It is hard for me, without a clerical force, to divide states and to take banks individually, but roughly it might be blocked out by states.

The Secretary of the Treasury: We thank you very much.

STATEMENT OF A. B. HEPBURN.

The Secretary of the Treasury: Mr. Hepburn, will you be good enough to make a brief statement of your banking experience? We are familiar with it, but would simply like to get it into the record.

Mr. Hepburn: I was connected with a small bank up in the country in a general way, and was in the Banking Department of this state; was Banking Superintendent, Comptroller of the Currency, President of the Third National Bank of this city which consolidated with the City National Bank, of which I became Vice-President, and then came to the Chase National Bank, of which I was President for some time, and am now Chairman of the Board.

The Secretary of the Treasury: You are of course aware that this law requires the Organization Committee to divide the country into not less than eight nor more than twelve districts, and to select the different cities in the country for the headquarters of the Federal Reserve Banks. The committee would be very glad to have your views as to the division of the country into districts, and also particularly as to what district should be embraced in the New York district, assuming that New York was chosen as the headquarters for a Reserve Bank. You might deal with the last proposition first.

Mr. Peburn: I have given the matter thought only in a general way, and I have assumed that you would make such territorial divisions as would leave enough banks in each district to permit of the organization of a bank of sufficient banking power to handle the affairs of the district in a dignified and efficient way; perhaps would try to make the several Reserve Banks somewhat approximate each other in their banking power, having in mind all the while the demands that would be made from the district in which they were located. My views upon this subject I suppose you know very well. I believe that the work of this organization under this bill could be just as well accomplished by branches as by regional banks. Not only just as well, but better, and I think if we had one central bank with branches, much better results could be accomplished. The same thing would be true as to the regional banks located in the East. I think if we had one regional bank in Washington, right under the immediate charge and supervision of this Federal Reserve Board, that it would the sooner eventuate into a central banking organization with the perfected

machinery which has been demonstrated to be most effective by the commercial and banking experience of the world. It seems to me that following out this same principle, the same belief that one regional bank east of the Alleghenies would be better than two or three or more, with as many branches as you may need and where you need them to render the workings of these different regional banks effective.

If you are to have a regional bank in New York, Boston and Philadelphia, Boston would naturally take New England, with the exception of Connecticut. I have a letter from one of our Hartford correspondents saying that the banks there were invited to join Boston in an application for a regional bank to be located at Boston, which they have declined, preferring to be connected with New York. I have a letter this morning from the secretary of the Connecticut Bankers' Association saying that he had communicated with all banks in the State, and all but five thus far heard from preferred to come to New York. It would seem to be the consensus of opinion, so far as he could gather it -- at least all that part of

the state this side of the Connecticut River, including Hartford; would prefer to come here, and it seems to me their wishes ought to be consulted; come here because they are nearer to New York, and they do come here in the regular course of their business.

I should think the southern part of New Jersey, beginning with Camden, including Atlantic City, would reach Philadelphia more conveniently than here.

On the other hand, if you were not to have a regional bank in Boston, all of New England would naturally come here. If you were to have a regional bank in Philadelphia and Boston, but not in New York, then we would prefer to be associated with Philadelphia, because we are two hours from Philadelphia and five from Boston; and that would apply to the whole state.

If there was to be a regional bank at Boston and New York, but not in Philadelphia, then I think Delaware and Pennsylvania ought to come to New York.

I think this thing should be borne in mind all the while by you gentlemen, that the regional bank here in this city, ought to compare favorably with existing banks as to size

of capital and banking power, and with that in mind, that the district should be large enough and include banks enough so that the capitalization would give it a predominant influence.

The secretary of the Treasury: Have you made any figures as to what the capital of the regional bank of New York would be if it embraced the whole of the State of New York, the northern part of New Jersey, and the western part of the State of Connecticut, that is, that part of the State west of the Connecticut River?

Mr. Hepburn: No, I have not.

The secretary of the Treasury: Have you given any thought to the division of the remainder of the country into districts?

Mr. Hepburn: None whatever, none whatever. I assumed that Chicago would be one of the large districts and San Francisco another, and New Orleans another, and St. Louis, probably. As to the other territory, I haven't given it any thought or attention. I have received many letters from different localities, from the cities that would like to be designated, but I haven't any

knowledge and have made no study of the subject to make my opinion of any value whatever.

The Secretary of the Treasury: Would you be good enough, Mr. Hepburn, to look into that question and submit, in the form of a brief, your views as to what you think would be the best division of the country into a minimum, for instance, of eight districts, as required by the bill, and into a larger number, if you care to do so too; but as to the minimum number at least. We should be very glad to have you give us your views about that.

Mr. Hepburn: I could do that as to the central points; but as to the territory to be included, I would not know enough about the trend of the business to make any suggestions I would make valuable to the committee.

The Secretary of the Treasury: The course of exchanges?

Mr. Hepburn: Yes; so as to know what would be most convenient.

The Secretary of the Treasury: Of course all these suggestions are tentative. The Committee wants as much

light as possible. We should particularly like to have your ideas in more concrete forms as to New York and New England, because you are more familiar with the districts here, of course. That could be submitted, Mr. Hepburn, during the time the Committee is here or later.

Mr. Hepburn: Oh, yes; it will be easy to prepare that; but I do know, from the course of every day business, and from personal contact with the representatives of the banks in the mid-east, what would be most convenient for them, and if there were to be no Federal Reserve district in Philadelphia, then I am quite sure it would be convenient for the State of Pennsylvania as a whole to come here. They do come here now; their business is very largely here.

The Secretary of the Agriculture: How far south would you go?

Mr. Hepburn: Why, to Delaware and Maryland. I think it is quite worth your while to consider the proposition of having one of these Federal Reserve Banks in Washington.

The Secretary of Agriculture: In that case you would

make southern Pennsylvania come down to it?

Mr. Hepburn: Yes. I think then Pennsylvania would come here. Washington is not much of a business center, and the business would naturally come this way. So would the business from Delaware.

The Secretary of the Treasury: Upon the assumption that Delaware, Pennsylvania, Maryland and the southern part of New Jersey were a district, including, of course, the District of Columbia -- and I say this is, of course, purely tentative and merely to bring out the point -- where would you say the headquarters for that district should be located?

Mr. Hepburn: Commercially, it would be Philadelphia-- from a commercial standpoint, unquestionably. I sympathize with the pride, the local pride of all these cities in wanting a regional bank, but I think they would be just as well off with a branch.

The Secretary of the Treasury: I was going to ask you if you do not think that is largely a question of local pride and from a real commercial and business standpoint does not make so much difference?

Mr. Hepburn: It does not make any difference.

The Secretary of the Treasury: With adequate branches they will be all thoroughly served?

Mr. Hepburn: Absolutely. I think if we did not have but one regional bank East of the Alleghenies it would be better. I would like to have you gentlemen in the inauguration and conduct of this system to prove conclusively, as you undoubtedly will do, that a central organization or bank is the proper and most effective machinery. That is the best thing of this whole bill, that that will be the evolution of the matter.

The Secretary of Agriculture: Where does the business from South Carolina normally go?

Mr. Hepburn: South Carolina?

The Secretary of Agriculture: Yes.

Mr. Hepburn: Why, I think from their local banks the majority of them ship over to New York, although they do considerable business with Baltimore. I think Baltimore does more than Philadelphia on the Southern business?

The Secretary of the Treasury: And Richmond does a

large southern business.

Mr. Hepburn: Yes, Richmond is quite a banking center. They have a good many bank accounts in Richmond from all over the South.

The Secretary of the Treasury: Thank you very much, Mr. Hepburn.

STATE OF MR. PAUL M. WARBURG.

The Secretary of the Treasury: Mr. Warburg, will you be good enough to state briefly for the record your banking experience and business?

Mr. Warburg: I had ten years of European banking business. I am still a partner in a European business. I am a partner of Kuhn, Loeb & Company since 1903, the end of 1902.

The Secretary of the Treasury: You have been long interested in this matter of currency reform?

Mr. Warburg: Ever since I came here.

The Secretary of the Treasury: And have written a great deal on the subject, I believe, and you are familiar with the provisions of the Federal Reserve Act, of course?

Mr. Warburg: I am.

The Secretary of the Treasury: You know that the Committee is charged with the duty, under this bill, of dividing the country into not less than eight nor more than 12 districts, and of establishing the headquarters banks in each one of the districts?

Mr. Warburg: Yes.

The Secretary of the Treasury: We should be very glad to have you give us your views as to what would be the best division of the country into the minimum number, the maximum number or an intermediate number. Also, assuming that New York City itself is shown as headquarters for the Reserve Bank of the contiguous territory to be served by that City. You might deal with the last part of the question first, if you will.

Mr. Warburg: I hardly think I can answer the last question without dealing with the whole. It is not difficult to provide for the East an adequate division. I agree with Mr. Hepburn and Mr. Conant that the whole eastern coast would be best served if we could have one district and have branches, but that would not solve the problem, because then there would be seven to be distributed over the country. I do not think an efficient system can be developed unless each of these districts gets

more appropriate banking power so it will always have to be calling continuously on the others, and therefore interfering with any policy in each of these other districts. The whole financial weight is practically upon this northeastern corner. It is not possible to retain only one Federal Reserve Bank there, because then you would have to distribute seven others over a very financially thin territory. You could not provide any district which would be able to stand on its own bottom for any length of time. My conclusion, and I have only dealt with this end of it in an offhand way, because I have been thinking of four districts, is unless we divide the East into several districts, that we cannot adequately deal with the question. I believe that probably we will have to divide the eastern end into New England, New York and Pennsylvania, having three districts, so as to leave the remainder of the country for five districts only; dividing Chicago again into two, so then there would be the Pacific Coast possibly as one only, because that would not give it any too much banking power, taking the northern part of the Pacific Coast and adding that to Chicago. Of course you will discover, when you

see these people, and discover their preference. I think Mr. Conant's opinion that you would not have a sufficiently strong bank in any one district could be covered in this way, that the country might be divided, for administrative purposes, into four divisions. If the Governor would take up the question of government bonds, gold and foreign exchanges into his control, the Vice Governor would be in charge of the eastern district, which then would be Pennsylvania, New England and New York, grouping those in his statistics as one, which would give it a greater power; the third man would be in charge of the southern corner, the fourth of the northwest, and the fifth of the Pacific Coast. That would leave the Chairman, who was not in charge of any particular end, but is the Chairman of the Board in general, and the Comptroller of the Currency in charge of supervision. Naturally it will work out that way -- very likely the Federal Board will be divided into four parts. If you then take the three eastern cities as one division, the two southern cities, that is to say St. Louis and New Orleans as the second, and Chicago, with a second district there on the Pacific Coast, and let us say the

Ohio and Indiana district as a second there, the fourth district would be California, which very likely would anyhow be a thing by itself and take care of itself most of the time; I believe that in that way probably it could be worked out that way so that the interest rates would probably be the same in the three eastern districts, generally the same in the southern corner, and the northwest I believe could be taken care of by one rate too.

The Secretary of the Treasury: Specifically, Mr. Warburg, what would you say should be embraced in the district of New York?

The Secretary of Agriculture: He suggested three districts.

Mr. Warburg: I haven't figured that out to a fine point. I would say either New York and New Jersey and, as Mr. Hepburn suggested, Connecticut, or northern New Jersey with New York. Then, there would be New England taking all the northern part, including Maine. Then there would be Pennsylvania, with Maryland, Delaware and the District of Columbia. But that would only work in cases where you group the three together before they would be all grouped into the general districts. The

East together would make a strong showing, so far as the Reserve Bank is concerned.

The Secretary of the Treasury: Would you be willing to submit your views in concrete form in the shape of a brief showing the figures for the division of the territory, some time during the sitting of the Committee?

Mr. Warburg: It is an almost impossible task to determine --

The Secretary of the Treasury: It would be purely tentative.

Mr. Warburg: We have only the statistics as we have received them in the printed reports. I personally have no way of discovering, for instance, whether Oregon would rather be included with San Francisco or in the system leading toward Chicago. I could work out several tentative schemes.

The Secretary of the Treasury: Of course it would be purely tentative.

The Secretary of Agriculture: Just as you see the movements.

Mr. Warburg: I would be very glad to do that.

The Secretary of Agriculture: You suggested that there be a third district with Philadelphia as the center?

Mr. Warburg: Yes.

The Secretary of Agriculture: And how would you serve this southeastern section in that way?

Mr. Warburg: St. Louis would take care of the middle South and New Orleans the South. That is comparatively easy to group those together.

The Secretary of the Treasury: Where would you put Florida, Georgia and South Carolina?

Mr. Warburg: With New Orleans. That depends on local considerations which will have to be discovered.

The Secretary of Agriculture: Would not that probably change the course of commercial transactions, if you were to make them go west to New Orleans?

Mr. Warburg: Those are the local points that I could not possibly know from here.

The Secretary of Agriculture: You do not know from here?

Mr. Warburg: Unless I went there and asked questions.

The Secretary of the Treasury: - Of course in any suggestion you might make, you would have to depend upon such statistics as were available, and they would be based fully on that. The purpose of the Committee in having

these local sittings is to develop the local color. We hope to be very much better informed as a result of this investigation at the end of it than we are now.

Mr. Warburg: At that time it would be easier for us to give any advice, because then we would know the facts, which we do not now know.

The Secretary of the Treasury: We are very much obliged, Mr. Warburg.

STATE OF ALEXANDER J. HEMPHILL.

The Secretary of the Treasury: Will you be good enough, Mr. Hemphill, to state briefly your banking experience and what position you now occupy?

Mr. Hemphill: I entered the Guaranty Trust Company in 1905, as Vice President, and became president in 1909. That is my banking experience, which dates from 1905.

The Secretary of the Treasury: Previous to that time, you of course had been engaged in business?

Mr. Hemphill: Yes.

The Secretary of the Treasury: And you had a general knowledge of business and commercial transactions and exchanges, relating to the banking situation in New York and the eastern part of the country?

Mr. Hemphill: Generally.

The Secretary of the Treasury: Mr. Hemphill, you have heard the question that we are asking all of the witnesses. Will you give us your views about the division of the country into districts, more particularly with reference to the eastern part of the country?

Mr. Hemphill: Let me say generally that I came here really to get instruction. I did not think that I was going to be asked to give any evidence or direct testimony. I have not given a great deal of thought to the matter. The only thought that I had was that we should have, as Mr. Jonant points out, a bank of such strong resources, such banking power as to commend the respect of our foreign banks, and also to give to the agricultural resources and the commercial resources adequate power in

times of any particular stress. New York, it seems to me, should have a bank of sufficient banking powers to command that respect.

The Secretary of the Treasury: Have you made any figures at all about the territory that bank should have, upon the assumption that any particular district should be served by it.

Mr. Hemphill: It has always occurred to me that as matters are conducted now generally, New England with New York and New Jersey and parts of Pennsylvania. Of course, in commercial transactions the south depends very largely upon New York. Almost all of its crop moving is done through New York. Take my institution and it handles, I suppose, probably one-half of the crop moving of the cotton states and they are more or less dependent on New York, as matters now are. I think Mr. Warburg gave the most luminous idea as to how the country might be divided, so as to give the regions the strength they should have. Assuming that eight is the least number, it is going to be rather difficult to apportion the territory so that each one shall have the adequate strength.

The Secretary of the Treasury: If you divide the country

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 into eight districts and you establish eight Federal Reserve Banks, and assuming again that those have in turn branches in all the important cities in the different districts, would not the course of exchanges be in a very considerable measure facilitated, rather than the reverse? Let us take New England. Assume that there is a Federal Reserve Bank at Boston and that there is another one in New York, and assuming again that some of the territory -- the New England territory which you think ought properly to come to New York, was embraced in the New England district and had to carry on its operations through Boston, Boston again in turn would be a clearing house, so to speak, and the exchange between Boston and New York would be very easy. They would be facilitated by the arrangement. Now, assuming those premises to be correct, would you do any great violence to the course of commercial transactions in, we will say -- take an extreme case -- the western half of Connecticut, even if it were incorporated into the Boston district or the New England.

Mr. Hemphill: That readjustment would be largely so experimental that you could not tell until it had been in practice some little while. I think the readjustment

would tend to some slight differences and methods of doing business.

The Secretary of the Treasury: And inconveniences?

Mr. Hemphill: Yes, sir.

The Secretary of Agriculture: To what extent? Do I understand you think that as a practical proposition there would probably have to be three districts in this north-eastern section?

Mr. Hemphill: I agree with Mr. Warburg on that, that in order to give each bank adequate banking power --

The Secretary of the Treasury: With ample resources, you mean by power?

Mr. Hemphill: Ample resources, yes.

The Secretary of Agriculture: Then in general, that his suggestions as to the districts --

Mr. Hemphill: Yes, I agree in that. The Pacific Coast, of course, is one. I have always thought New Orleans is another.

The Secretary of Agriculture: What would you do with the territory, for instance, from South Carolina to Virginia and Georgia and Florida to Louisiana?

Mr. Hemphill: They would have -- if there was a

Reserve Bank established in Washington, it seems to me that that would probably be the source that they would have.

The Secretary of Agriculture: That would make four then.

Mr. Hemphill: That would make four.

The Secretary of the Treasury: Where would you put the other four in this instance, Mr. Hemphill?

Mr. Hemphill: Chicago, St. Louis, New Orleans, San Francisco and have one bank in the northwest.

The Secretary of the Treasury: That is just a general idea and not based upon any calculations.

Mr. Hemphill: Not based on any figures at all, just what seemed to be a matter of convenience, more than the gathering of the resources. I think that we will have to go in just as you have indicated, into a compilation of statistics to demonstrate just what would be the strength.

The Secretary of Agriculture: Do you think there would be special objection to having two banks as close as Philadelphia and Washington and New York? Three, that would make.

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Mr. Hemphill: I should not think there would be any great objection to that. Of course, what we prefer is to have one of the strong banks with the branches.

The Secretary of Agriculture: But the difficulty in the way is the one that you suggest.

Mr. Hemphill: Yes.

The Secretary of the Treasury: All of these Reserve Banks, Mr. Hemphill, upon the basis of six per cent subscription -- that is, six per cent of the capital stock and surplus of the banks, would have more than a hundred millions of combined capital. Now, if they were limited to eight, you would get some fairly strong banks, assuming that there could be a reasonable division of the country into districts, so that the capital would have relation, of course, to the needs of the other districts. Would you not get very good banks under that plan.

Mr. Hemphill: Well, that does not appeal to me as being so exceedingly strong, if you divide up even the hundred millions into eight parts. Of course, one bank in one region, we will say, with twelve or fifteen millions of resources, would possibly have all the strength required for that particular region.

The Secretary of the Treasury: That is exactly the point.

Mr. Hemphill: But if you applied it though to another region like the region around New York, that would be an exceedingly limited bank.

The Secretary of the Treasury: Of course, those are the factors that the committee have got to consider, the relation of the capital to the different districts and that in turn has a very direct relation, because it is all based-- the subscriptions to the Reserve Banks are based, of course, upon the capital and surplus of banks within a given district, so I say they have relation anyway to the banking capital. Now, we are proceeding altogether so far upon the assumption of only National banks and that they only are going into the system. Of course, state banks and trust companies to a large extent should come into the system and the strength of the banks in the system would be correspondingly greater.

Mr. Hemphill: Some of the limitations in the bill, while they seem to be liberal, yet as applied to New York are so small that they may keep some of the banks out of the system.

The Secretary of the Treasury: What are those prin-

cipally?

Mr. Hemphill: The limitations on acceptances and discounts and so on.

STATEMENT OF ALBERT H. WIGGIN.

The Secretary of the Treasury: Mr. Wiggin, will you be good enough to state your banking connections and experience.

Mr. Wiggin: I have been in the employ of National banks the greater part of my business life, from 1885 to 1899, in Boston, all of that time in National banks, except three years; from 1899 to the present date in National banks in New York.

The Secretary of the Treasury: You are now President of the Chase National Bank?

Mr. Wiggin: President of the Chase National Bank.

The Secretary of the Treasury: You are familiar with this Federal Reserve Act, are you not?

Mr. Wiggin: I have read it a number of times.

The Secretary of the Treasury: You, of course, know what the problem is the committee has to deal with?

Mr. Wiggin: Yes.

The Secretary of the Treasury: The division of the country into not less than eight or more than twelve Federal Reserve districts, and the establishment of a Federal Reserve Bank in each. We shall be glad to have you give us your views as to what territory should be made contiguous to the Federal Reserve Bank in New York, if one should be established in this city, and upon the assumption that there are eight Federal Reserve Banks, we will say, in the country. We will take the minimum to begin with.

Mr. Wiggin: Well, as I understand it, the advantage of a home office bank over a branch bank is purely one of local pride, so that it is not really important whether the city has the home office or the branch office, as far as results go. I think in determining the locality of the reserve banks, on the theory that there will be eight, there are three things to be considered: First, the currents of exchange. Second, the distance, and third, the necessity of having sufficient capital to handle the business in a particular city or section. I think that your records in your Comptroller's office will be really the best basis for determining. They show clearly the

currents of exchange and the territory that each reserve city covers. The records of the Comptroller's office are very clear and distinct, as indicating that your central reserve cities are ordinarily -- are apparently natural locations for three reserve banks, because their business has been built up and grown as a result of currents of exchange toward those cities. Those three central reserve cities are New York, Chicago and St. Louis. Now, when it comes to the additional number, proceeding on the theory that there will be eight, we must have one on the Pacific slope; we must have one in the south; we must have one somewhere between Chicago and the Pacific slope to the north, and one somewhere between Chicago and the Pacific slope, further south. I assume that the next one will probably be in the middle east. That is, between Chicago and the Atlantic Ocean.

The Secretary of the Treasury: Have you any specific cities in your mind?

Mr. Wiggin: No. I think your appointment of Federal Reserve Agents will cover that better than anything else ;

The Secretary of the Treasury: In that connection I should like to ask you this question, how far the exchanges with these reserve and central reserve cities are indicative of the normal trend of business and commerce?

I ask that for this reason: Some of the reserve cities hold out very big interest rates for the deposits of country banks. Others hold out less inducements of that character. Now in view of the very high interest rate offered by some of these reserve banks to the country banks, to what extent do those figures represent the normal course of business and exchange?

Mr. Wiggin: I think the figures represent the normal course of business. There are some exceptions.

The Secretary of the Treasury: You think, do you, that the figures of the Comptroller's office could be generally relied upon as quite indicative of the general trend of business, commerce and exchange?...

Mr. Wiggin: I think so. There is only one exception.

that you must look out for, as I understand it, as business will be drawn off in certain cities as the result of free collection of checks. Those cities have contracted balances that are not actual balances, but balances in figures only.

The Secretary of the Treasury: That influence, as well as the rate of interest paid, does not represent the normal course of transactions.

Mr. Wiggin: There may be some places where the rate of interest has affected it, but I do not happen to have those in mind. The only thing I have in mind is this other artificial means.

The Secretary of the Treasury: Getting back to the New York District, and proceeding on the assumption that there were to be a minimum of eight banks -- because we must have some assumption upon which to base an opinion -- what would you say would be a homogenous and appropriate territory to be served by a bank in the city of New York?

Mr. Wiggin: I should suppose you would want New England, New York, New Jersey, Delaware and Pennsylvania.

The Secretary of the Treasury: You would not have a reserve bank then in Boston, on your theory.

Mr. Wiggin: I should have no objection to it. I should suppose that a branch would serve just as well.

The Secretary of the Treasury: If you should consolidate in one bank as much of the working capital of the country as is represented by the states you have mentioned, you would not have enough to go around, among the rest of the country, would you?

Mr. Wiggin: Oh, I see. I am taking into consideration the capital that the bank in New York must have to handle its business, the kind of business that is outlined in the law, in comparison with other institutions. You must remember that you have two \$25,000,000 banks in New York City, and while I am not definite in my figures, if you take in all that territory you are not getting over \$30,000,000.

The Secretary of the Treasury: On the basis of six per cent you would have about \$50,000,000 capital.

Mr. Wiggin: Taking in that territory?

The Secretary of the Treasury: Yes.

The Secretary of Agriculture: On the basis of three per cent?

The Secretary of the Treasury: Under the Act three per

d - cent will be called in six months; but the remainder is subject to the call of the Reserve Board. Therefore we must assume that those banks have a capital subject to a call of six per cent. That would consolidate into one bank in New York half the available capital of the whole Federal Reserve System. Manifestly that would leave too little to be divided among the other banks which, under the law, the Committee must establish. Now assuming that that division could not be made, and that the territory to be served by a bank in the City of New York must be very largely reduced, what would you say was the minimum territory that ought to be incorporated into this district?

Mr. Wiggin: I should think that \$35,000,000, at 3 per cent, would be about your minimum. I am working it out backwards, you understand. As far as mileage goes, you are well within bounds. You are not covering the territory that must necessarily be covered by Denver and some other city further west. As far as the capital is concerned, you have got to have a big capital to do the business that comes to this city.

The Secretary of the Treasury: What would you think of

the suggestion of Mr. Hine and Mr. Herburn that this district might appropriately consist of the State of New York, the Northern part of New Jersey and the Western part of Connecticut.

Mr. Wiggin: It is ^{all} right as far as mileage goes, and as far as the current of exchange goes, but of course the institution would necessarily be a small one if it covers no more than that territory.

The Secretary of the Treasury: Have you an idea what its capital would be?

Mr. Wiggin: I have not those towns and that capitalization, but it certainly would not be over \$15,000,000.

The Secretary of the Treasury: I think it would be larger than that.

The Secretary of Agriculture: That is based on six per cent or on three per cent?

Mr. Wiggin: Based on three per cent.

The Secretary of the Treasury: I am figuring it on six per cent. You have got to figure it on the ultimate capital, because the whole six per cent is subject to call, and I imagine that any subscriber who comes into the system will be good for the full amount of the call

that will ultimately be made upon him. So I think we may figure that we have available six per cent of the capital and surplus of the subscribing banks as the capitalization that is available.

Mr. Wiggin: That is available, but that will not be the working capital.

The Secretary of the Treasury: That depends on whether it is called or not. If it should be called, you will have it.

Mr. Wiggin: Yes.

The Secretary of the Treasury: It is a resource, in other words, something to which resort may be had at any time; and I think in setting up the system here we have got to keep that in our minds. We are much obliged to you.

STATEMENT OF GEORGE M. LA MONTE.

The Secretary of the Treasury: Mr. LaMonte, will you be good enough to state what position you now occupy and what your banking experience has been.

Mr. LaMonte: I am the Commissioner of Banking and Insurance of the State of New Jersey; and I am the Vice President of the First National Bank of Bound Brook, New Jersey.

The Secretary of the Treasury: You know the problem facing the Committee?

Mr. LaMonte: Yes.

The Secretary of the Treasury: The division of the country into districts, not less than eight and not more than twelve?

Mr. LaMonte: Yes.

The Secretary of the Treasury: We shall be very glad to have your view, upon the assumption of the establishment of the minimum number of banks... When I say the minimum number, I do not mean to indicate by that that the Committee have come to any conclusion, because they have not, but we must have some assumption to base the question upon. Upon the assumption of the establishment of the minimum number, what would you say should be done with New Jersey under those circumstances?

Mr. LaMonte: Of course my ideas are very local anyhow in this connection. With eight, I should think New Jersey would inevitably have to come to New York, assuming that there would be an institution in New York City.

The Secretary of the Treasury: Do you mean the whole

State of New Jersey?

Mr. LaMonte: If the country was divided up into only eight divisions - and I assume you will probably start with the smallest number of units, because it is easy enough to expand -- there would not be enough Eastern units to put New Jersey anywhere else. I presume New England would be sufficient to itself as it generally has been; and then if you came to New York, I hardly see how you could make another break at Philadelphia.

The Secretary of the Treasury: Would not the southern part of New Jersey more appropriately be incorporated into a district of which Pennsylvania should happen to be a part?

Mr. LaMonte: The Southern part of New Jersey goes to Philadelphia. It does not go to any other part of Pennsylvania. I believe it would be more convenient and more for the trend of trade, if there was a place in Philadelphia, but I do not see how there could be with only eight banks. I think New Jersey would naturally have to come north to New York.

The Secretary of the Treasury: What is your theory as to what should be embraced in the New York District?

I say the New York District upon the assumption that a

Federal Reserve Bank is to be established in New York City; what contiguous territory ought to be attached to New York City, outside of New Jersey.

Mr. LaMonte: I should presume all of New York State, unless possibly Rochester, Buffalo and those cities out there might go somewhere else; but I presume they would prefer to come to New York.

The Secretary of the Treasury: What about Connecticut?

Mr. LaMonte: I think Mr. Hepburn's suggestion of connection, is the natural suggestion, that the greater part of Connecticut, all this side of the Connecticut River, would come to New York.

The Secretary of Agriculture: And all of Pennsylvania?

Mr. LaMonte: I hardly think all of Pennsylvania. I think Pennsylvania West of Pittsburgh would probably go further west, but I make that statement without serious thought upon the subject.

The Secretary of the Treasury: You have not made any careful study, have you, of the figures as to the banking capital available in these different sections of the country?

Mr. LaMonte: No, I have not.

The Secretary of the Treasury: As to what apportionment should be made.

Mr. LaMonte: No. I have had a mind to do so, but I have not done it.

The Secretary of the Treasury: Would you be good enough to consider that, and give the Committee the benefit of your suggestions at any time within the next week or ten days, submitting them in writing, if you will.

Mr. LaMonte: Yes.

The Secretary of the Treasury: You might take a map and give us your suggestions.

Mr. LaMonte: I have gone so far as to have a map. I have given it some thought, but I should like to give it further thought.

The Secretary of the Treasury: We shall be very glad to hear from you. Thank you very much.

STATEMENT OF JAMES G. CANNON.

The Secretary of the Treasury: Mr. Cannon, will you be good enough to give the Committee some idea of your banking experience and your present connections.

Mr. Cannon: I am President of the Fourth National Bank. I have been in the banking business here in New York

since I was sixteen years old, in various institutions in town.

The Secretary of the Treasury: Are you familiar with the new Federal Reserve Act?

Mr. Cannon: Yes.

The Secretary of the Treasury: You know the problem that is confronting this Committee, about the division of the country into districts, not less than eight nor more than twelve. We shall be very glad if you will give us your views as to how that division may best be made, with reference especially to New York and the rest of the country.

Mr. Cannon: It seems to me that the important point to be considered is the locating of Federal Reserve Banks so that their individual members can communicate with them within the fifteen hours which constitute the normal mailing time which elapses between the closing and opening of banks. I think that is one of the things I should consider.

Communications will be effected almost exclusively by rail or express, and therefore the location of the Reserve Banks should, in my judgment, be decided largely with reference to their accessibility by these means, as

well as the aggregate of capital to be employed. If the Committee are guided by this principle, they will no doubt be obliged to place more reserve banks west of the Mississippi River than the relative size of the cities in that territory would seem to justify. The necessity for this lies in the fact that the train service we enjoy in the east is better than in certain sections of the west and south which, in conjunction with the great distances to be covered, would make the establishment of relatively more reserve banks there seem important. I do not believe that the majority of country banks, in the selection of their city correspondents, give very serious consideration to the commercial importance of the cities with which they are dealing. The measure of the commercial importance of a city, from the standpoint of the banks, is in the amount of individual and mercantile deposits and other banking transactions, and not entirely in the amount of business transacted with them by other banks. I think that is one of the questions that your Committee want to have before you. I do not believe the country banks give very much consideration to the commercial importance.

The Secretary of the Treasury: It is a question of the facility itself, no matter from what source it comes.

Mr. Cannon: Yes, a question of the facility itself.

The real test of the relation of a City bank to a certain district is, of course, the volume of mercantile transactions of that city with the surrounding country.

Therefore I believe one Federal Reserve Bank located in New York City could adequately serve the states of New York, New Jersey and the western half of Connecticut, and that part of Pennsylvania which lies east of Altoona, which branches located at desirable points, and I have taken the liberty of outlining this on a map which I have with me. I am simply giving now my suggestion.

The Committee will undoubtedly be presented with strong arguments for the establishment of reserve banks in other cities of this territory, but if too many are placed in the East, a proper equilibrium could not be preserved and enough left to serve the remainder of the United States. There are few banks which are not under the 15-hour time limit accessible to New York City in this territory, while the Commercial and industrial re-

lations are more in favor of New York than of any of the other cities in the territory. If separate banks were placed in other cities, their status would be the same; and yet the member banks in New York City must, under the new law, maintain an 18 per cent reserve, while similar institutions, if established outside, would only be required to keep a 15 per cent reserve, as I understand it, unless that is changed by the Federal Reserve Board in Washington, bring them all up to 18 per cent. That is a matter I should like to suggest. I suppose you have talked this over a great deal, on that line. Provided two cities in this district I have outlined had a Federal Reserve Bank in competition for the same business, as they would be in many instances, the one would have a distinct advantage over the other, if one had a 15 per cent reserve and the other an 18 per cent reserve.

I would not include the balance of New England in the New York District, as Boston serves and maintains relations with New Hampshire and Maine far more extensively than does New York. Likewise communication between Boston and other New England States is much quicker and more convenient than with New York. Certain sections of Ver-

mont, Massachusetts and Connecticut, however, are more accessible to New York than to Boston, and the trend of business is in this direction, and that is why I have included them in the New York District.

I have taken the liberty of preparing a table showing the time of the mail leaving New York at 6 o'clock and arriving at various cities, which I shall be very glad to submit.

The Secretary of the Treasury: We shall be glad to have you submit that.

Mr. Cannon: This shows the mailing time in New York at 6 P.M. and the time of arrival, the mailing time in Philadelphia at 6 P. M. and the time of arrival, and the mailing time at Boston at 6 P.M. and the time of arrival.

The statement is as follows:

	Mailed in N.Y. 6 P.M. <u>ARRIVES</u>	Mailed in Phila. 6 P.M. <u>ARRIVES</u>	Mailed in Boston 6 P.M. <u>ARRIVES</u>
Rochester, N.Y.	5:15 A.M.		
Ogdensburg, N.Y.	8:40 A.M.		
Plattsburgh, N.Y.	5:35 A.M.		
Olean, N.Y.	6:32 A.M.		
Burlington, Vt.	4:25 A.M.		4:25 A.M.
Newport, Vt.	6:35 P.M.		5:20 P.M.
Bennington, Vt.	1:20 A.M.		8:55 A.M.
New Haven, Conn.	*10:20 P.M.		4:32 A.M.
Hartford, Conn.	12:47 A. M.		3:27 A.M.
Springfield, Mass.	1:30 A.M.		2:30 A.M.
Greenfield, Mass.	5:57 A.M.		3:50 A.M.
Tyrone, Pa.	5:09 A.M.	3:53 A.M.	
Altoona, Pa.	5:33 A.M.	4:17 A.M.	
Sayre, Pa.	3:33 A.M.	3:43 A.M.	
Scranton, Pa.	1:06 A.M.	6:08 A.M.	
Easton, Pa.	*10:18 P.M.	3:59 A.M.	
Hazleton, Pa.	6:43 A.M.	5:45 A.M.	
Lock Haven, Pa.	6:30 A.M.	2:40 A.M.	

* Means same day.

The Secretary of the Treasury: Accessibility seems to be a decided factor.

Mr. Cannon: Yes, accessibility is a decided factor, because the Federal Reserve Banks are to act as a clearing house for the country to a certain extent.

The Secretary of the Treasury: And for the issue of currency?

Mr. Cannon: Yes.

The Secretary of the Treasury: It is very important.

Mr. Cannon: Yes.

Then another point that I think has not to be considered is this. I think Section 4 of the Act reads that each Federal Reserve District is to be divided into three divisions or groups, thus making it possible for directors of classes A, B and C to come from each group.

The Secretary of the Treasury: The banks are grouped.

Mr. Cannon: Yes.

The Secretary of the Treasury: Grouped with respect to capital.

Mr. Cannon: Yes.

The Secretary of the Treasury: That is the small banks for instance are grouped, and they select one director,

and the intermediate banks, or banks of medium capital in another group, and the banks of the largest capital in another group?

Mr. Cannon: Yes.

The Secretary of the Treasury: So that each class of banks may be assured a representation on the Board of Directors?

Mr. Cannon: Yes. The district which I have just outlined could be divided into first New York, second the State of Pennsylvania, the entire State of New Jersey and the remaining portions of the other four or five states. That will pretty nearly represent the right banking capital.

The Secretary of the Treasury: That is not the grouping contemplated by the Bill?

Mr. Cannon: No, sir.

The Secretary of the Treasury: The grouping is with respect to the capitalization of the banks in the whole district?

Mr. Cannon: Yes.

The Secretary of the Treasury: In this district, for instance, the banks of the small capital would be grouped together for the purpose of selecting a director, so that

those small banks would have one director.

Mr. Cannon: Oh, yes.

The Secretary of the Treasury: Then the banks of still another class of capitalization would be grouped, and they would elect another director.

Mr. Cannon: Yes.

The Secretary of the Treasury: Then the larger banks would be grouped, and they would select a director.

Mr. Cannon: The grouping is according to capitalization.

The Secretary of the Treasury: According to capitalization.

The Secretary of Agriculture: The biggest banks making the first third, and so on.

Mr. Cannon: I have gathered a little data in regard to the trend of business in these territories, which I think may interest you. In further support of the statement that the trend of business in the territory I have named is toward New York, I have ascertained that the banks of New York, New Jersey and Pennsylvania are the largest buyers of commercial paper in the New York market. In the territory mentioned there are 822 commercial paper buying banks and trust companies, all of which purchase

practically all of their paper in this market, the other half of the state being considered Boston territory.

These figures would seem to indicate that New York naturally serves the territory I have marked as a center for the purchase of commercial paper, and inasmuch as this character of investment constitutes, I should judge, no small part of the assets of these banks, it seems but reasonable to believe this paper would be sent to New York, where it is best known, to be rediscounted by a Federal Reserve Bank located in this city. There are 822 of these banks.

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The Secretary of the Treasury: So far as that goes, Mr. Cannon, they would send that paper anywhere they could re-discount it, so I suppose that would have no particular bearing on the question.

Mr. Cannon: No special bearing, except as showing the trend of the business transacted in that particular line.

In reference to the capital and surplus of the banks and trust companies in this district, I have just made a few figures. I do not know whether they would be of interest to you; perhaps you have them all from the Comptroller's office.

The Secretary of the Treasury: Possibly they would be of interest, arranged as you have them.

Mr. Cannon: These are approximate, of course; you cannot get the exact figures in any way. For instance, in New York State there are 471 National, 198 State and 81 Trust Companies; the National Banks having a capital of \$337,000,000, the State Banks \$102,000,000 and Trust Companies \$254,000,000.

In New Jersey 198 National, 24 State and Trust Companies 99, the National banks having a capital of \$44,000,000, State banks \$5,200,000 and Trust Companies

\$49,000,000. Vermont, 42 National with a capital of \$7,000,000 and 34 Trust Companies with a capital of \$3,600,000.

Connecticut as divided would have \$29,000,000 National, \$2,400,000 State and \$9,800,000 Trust Companies.

Massachusetts as divided, taking the line this side of Springfield --

The Secretary of the Treasury: Your figures in regard to Connecticut relate to the western half or to the whole state?

Mr. Jannon: The western half, which naturally would come under this division.

The Secretary of the Treasury: That is, west of the Connecticut River?

Mr. Jannon: Yes, west of the Connecticut River. Massachusetts, the western half, coming towards New York, National banks \$14,300,000, Trust Companies \$3,200,000.

Pennsylvania as divided, that is east of Altoona, would be, National banks \$156,300,000, State banks \$17,600,000 and Trust Companies \$139,700,000.

In that territory which I have mentioned, the total would be \$588,000,000 for National banks, providing they

all came in, of course, \$127,000,000 State, and \$460,000,000 Trust companies. Six per cent of that, taking just six per cent on the capital of the National banks, would give a capital equal to \$35,000,000. If we took six per cent, of course, on the whole amount, if they all went in, that would give \$70,000,000 of capital. Of course, you could strike out Pennsylvania if you decided to put a Reserve Bank in Philadelphia, and that would give an approximate idea of the capital throughout the whole section.

The Secretary of the Treasury: It would be rather a respectable bank?

Mr. Cannon: Yes, rather a respectable bank.

The Secretary of Agriculture: What do you think of the importance of the suggestion that the bank ought to be as large or larger than the existing bank.

Mr. Cannon: I think it ought to be large. I have just mentioned this, with reference to capital and surplus, that you can readily see the reason, because the transition state of transferring these reserve balances, which we have got to go through in the central reserve cities, transferring in the three years from the National banks and other banks into the Federal Reserve, the capital

ought to be large because the amount of re-discount which will necessarily have to be done by the New York banks with the Federal Reserve Banks of this city, Chicago and St. Louis, would necessarily have to be very large, and that ought to be fixed so we could do it without curtailing our credits in this city in any way.

The Secretary of the Treasury: Do you not think that is perfectly possible without curtailing credits?

Mr. Jannon: Yes, certainly I do.

The Secretary of the Treasury: I mean to say, even if the districts were divided in some manner such as we have been discussing here, it ought to be easy to accomplish that object without any disturbance?

Mr. Jannon: Yes.

The Secretary of the Treasury: The Government itself is in a position to make large deposits in these banks.

Mr. Jannon: Yes.

The Secretary of the Treasury: And the transition long period, of course, is a

Mr. Jannon: Three years.

The Secretary of the Treasury: And the process ought to be very easy, and certainly can be accomplished without

disturbance.

Mr. Jannon: Oh, yes.

The Secretary of the Treasury: You agree with that conclusion, do you not?

Mr. Jannon: Yes, I think so, but my theory in having the capital large, of the three Federal Reserve Banks in the three central reserve cities would be to help along that movement as much as we possibly could. To my mind they ought to be larger than in other parts of the country, because there is where the movement is likely to be, more or less.

The Secretary of the Treasury: The banks' capital unquestionably should have relation to the needs of the district to be served.

Mr. Jannon: Surely.

The Secretary of the Treasury: And do you not think that operates automatically under the plan of the law here, which makes the subscriptions have direct relation to the banking capital and surplus of each district?

Mr. Jannon: Oh, yes.

The Secretary of the Treasury: To what extent do you think that the reserves in the reserve and central cities

are not indicative of the purely normal course of commercial business transactions, by reason of the fact that in some reserve cities a very considerable temptation is held out to country banks to keep accounts there by a large interest rate on such balances, and also by the fact that checks are collected in some of these places without charge? Do you think that has a decided influence, I mean, or only a negative influence?

Mr. Cannon: I think it has rather a decided influence, rather more on the country checking side of the question, I do not know what these banks are paying, but I think both things have a decided influence.

The Secretary of the Treasury: Mr. Elliott, I think some reserve cities pay as high as three to three and a half per cent for balances, do they not?

Mr. Elliott: Yes.

The Secretary of the Treasury: Do you not think that would have a decided influence?

Mr. Cannon: Yes.

The Secretary of the Treasury: Therefore it would not be safe to say that these balances indicated a normal balance between these cities and the reserve city banks.

Mr. Cannon: Yes. I stated that in the beginning.

The Secretary of the Treasury: I knew you referred to it, but I only wanted to emphasize it a bit, because we ought not to allow ourselves to be deceived by the face of figures which may not imply all that they seem to imply.

Mr. Cannon: Yes, and I think the trend has been out of that direction, on account of the collection of checks by these various banks in different sections of the country.

The Secretary of the Treasury: You have not finished your statement, have you. I believe you have some other figures to present.

Mr. Cannon: No, I just had some other figures here; I do not know that they would be of interest.

The Secretary of the Treasury: We would be glad to see them.

Mr. Cannon: Here is a map which I had prepared, covering the district^s as suggested.

The Secretary of the Treasury: I see you take into that district the whole of Vermont.

Mr. Cannon: The whole of Vermont, yes.

The Secretary of the Treasury: And half of Massachusetts and half of Connecticut.

Mr. Cannon: Yes, and then I take in the State of New Jersey and Pennsylvania as far west as Altoona.

The Secretary of the Treasury: And you would, under that plan, make Philadelphia a branch bank?

Mr. Cannon: Yes.

The Secretary of the Treasury: Of the New York Reserve Bank?

Mr. Cannon: You can have a branch over there. I think the branches would be just as important to this as anything else.

The Secretary of the Treasury: You have not had the courage yet to suggest this to Philadelphia, have you?

Mr. Cannon: I do not know, I have not said anything to my friends anywhere about it.

The Secretary of Agriculture: Just what influence will the branches have on this matter of time; take these stretches of country out here in the west, suppose they cannot reach the parent bank in 15 hours or 12 hours, just how would the branch operate to relieve that difficulty?

Mr. Cannon: I should have to give some thought to that, Mr. Secretary. I do not know exactly how that would work out.

The Secretary of the Treasury: Well, the branch would very largely relieve that difficulty, would it not, assuming always it was properly looked after by the parent bank.

Mr. Cannon: It is according to what class of business is contemplated; if it is contemplated that the branch does the same class of business as the parent bank, or whether a different line of business is going to be conducted by the branch. Would your re-discounting be done with branches, do you think?

The Secretary of the Treasury: I think undoubtedly that is the purpose of the Act, to bring that facility as close to the different communities as it possibly can be. The Act provides that each branch bank shall have a local directorate of seven men, with the same qualifications as the directors of the parent bank. And, for instance, suppose that the district was constituted as you suggest, and there was a branch in Philadelphia, unquestionably the Philadelphia branch would have the power under the general oversight of the Board of Directors here, which would be a general oversight in this case, and you would have to permit a very large degree of discretion in your local board --

Mr. Jannon: That is just what I was getting at, just exactly how much of the business done by the parent bank would be done by the branches. In reading the Act I was not clear in my own mind how much was contemplated under the Act; whether you contemplated doing the same class of business or --

The Secretary of the Treasury: Of course, it would have to be worked out by experience.

Mr. Jannon: I was going to say that would have to be worked out in the same way as this question of time.

The Secretary of the Treasury: The theory of the Act is to make that facility as great as possible through the branches as well as through the parent bank.

Mr. Jannon: I see.

The Secretary of the Treasury: Have you submitted all your figures?

Mr. Jannon: That is all. I just happened to put those figures together.

The Secretary of the Treasury: We are asking and shall ask all the witnesses to testify in all of the cities of the country that we intend to visit what their ideas are about the division of the country into these districts.

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Of course, we know their suggestions must be very largely tentative, but we do it upon the assumption that the bankers particularly are more or less familiar with the general course of commercial transactions, therefore they may have ideas which may be of some value. Have you thought of the tentative division of the country into districts, outside of the one you have just dealt with?

Mr. Jannon: Well, my own thought was that you would have to have -- I am not clear but what you would have to give Philadelphia one, and you may have to give Boston one; and New York, Chicago and St. Louis; and one or two in the far west, and one in the central west. I have not gone into the details as to the various divisions.

The Secretary of Agriculture: What about the south?

Mr. Jannon: You would have to have something for the south or southwest. I am not clear whether you should go to Atlanta or New Orleans. That matter would have to be carefully studied out as to the trend of that business. Of course, New Orleans is naturally a large shipping point for cotton. Our Texas friends may know better where they want to have one. I guess you can tell more about that than anyone else, Mr. Secretary. But that was just a

tenative solution on those lines, in my own mind. My thought has been right along that you have got to keep along lines of your time limit in reaching these places, especially on this check situation.

The Secretary of the Treasury: On the theory you have advanced, of accessibility and time, do you incline to the view that it would be better to have twelve rather than eight of these banks?

Mr. Cannon: No, I think you could probably get along with eight. I should rather have eight than twelve, to start with, at least.

The Secretary of the Treasury: You think it would be better to keep the number down below the maximum.

Mr. Cannon: Yes, sir, and then you have something to work up to later on if you find it necessary.

The Secretary of the Treasury: Is that on the theory that only National banks would come in under the system, and therefore the available capital for the banks would be insufficient to create more than eight strong banks, or is it upon some theory that whether the State banks come in or not, you ought only to have eight.

Mr. Cannon: I think a large number of state banks and

trust companies will come in, too.

The Secretary of the Treasury: If you had a very large accession of membership of state banks and trust companies, so there was a very much larger available capital than the National banks alone could provide, is it your idea that under those circumstances it would be better to have more than eight banks.

Mr. Cannon: No, I would still keep it down to eight. Get your capital large at the start, so you can be able to serve the whole country from these institutions. I would keep it large so as to give each section of the country an institution which can take care of their wants. I think if you have eight you have a leeway, and if you want to increase as the time goes on, you can do so.

The Secretary of the Treasury: Mr. Flannagan, have you any suggestions to lay before the committee?

STATEMENT OF MR. WILLIAM W. FLANNAGAN.

The Secretary of the Treasury: Will you kindly give your full name and state your banking experience.

Mr. Flannagan: At present I am not connected actively with any bank or banking institution. I was formerly the

cashier of a bank in Virginia, and later on the President of a bank in New York City.

The Secretary of the Treasury: A National bank, was it not?

Mr. Flannagan: Of a National bank in New York City and a National bank in Virginia, too.

The Secretary of the Treasury: I believe you testified before the committees of the House and Senate in reference to this banking bill.

Mr. Flannagan: I did.

The Secretary of the Treasury: And you have also written on this subject. Have you given any thought to the division of the country into districts, as required by the Federal Reserve Act, not less than eight nor more than twelve?

Mr. Flannagan: Only in a general way, and I cannot say that I have given the subject any study at all. I did not anticipate being called here this morning, and did not know that I would be until probably 15 minutes ago. But on that subject, my thought is that the difficulty presented to the committee is the preponderance of capital in the eastern part of the country, and especially in New York City. From a question which you asked this morning, in

which you said that if you put New York and Boston together you practically gave about \$40,000,000 of the whole capital of the country to this district, it seems to me if you would consider the question whether it is not desirable not to establish any one bank in New York City, but divide New York City, and establish one bank in Boston and one in Philadelphia, dividing New York City along Broad Street, for instance, running down Cedar to William and up Pearl, and then up Broadway, so that you can preserve the average of the banks, without concentrating all in one. My idea is that the law contemplates preserving the independence of the several reserve districts, and that for that reason several reserve banks were named. And I can see that the difficulty is in preserving that independence and at the same time not giving New York the preponderance.

I would be very glad to consider the question later and submit a paper on the subject, if you desire me to do so.

The Secretary of the Treasury: Yes, we will be very glad to have them. If you divide New York, as you suggest-- New York City between Boston and Philadelphia---

Mr. Flannagan: Yes.

The Secretary of the Treasury: Would you not do very great violence to the course of ordinary exchanges and transactions here in this great financial center?

Mr. Flannagan: I would establish -- in view of the fact of the branch, I would establish at Boston and New York and a branch at Philadelphia and New York, have two branches, so that it is only divided with a view of dividing the capital of the banks and let those branches deal with it.

The Secretary of the Treasury: Do you think that ought to be the determining factor?

Mr. Flannagan: The capital?

The Secretary of the Treasury: Yes, the division of that capital?

Mr. Flannagan: No; I think in view of the fact that the Federal Reserve Bank are not limited in the amount of circulation that they can issue, except by the commercial paper that is offered to them, and the gold reserve, that

it is immaterial as to the amount of capital, largely that. I do not agree with what one witness said here this morning, that a bank with a very small capital would necessarily have inferior credit to one with a larger capital, for the reason that you consider that the Government is a guarantor on all of the notes and that they are unlimited in the amount they can issue, except by the commercial demand.

The Secretary of the Treasury: And the gold to be kept back of it?

Mr. Flannagan: Yes.

The Secretary of the Treasury: well, we will be glad to have you submit any views you care to offer on those points, if you will be good enough to do that.

Colonel Brown, would you like to give us the benefit of your views on this question?

Mr. Brown: I would like to, yes, sir.

STATEMENT OF FRANKLIN Q. BROWN.

The Secretary of the Treasury: Colonel, will you kindly give a little outline of your business and banking experience for the sake of the record.

Mr. Brown: I have been connected with railroads for most of my business life and banking institutions largely in the South. As Vice President of the Plant System of railways embracing about 20 different lines, and president of the Plant Investment Company of Connecticut, subsequently.

The Secretary of the Treasury: That is now a part of the Coast Line?

Mr. Brown: Now a part of the Atlantic Coast Line. I have been a director in several New York trust companies and a director in the Columbian-Knickerbocker Company at present, on its executive committee and also related to a good many banking institutions. Is that sufficient? I am now the senior member of the firm of Redmond & Company, bankers.

The Secretary of the Treasury: Now, Colonel, you have heard the problem we are wrestling with here, the establishment of these Reserve banks and the division of the country in not more than 12 nor less than eight districts. We shall be very glad to have your views as to what will be the most desirable division of the country into districts, particularly with respect to the East,

and more particularly with respect to the contiguous territory to be served by a Federal Reserve Bank, if one should be established in the City of New York.

Mr. Brown: I want to preface my remarks, Mr. Secretary, by saying that I have read this bill with a great deal of care and time, and trying to adjust myself to the conditions imposed by the bill, and I start off with the premise that New York City, of course, is the natural and logical place for a Federal Reserve Bank. I take it that this bill has been passed, as it states, in the interest of commercial development, and such being the case, New York City in my judgment is going ahead to develop as it has in the past, commercially. Therefore, I feel it very important that New York City should be recognized, based as Mr. Wiggin very properly says, although he did not mention New York specifically, on the fact that it is a reserve center now, and also based upon the bank clearances, and that I think is an important factor in determining these subjects. Now, in relation to the territory to be served by New York, I should, as Mr. Vamphill said, and in fact I would have said if it he had not -- I believe in having a part of it the

western part of Connecticut, New Jersey, Pennsylvania east of ~~it~~ - I will take Altoona as Mr. Cannon stated in that, and I think that is a good territory for a Federal Reserve Bank for this district.

The Secretary of the Treasury: Have you considered that, Colonel, with specific reference to the additional banks that must be established throughout the country?

Mr. Brown: I have, sir. I have looked it over rather carefully. You ask me to specify the whole territory as applied to a specific city which I might mention. Perhaps I would not be prepared to go into that to-day, but I am prepared to mention several cities, which, in my judgment would be entitled to the Reserve Bank under this law, as I interpret it. Would you like to have me give those?

The Secretary of the Treasury: Yes, certainly.

Mr. Brown: I would think Boston, as embracing the New England territory, and so forth. I would think Washington was a logical place, particularly in view of the fact that it is the headquarters of the Federal Reserve Board and must necessarily keep in touch with the whole system.

The Secretary of the Treasury: Well, what territory would you attach to Washington?

Mr. Brown: I would attach Maryland, Delaware as I look at it on the northern zone, and I would take in Virginia and West Virginia. I have not thought very much beyond that, Mr. Secretary, in that particular respect, because I had a thought that was leading me further South than that. I think that Atlanta, as I look at it, is the logical place for such an institution, particularly in view of the importance of the commercial development of the southeastern part of the United States, within the last eight or ten years.

The Secretary of Agriculture: What would you do with North Carolina in that case? You are familiar with that whole section?

Mr. Brown: I am quite familiar, yes, sir. I should think that North Carolina might very easily be attached to Washington, in view of the fact that the tendency of the flow is North.

The Secretary of the Treasury: I presume you realize Colonel, that with Missouri, West Virginia, Virginia and North Carolina as one district, and with Washington as the headquarters for the bank, you would get a very large capitalization?

Mr. Brown: I realize that. I did not want to be inter-

preted as being specific about that district, except in so far as it included Maryland and Delaware.

The Secretary of Agriculture: Atlanta and what?

Mr. Brown: New Orleans it seems to me is logical.

The Secretary of the Treasury: What other places?

Mr. Brown: Chicago. I do not want to get beyond eight, Mr. Secretary. Boston, New York, Washington, Atlanta, New Orleans, Chicago, San Francisco.

The Secretary of the Treasury: You have left out St. Louis?

Mr. Brown: Yes I am debating. If you limit me to eight, I am debating between St. Louis and Denver. If you have nine, I would put in St. Louis and Denver both.

The Secretary of the Treasury: We do not limit you to eight. You have a limit of twelve.

Mr. Brown: But I am in favor of the fewer rather than the larger number.

The Secretary of the Treasury: Suppose that Pennsylvania, and Maryland, and Baltimore, and Virginia and West Virginia became a district -- I am speaking, of course, tentatively myself -- where would you say that the headquarters of such a district as that should be?

Mr. Brown: Do you mean the entire state of Pennsylvania?

The Secretary of the Treasury: Oh, yes. Well, practically the whole of Pennsylvania.

Mr. Brown: Well, I would prefer not to have it that way from my point of view. I would rather see the eastern part of Pennsylvania embraced in the New York district on account of the rapid facilities of getting to and from New York and so forth. I think that can very properly be included in that zone.

The Secretary of the Treasury: Have you made any study of the banking capital in the different districts, and have you formed any definite conclusions as to the division of the country into districts, with reference to the banking capital that would be available at each district?

Mr. Brown: I have not got it with me.

The Secretary of the Treasury: Would you be good enough to submit that to the Committee, with your views about it?

Mr. Brown: I will, with pleasure.

The Secretary of Agriculture: You might want to make

alternative suggestions.

Mr. Brown: Yes.

The Secretary of the Treasury: Yes; submit them in the alternative, and also with respect to eight, nine, ten, eleven or twelve districts.

Mr. Brown: Yes, I am also a believer, you know, in the principle that you can serve some of these places by branches from the main Federal Reserve Bank institution. Therefore, I believe in keeping the number down, if possible.

The Secretary of Agriculture: Of course, there is going to be a good deal of insistence on the part of some?

Mr. Brown: I quite understand the feeling of local pride.

The Secretary of the Treasury: Thank you. Now, we will take an adjournment to two o'clock.

Whereupon, at 12:45 P.M., a recess was taken until 2 P.M.

AFTER RECESS.

STATEMENT OF H. PARKER WILLIS.

The Secretary of the Treasury: Mr. Willis, will you kindly state something of your experience with these financial and economic problems?

Mr. Willis: My name is Henry Parker Willis. I am an associate editor of the Journal of Commerce of this city. I was secretary to the International Monetary Commission in 1897 and 1898 and I have since then been a student of banking and currency questions and was associated with the House Committee, as expert, during the process of framing this bill.

The Secretary of Agriculture: You are living in this City now?

Mr. Willis: Yes. I now live in New York, and, as I said, I am associate editor of the Journal of Commerce.

The Secretary of the Treasury: You of course know the problem confronting this committee. The question now is the division of the country into not less than eight nor more than twelve reserve districts and the establish-

ment of a reserve bank in each one of those districts. We shall be very glad to have you tell us what you think about what would be an appropriate division of the country into districts, particularly that part of the country which comprises the northeastern section, and to proceed upon the assumption of the minimum number of districts, to begin with.

Mr. Willis: Is it your wish that I should speak of the division of the country as a whole, or merely of the size of the New York district?

The Secretary of the Treasury: We would like you to deal with the whole country, and with the New York district also. You may start with the New York district first.

Mr. Willis: Well, gentlemen of the committee, I have not prepared any formal statement on this subject, having received the notification to be present from the acting Chairman, Secretary Houston, only on last Saturday.

The general question of the number of banks to be established is one that has engaged the attention of the House Committee on Banking and Currency from the very beginning, and to which it devoted a great deal of investigation and comparative analysis. I think the feeling of

the Committee was that in establishing this system it was desirable to have as many reserve banks as the existing banking capital resources of the country would reasonably warrant, for establishing so many that ~~xxxx~~ any of them would be weak, or would have ordinarily to appeal to others, but establishing as many as the local conditions of the country would allow and yet have each institution as far as possible a self-supporting independent entity. Now, the first provision which was carried in the House Bill, as you know, was for not less than 12 of these banks. Before that time, the number had been 15, in early drafts of the Bill. That was cut to 12 after a general statistical comparison had been made for the purpose of districting the country, in a tentative sort of way, for it was felt that it was not desirable to fix a minimum number so large that it would be difficult in getting adequate capitalization, adequate banking resources, to many of the districts. At the same time, it was thought absolutely essential that ~~xxxx~~ there should be no attempt in the Bill to designate the places where Reserve Banks were to be located. In quite a number of the Bills that were presented in Congress, efforts were made to designate cities by name as

places for Reserve Banks. That idea was early rejected by the House Committee; but that did not mean that the subject had not been given very careful attention. Maps were drawn for the purpose of laying off the country, in a tentative way, into these districts, and for the purpose of ascertaining approximately about what areas should be grouped in each one of them. In drawing those maps it was found that very great difficulty was to be experienced, inasmuch as it was early recognized that the district could not or should not follow state lines. That is to say, that the attempt to include certain states as such within given districts would cause an immense amount of difficulty, and that inasmuch as the statistics in the Comptroller's reports and in every available data was almost uniformly given by states, it was not possible to divide up very clearly the several states into new groupings. The conclusion arrived at then was that after the Reserve Bank Organization Committee had begun its work, it would be necessary to make a very careful study of exchange relationships in order that it might be found where to draw the lines between the districts in such a way as the bill states it as observing the convenience and customary course

of business of the community and that that necessitated a rather extensive analysis of domestic exchange relationships on which, so far as we knew, there was no entirely sufficient data.

Now, the second point that was considered was that while there was this difficulty in laying off the districts it probably was not a very troublesome matter to indicate the places approximately where they should be -- where the banks should be located. So far as I know, there never was any statement, memorandum or ballot or anything of that kind with reference to the selection of given places, but in the conversations that were had on the subject, it was thought that the places to be selected would be somewhat as follows, giving them now in substantially the order or relative claim to the location of the banks: First, New York, Chicago and St. Louis, numbering those 1, 2 and 3, although it was felt, I think, that their claim to a Reserve Bank each was the same, in that they had become central reserve cities, and were unquestionably the points around which the existing banking mechanism had been developed. Then fourthly, San Francisco, which we were credibly informed had for some time past contemplated becoming a central reserve city, and which in the general nature of things was entitled to be regarded as a central banking and business point for the basing point of a western part of the country generally. Fifthly, probably New Orleans. Sixth,

Boston. Seventh, probably Cleveland, or possibly Cincinnati. Eighth, Washington or Baltimore. Ninth, probably Denver. Tenth, probably Atlanta, Eleventh, probably Seattle and twelfth, probably Philadelphia. Now, as I say those selections are merely the result of tentative comparisons of statistics and the relative drift of business, so far as that could be ascertained, and have no validity at all, other than they indicate about what was considered to be the probable distribution of these central banking points, with the labor of the organization committee relied upon for the subsequent drawing of the district lines around those. It was recognized that the district would probably be very irregular, necessarily so, as a result of business practice, and also that they would vary greatly in size. Now, so much --

The Secretary of the Treasury: You mean in area?

Mr. Willis: Yes, in area. It was also recognized, I may say, that there would necessarily be very considerable variations in the amount of banking capital in each of the districts. When the bill went to the Senate, the number was changed to not less than eight nor more than twelve. That of course would necessarily change the calculations somewhat, if any number less than twelve were

determined upon, and that course seemed to justify the wisdom of not having attempted to mention any places as the center of such reserve districts. Now, let me turn in the second place to a different phase of the subject. I think it was the feeling of those who prepared the bill, which ultimately became the Federal Reserve Act, that so far as possible each of these banks should be a strong, independent, self-supporting institution. The power was given to the Federal Reserve Board to authorize compulsory rediscounts between the banks and to permit such rediscounts upon application, but it was thought that would be done only in times of emergency, and that under ordinary or normal circumstances the banks in the several districts would be able to take care of themselves, and that their relations with other banks, that is other Reserve Banks, would be merely those of exchange and ordinary routine relationships, but not those that would imply the keeping of large sums on deposit between the banks, or the carrying on of any extensive and considerable business relationships between them. Very early in the discussion, there arose, as you know a strong effort to substitute a single central bank

for the regional bank plan. Then, when that turned out to be impossible, the effort was made to substitute three or not to exceed four of the regional banks for the eight or twelve, as the case might be, that appeared in the original draft of the bill and in the Senate draft. Then, when that turned out to be impossible, there was a good deal of discussion, I think, based upon the idea that in the final districting it would be necessary to have one of the districts greatly overtop the others in importance and excel them, not only in banking capital but also in the general scope and power of the institution. The Reserve Bank, or any Reserve Bank under this plan, is vested with the function, subject to the Federal Reserve Board, of acting as a clearing house and then a provision in the bill indicates that the Federal Reserve Board shall arrange for national clearings, possibly designating some one of the Federal Reserve Banks to act as a clearing house for all the others. Now, of course, if some one district were to be made so large and to include so much banking capital as to overtop all of the others, and if it then were to be given the function of acting as a clearing house for the

others, that banking district with its Federal Reserve bank would practically be a central bank, and the other banking institutions might become simply branches, perhaps rather less closely connected with it than the ordinary branch bank, but in a good many senses, simply branches of those large institutions located in the district referred to. I think that has been the idea of many of those who have advocated a very large district, with headquarters in New York; and expressing my own ideas, merely on the subject, it seems to me that that is out of harmony with the ^{of the} proposed bill and that it is a proposal which is directly at variance with the theory upon which the measure is framed. That would not be, of course, a good reason for preventing the organization of one such very large bank or large district, if there were some sound and unmistakeable considerations dictating such a course; and the real question then simmers down to this: Are there any such unmistakeable and clear cut considerations which dictate that one of these districts should be vastly superior in power to all of the others? I think not. A misconception about this whole matter seems to me to be this: That the banks in question are banks. True, the Act calls them banks, but in fact

they are not that in the ordinary sense of the word,
but they are organizations of reserve holding institutions.

Their function is to hold the ultimate reserve funds of the country, to control those, to issue currency and grant rediscounts with those as reserveresources.

Now under those conditions, it seems to me, that the capitalization of the several banks, of which a good deal has been said, is a relatively minor matter. Theoretically one can conceive of these banks having been organized with no capital at all, or with merely an initiation fee paid in to cover organization expenses, by the several institutions participating in them. Capital is a good thing, because it acts as a buffer to guard against possible loss, and aids the institution in getting started on a satisfactory basis. But this, I think, is unmistakable, that if the amount of reserve that is paid in to the banks in each district is sufficient to start them off with an adequate banking power, that the amount of the capitalization is a relatively unimportant thing; and that one might let the capitalization go, so to speak, that is to say, let it run down very close to the specified minimum mentioned in the bill without feeling that in so doing one was creating a number of weak institutions that would be unable to take care of themselves. If the institutions are weak, then that simply means that the amount

of reserve which the bill has directed the banks to transfer to them is not sufficient; that is, it means that the way of dealing with the reserve question in the law is not sufficiently strong and should be strengthened. Personally, although it seems to me that the reserve requirement has been let down very low, and although I could wish that the amount required to be transferred to the Federal Reserve Banks was considerably larger, it seems to me that the amount which still remains in the Bill as compulsorily transferred to the Federal Reserve Banks will be sufficient; and that even if the maximum number of banks should be organized, twelve in all, they would be well able to do for their member banks what the Bill contemplates that they should do.

It is hardly, then, to be conceded that the capitalization of these banks, and the fact that in some districts, if you had the full number, 12 or even 10, the capital would be low, it is hardly a fact to be conceded that that is a good argument to be urged against this larger number of districts. But it is, as I have stated, only an incidental consideration.

Secondly, the argument has been put forward, I think

from a good many sources, that it was necessary to have some one bank that was prominently highly capitalized and strong, in order that our relations with European countries might be on a better basis, and in order that this large, strong bank might do whatever was necessary in controlling international exchanges, regulating the rate of discount and so on. Of course that ignores the fact that the Federal Reserve Board has been given just those powers, and that if it be assumed that one very large bank, either here in New York or in Chicago, as some have suggested, be allowed to do all of that, with a minimum of supervision, that then you are atrophying the Federal Reserve Board, it is not exercising the powers that this Bill contemplates it should exercise. Mention has been specifically made of the note question, and it has been stated that European Institutions, for example, will not look with favor upon notes which have been issued by a bank with only a moderate capital, say 10 or 20 million dollars, or something of that kind. Now it seems to me that the Bill is specific on that point, inasmuch as it makes these notes redeemable at any Federal Reserve Bank and ultimately makes them obligations of the United States, so that they cannot in any way be dependent upon the capital or

resources of any one of these reserve banks. That is a matter that is comparatively, I should suppose, indifferent to the holders of these notes or to those who are inquiring in their own minds whether the banks that issue them will be able to redeem them. In other words, they are as strong notes, as carefully protected notes as you could get, whether issued by a single bank, or directly by the Government or in any other way.

Thirdly, the same argument has been put forth with reference to the question of foreign exchange, it being asserted quite positively that unless you had either a very small number of these reserve banks, say three, preferably one central bank, that there would be great difficulty in controlling the currents of foreign exchange, and in directing the flow of gold back and forth between this country and others, that being undoubtedly one of the functions to be performed by the new system. Now a reading of the bill shows that it contemplates the performance of that function by these banks acting jointly under the supervision of the Federal Reserve Board. Power is vested in the Federal Reserve Board to regulate rates of rediscount at banks, to equalize their reserve in

various ways which I do not need to go into, and otherwise to compel them to act as a unit, whenever such action is necessary for the general protection of the interests of the country as against other countries.

Fourthly, it has been stated that unless you had some such very large bank as that here in New York City, it would be impossible for such a bank to hold its own against the very large banks and trust companies of which this city is the seat. The same thing has been said by those who have desired to see Chicago practically the leading bank of the system. Now to that one must make exactly the same reply, but with this variation, that these reserve banks, and of course the one here in New York, are not intended to compete with their member banks in any ordinary sense, ^{they are} but ~~their~~ organizations of reserve holders, and their stockholders are the member banks. The reserve bank, then, of this district, is intended in no sense to be a competitor of its member banks or to contest with them for business or to oppose their policies, whatever they may be; but, on the contrary, is intended to be a connecting link between its member banks, acting in their interest, and more than that, is intended to act in the

interest of the whole local banking community, whether one refers solely to the stockholding or member banks, or to other banks which are not members. It is intended to represent the fundamental reserve power of the community.

In that view of the case it is difficult to see why the fact that such a bank had a relatively small capital -- the fact that it had, let us say, not more than \$20,000,000 in this city -- should prevent it from fulfilling its functions. As a matter of fact if it had a capital of \$20,000,000 and the reserves which the law provides for transferring to it, it would be an amply strong institution. The fact that its capital was smaller than that of, let us say, the National City Bank or some one or two others that might be mentioned, would not be of any particular significance.

While the law provides for open market transactions, and while those transactions are considered by some to be of a nature that will necessarily compete with the operations of the member banks, or of banks in general, it by no means follows that such would be the case. Indeed, as has often been pointed out, it is hard to see how a Reserve Bank controlled by stockholding banks would ever be authorized to engage in open market transactions that were directly in defiance of or severely competitive with the similar operations and transactions of its member banks.

The open market provision of the bill then simply

furnishes an outlet for such spare funds of the Reserve Bank as may not be in use at the time, for the purpose of affording necessary re-discounts to the member banks which apply for them; and it also enables the reserve bank, acting upon the instance of its Board of Directors, and in the interest of its stockholders, and of the banking community generally, to make effective its policies whatever they may be for the general safeguarding of the resources of the banking community.

Now it seems to me that those are the principal points that have been put forward in favor of such a very large single bank, overtopping all of the others, and leaving them relatively limited in the amount of their resources and capital, and perhaps also with a relatively small area.

It does not seem to me therefore that such a policy as that would be either carrying out the theory upon which this bill was framed, or that it would be at all necessary or desirable. It certainly would not give effect to the regional reserve idea, and in my opinion it would produce a condition that would be decidedly less satisfactory from the standpoint of banking technique than that which would

be created by a more equal division of the banking capital between the several districts.

Coming down to the question of the size of the New York district as such, it has been suggested by a good many people of late, I believe, that there should be one bank for the whole of the eastern states, or for the whole territory east of the Alleghanies. That is the general idea, or one phase of it, that I have just been discussing.

As against that it has been suggested that New England be made a separate district, and that there be a southern district, possibly with headquarters at Atlanta, leaving New York as a very large district intervening between those.

It seems to me there is pretty general agreement upon the idea that the New England district is separately constituted, and that it should include the so-called New England states and the northern part of Connecticut, and that the lower part of Connecticut nearest to New York should go to the New York district.

There seems to be pretty general agreement, I think, that the southeastern district should include all of the states technically known as southeastern, and should come

as far north as North Carolina.

The Secretary of Agriculture: Including?

Mr. Willis: Including Alabama, Georgia, South Carolina, Tennessee and possibly Mississippi, although I think that would naturally be left in the district with New Orleans.

The Secretary of Agriculture: Including North Carolina?

The Secretary of the Treasury: Including North Carolina or excluding it.

Mr. Willis: Including North Carolina. It does not seem to me that that would be a desirable plan, but it seems to me that there should intervene there still another district including possibly the states of West Virginia, Virginia, Pennsylvania, Maryland and Delaware, and possibly a part of New York State.

In that event the New York district would consist simply of the City of New York, of that portion of Connecticut nearest to it, and of a portion of New Jersey, including all that district north of Camden. It might be that the New York district would be extended slightly into the borders of Pennsylvania. That is a matter on which I am not able to speak without more detailed knowledge of the exchanges, but I think not.

In that case you would have practically the New York district limited to the City of New York and to its adjacent country.

The Secretary of the Treasury: How much of the State of New York would you take in?

Mr. Willis: Very little indeed; only the lower corner. It might include -- though I should hardly think it ought to include -- Albany, but it might include Albany and the country dependent upon Albany.

That would then throw western New York into a middle western district, including probably Michigan, Ohio, one part of Pennsylvania, and as I say, western New York. Just how to adjust the lines between that district and the other one of which I have spoken, including Maryland, Delaware, West Virginia, Virginia and North Carolina, I am not able to say without a good deal more investigation. You would then have the problem of the Chicago district west of that, and then after that, of course, the problem of the division of the whole country west of the Mississippi River, which would have to be done upon rather different principles, and would present quite a different type of problem.

Now it may be claimed -- in fact it is claimed by a good many persons -- that it is unwise to shut up the New York banks to their own city practically, and to a little stretch of country adjacent to it, in any such way. It does not seem to me that this would inflict the slightest hardship upon the New York banks as such.

Under this law the reserve money which is to be transferred out of the vaults of existing banks, is transferred to Federal Reserve Banks in any event. It would be so transferred in New York no matter what the size of the New York district, so that even if the New York district included the whole of the eastern states, the reserve money transferred to the Federal Reserve Bank of that district would be out of the hands of the existing banks. It would be shifted from them. Now whether that be done in the City of New York alone, the shift being made to a Federal Reserve Bank located there, or whether that shift be carried out in two or three or more other districts, I do not think is an important question. The important action was taken when provision was made for making the shift from the vaults of the banks to those of the Federal Reserve Bank wherever located.

With reference to the status of New York, its present connections extend all over the country. That is, the New York banks have correspondents in every state of the Union. Even if you made the New York district include all of the eastern states, you would still be cutting off many banks which now have correspondents in this city, just how many of those no one could say probably with the data at present available. The same thing would be true in different degrees, according as you made the size of the New York district larger or smaller, but the effect would be just the same in either case.

Now with reference to the question of exchange let us see how that is influenced. Under this bill there is nothing whatever to prevent existing banks from going on keeping their funds with correspondent banks in New York just as they have done heretofore. The bill distinctly authorizes them to keep such funds with New York banks for a period of three years and to go on, counting them as reserves, after that period. Moreover, the bill further so reduces the amount of reserve which is required of such banks that they can continue to keep balances with the New York correspondent banks if they so desire after the end of the three year period. In other words, under this bill with the greatly lessened required reserve that it presents, there is absolutely no reason why existing relationships between New York banks and banks all over the country should not continue exactly as they do at the present time, should it prove that the Federal Reserve System does not take the place or perform the functions now performed by the correspondent banks in New York. That, to my mind, is the important thing. In other words, entirely independent of the size of the New York district, it can obtain and will continue

to obtain, undoubtedly, very large deposits from other parts of the country, from many parts of the country, outside of the district to which it belongs. The effect of the bill will be just the same in that regard, whether the size of the New York district is greatly limited or not, namely, in disassociating the investment and speculative operations and the use of capital for those, from the distinctly commercial operations, and when that has been done, the influence on the banks of the system of the City beyond the mere difficulty or inconvenience of the change of direction of business and general rearrangement of relationships that will occur under this bill and will occur no matter what the size of the district, is a relatively minor matter.

In general, then, gentlemen, that covers about the ground that I have been thinking of in this connection.

The Secretary of the Treasury: What would be the capital and the deposits of the bank in New York, for instance, Doctor Willis, with the district limited as you have suggested it?

Mr. Willis: If the six per cent were decided upon?

The Secretary of the Treasury: Yes.

Mr. Willis: I have not figured that out on a six per

cent basis. I could not answer that offhand.

The Secretary of the Treasury: Will you submit to the Committee, at some time at your convenience, a map with the division of the country into districts, as you have them in your mind, and a statement of the capital to be available for each one of the banks under the bill and the reserve it would carry?

Mr. Willis: Yes, with pleasure.

The secretary of the Treasury: We would like to have that. Do you think of anything, Secretary Houston?

The Secretary of Agriculture: No. He has answered all the questions I had to ask.

The Secretary of the Treasury: Very well. Doctor Willis, we are much obliged to you.

STATEMENT OF FRANK A. VANDERLIP.

The Secretary of the Treasury: Mr. Vanderlip, will you be good enough to state for the record, what your present position is and something of your banking experience?

Mr. Vanderlip: I am president of the National City Bank. I have been engaged in banking since 1901.

The Secretary of the Treasury: Had you had previous

experience in the banking business?

Mr. Vanderlip: No, sir.

The Secretary of the Treasury: Mr. Vanderlip, you are familiar with the Federal Reserve Act, I presume?

Mr. Vanderlip: I am.

The Secretary of the Treasury: And you know the duty devolving upon this committee, to divide the country into not less than eight nor more than twelve districts?

Mr. Vanderlip: Yes.

The secretary of the Treasury: And the location of a Federal reserve Bank in each one of them at some convenient point?

Mr. Vanderlip: Yes.

The Secretary of the Treasury: The Committee would be very glad to have your views as to what, for instance, the district surrounding the City of New York should be, the contiguous territory that should be served by a Reserve Bank, should one be located in the City of New York.

Mr. Vanderlip: I do not think that it is a matter of great importance how large the district is about New York. The predominance of New York City itself in the

size of its banking is such that the district will be a large one in any event, and so large that, in any event, I would presume that it would not take in a great territory in addition to New York. I do not feel that it is a matter of fundamental importance, a matter of principle whether the district here in New York is a large one or small one.

The Secretary of the Treasury: Have you any definite views as to what ought to be embraced in that district?

Mr. Vanderlip: I have no definite views as to the geography of these districts at all. I have very definite views of the desirability of having districts with a variety of conditions and demands. That would lead me, if I were to set out to try to make up a suggestion of districts, to a method perhaps of almost shoe-string districts, districts that would cover a wide variety of agricultural and other conditions rather than to make them compact. I have several times used the illustration that if you make a Federal Reserve Bank with New Orleans as a headquarters to accommodate the territory naturally contiguous, you will have a reserve district with demands of a similar character coming at the same time from every-

where in that district. That to my mind is the principle which led me to hope that there would be fewer districts, and which would lead me, now that there must be this many, to attempt still to recognize it in making these districts long districts that would take in a variety of conditions. Otherwise, with such a district as suggested in New Orleans, the thing is perfectly inevitable that that bank will have to call for help. It must be so. It cannot be otherwise. And it will be so, in any case, where the conditions are the same throughout the district where you must meet a demand that is of the same character and comes at the same time from practically all the banks in that district.

The Secretary of the Treasury: How much importance do you attach to the accessibility of the headquarters bank to all parts of the district?

Mr. Vanderlip: That would depend altogether on how you developed the branch system.

The Secretary of the Treasury: Assuming that branches are established as the bill provides.

Mr. Vanderlip: Then I would attach to it very little importance. In that event I would presume that the actual bank in the City where the headquarters were would

be treated as a branch also. I presume that. I do not know whether that is in the minds of the committee or not.

The Secretary of the Treasury: Don't you think that it is important that the headquarters bank should have a pretty careful oversight and control and direction of the branch banks as to policy and discounts?

Mr. Vanderlip: Oversight and control spells the whole story with this law, Mr. Secretary. If we get the proper oversight and control it will work, although it is a defective law. If we do not, it is full of the gravest dangers.

The Secretary of the Treasury: Of course it would be manifestly impossible to organize a district of the kind you describe in New York here. You do not regard the question of versatility of the territory contiguous to the city of New York of so much importance as related to the bank in this City?

Mr. Vanderlip: Of just as much importance, and, as a matter of fact, New York is the United States more or less. It fills the demands of a variety of conditions of the whole country more than any other single point, and I do not think it is necessary to have large geo-

limits
graphical or to have extremely large deposits in them
when you get that.

The Secretary of the Treasury: How do you feel about
the New England situation; do you feel a reserve bank
should be established at Boston?

Mr. Vanderlip: As there must be eight banks, I sup-
pose I do, although I believe, as a matter of fact,
New England could be perfectly well served through
branch banks from New York as a headquarters. There
would undoubtedly be some local pride which does not
have its basis, I believe, in a true understanding of
the advantage of the head bank over a branch bank; but
I suppose you would almost have to select Boston as a
headquarters.

The Secretary of the Treasury: I infer, Mr. Vender-
lip, from your remarks, that you think it would be better
to establish the minimum number of banks under this
bill than the maximum?

Mr. Vanderlip: That is a correct inference.

The Secretary of the Treasury: Assuming that eight
were to be established, what are your ideas about the
eight cities that should be made headquarters, or do you

care to express an opinion on that?

Mr. Vanderlip: No. I haven't given it sufficient consideration. If I were to do that, I think I would start at the other end of the country, and would group the Pacific Coast about San Francisco and let that reach quite a ways East, and probably then at Omaha or Minneapolis --

The Secretary of the Treasury: How about Denver?

Mr. Vanderlip: Well, Denver, I should think, would rather be on the edge of the next district. I should think the Pacific Coast district might come East so as to at least include Utah, although that would depend altogether, of course, upon the conditions. Denver would be well located if the Pacific Coast District took in only Arizona and Nevada besides the Pacific Coast States.

The Secretary of the Treasury: Do you or not think it of great importance, to preserve, so far as possible, in the organization of these banks, the normal course of commercial transactions and banking exchanges?

Mr. Vanderlip: Yes, I do; and for that reason, for instance, I believe New Orleans would be better served with a bank at St. Louis than with a bank at New Orleans.

The Secretary of the Treasury: The exchanges of New Orleans and St. Louis are very large anyway, aren't they?

Mr. Vanderlip: Very large.

The Secretary of the Treasury: In the ordinary course of business?

Mr. Vanderlip: Yes.

The Secretary of the Treasury: Now, as to the southeastern section of the country, what is your view about that, as to what would be the best arrangement there, judging from the normal course of exchanges?

Mr. Vanderlip: Without having given thought to it, to the extent of figuring what the size of certain groups would be, and so on, it has seemed to me that Atlanta was a natural and proper place.

The secretary of the Treasury: What do you think about Pennsylvania here, Mr. Vanderlip and New Jersey -- southern New Jersey, Maryland, Delaware and the District of Columbia and possibly West Virginia and Virginia?

Mr. Vanderlip: It seems to me that the difficulty that you are inevitably facing is that you must either have a number of regional banks here, geographically

close together, or else you will have one or two banks altogether too large in size. Now, this district could be perfectly served with one or two banks; but those banks would then be so large, that the other banks would suffer in comparison, and it would seem to me desirable, if you can, to make each district substantially the same size. I don't believe that is possible.

The Secretary of the Treasury: You mean in the matter of bank capital?

Mr. Vanderlip: Yes.

The Secretary of the Treasury: And reserve?

Mr. Vanderlip: Yes.

The Secretary of the Treasury: Of course that is not possible in view of the leanness of some of the territory?

Mr. Vanderlip: No, it is not.

The Secretary of Agriculture: To carry out your suggestion and have a diversity of interests in this section you would probably have to have your lines run East and West -- this middle west section?

Mr. Vanderlip: You would get adversity in season if you came North and South.

The Secretary of the Treasury: And you do not get it East and West?

Mr. Vanderlip: You do not get it East and West.

The Secretary of Agriculture: But you get a variety of industrial and agricultural conditions?

Mr. Vanderlip: If you can stretch over industrial and agricultural conditions, and include both in your district, then you have accomplished a desirable thing; but it is certainly of great importance to get your districts so cut that they will have this variety.

The Secretary of Agriculture: Seasonal as well as industrial?

Mr. Vanderlip: Yes, sir.

The Secretary of the Treasury: That presents an almost unsolvable problem.

Mr. Vanderlip: I think that is what you are facing.

The Secretary of the Treasury: Because it is not possible to adjust some of these districts or erect them in such a way that you would get a diversification of industry and agriculture?

Mr. Vanderlip: No, it is not.

The Secretary of the Treasury: Particularly with re-

spect to the territory west of the Mississippi River; and with the territory east of it you have got a predominance of industry and other forms of activity than agriculture.

Mr. Vanderlip: Yes. It is one of the most difficult problems that a mind ever engaged in, I think.

The Secretary of the Treasury: The powers of the Federal Reserve Board under this bill will result in a very thorough oversight and control of these units, however; and it is very likely, if that is well handled, as you suggest, the difficulties you apprehend will be overcome.

Mr. Vanderlip: I believe almost anything good is possible in the hands of men of experience and courage who will give the proper administration to the thing.

The Secretary of the Treasury: That is true of every line of business, that we must have good management?

Mr. Vanderlip: Yes.

The Secretary of the Treasury: Honest management and intelligent direction. Do you think of anything more, Mr. Secretary Houston?

The Secretary of Agriculture: No, I think not.

Mr. Vanderlip: If you want any technical information

about the flow of checks, collections and things of that kind, I have brought a few men with me who are familiar with that.

The secretary of the Treasury: We would be very glad, Mr. vanderlip, if you would submit to the Committee some information on that subject as the result of your experience, if those gentlemen would prepare something in the form of a brief and file it with us, we would be very glad to have it.

Mr. vanderlip: Yes. I will do so.

The Secretary of the Treasury: Thank you, Mr. Vanderlip.

STATEMENT OF WALTER E. FREW.

The secretary of the Treasury: Mr. Frew, you are the president of the Corn Exchange Bank?

Mr. Frew: Yes.

The secretary of the Treasury: Will you kindly give the Committee, for the sake of the record, a brief outline of your banking experience?

Mr. Frew: I have been an officer of the bank ever since -- do you mean my whole career?

The Secretary of the Treasury: No, just

Mr. Frew: I was elected president of the Corn Exchange

Bank five years ago. I have been an executive officer of the bank since I was 24 years old; about 25 years.

The secretary of the Treasury: As you are young yet, that does not give us any line on the length of your experience.

Mr. Frew: I say about 25 years.

The Secretary of the Treasury: I beg your pardon. I didn't understand you. Mr. Frew, what is the capital of the Corn Exchange Bank?

Mr. Frew: Three million dollars.

The secretary of the Treasury: How many branches have you?

Mr. Frew: 32.

The Secretary of the Treasury: What are your combined deposits now?

Mr. Frew: Net about \$64,000,000.

The Secretary of the Treasury: And gross?

Mr. Frew: Gross, about \$73,000,000.

The secretary of the Treasury: The Corn Exchange Bank of course is a State bank?

Mr. Frew: Yes.

The Secretary of the Treasury: Mr. Frew, I will ask you if you are familiar with the problem confronting the Committee, first, that we shall divide the country

into not less than eight, nor more than 12 districts?

Mr. Drew: Yes.

The Secretary of the Treasury: And to establish or organize a reserve bank in each one of those districts, and the selection of headquarters of such banks? Of course the banks may have branches; but we are concerned at the moment with the selection of headquarters as well as the division of the country into districts.

Mr. Drew: Yes, sir.

The Secretary of the Treasury: Have you any well-defined ideas about what the New York district should consist of, provided a reserve bank should be located in the City of New York?

Mr. Drew: I have not given very much thought to it except in a general way, but based on your eight regional banks and considering that there would be one central bank at Washington, which, if the Government is going to be the depository, it is very important to have, the bank in this section should be located in New York with a branch at Boston and a branch at Philadelphia, to serve all of New England and all of New York, New Jersey, Pennsylvania and Delaware.

The Secretary of the Treasury: And New Jersey?

Mr. Frew: And New Jersey, yes, sir.

The Secretary of Agriculture: What did you include in the Washington District?

Mr. Frew: Washington, Maryland and West Virginia, Virginia, North Carolina, South Carolina, Georgia and Florida.

The Secretary of the Treasury: Have you figured the amount of banking capital that the Reserve Bank of New York would have in the district as outlined by you?

Mr. Frew: I have not, no, sir .

The Secretary of the Treasury: Do you realize that that would result in giving to the bank in New York, practically half of the available working capital for the reserve banks in the country?

Mr. Frew: I suppose that is so.

The Secretary of the Treasury: What would you give the remaining seven banks? There would be very little capital remaining for the seven.

Mr. Frew: I suppose that was taken into consideration when the eight was decided on; that the eight was located

in various parts of the country, that would be accessible for the various sections where they served.

The Secretary of the Treasury: Now, if you cut out Boston and Baltimore as possibilities, and have one in Washington and one in New York, you would have to locate six in the rest of the country. Where would you put those?

Mr. Frew: My idea was based on the three central reserve cities, each having one, which would be St. Louis, Chicago and New York.

The Secretary of the Treasury: And Washington would be four.

Mr. Frew: And Washington would be four, and one in San Francisco and branches in Portland and Los Angeles to serve the southern section, and one at Denver and one at New Orleans to serve that section, or some other city to serve that section of the country. Of course, this was all done in a general way, without any consideration of what the banking capital would work out.

The Secretary of the Treasury: That would be seven?

Mr. Frew: One I had in mind would be Cincinnati or Cleveland, to serve that section of the country, Ohio and Kentucky.

The Secretary of the Treasury: You have not prepared any statistics, showing the capitalization and the resources that the banks under that arrangement would have, have you?

Mr. Frew: No, I have not.

The Secretary of the Treasury: Would you be good enough to prepare such a statement for the Committee, and accompany it with a map, giving an outline of these suggestions, so we could have it in concrete form.

Mr. Frew: I would be very glad to.

The Secretary of the Treasury: Do you or not think it would be wise to have a reserve bank at Boston for the New England district?

Mr. Frew: I hardly think it is necessary, if you have a branch with proper powers. It seems to me the logical place for the main bank would be at New York, and a branch at Boston would serve just as well.

The Secretary of the Treasury: I think that covers the ground. Much obliged.

STATEMENT OF J. H. TREGO.

The Secretary of the Treasury: Will you state your occupation, Mr. Trego.

Mr. Trego: Secretary and Treasurer National Association of

Credit Men.

The Secretary of the Treasury: Are you engaged in business outside of that work, Mr. Trego?

Mr. Trego: Secretary -- no, that takes up my entire time.

The Secretary of the Treasury: Mr. Trego, are you familiar with the Federal Reserve Act?

Mr. Trego: Very familiar with it, because our Association took quite a definite interest in its passage.

The Secretary of the Treasury: You know the problem the Committee is attempting to deal with, the division of the country into not less than 12-- I mean not less than eight, nor more than 12 regional reserve banks, with the establishment of a headquarters for those banks in each one of the districts, when they are defined. Have you any definite ideas about the division of the country into such districts, particularly the eastern part of the country.

Mr. Trego: Only to give you the benefit of our thought as resulting from our associational work. As to the trade divisions of the country, that is by trade divisions, an identification of mercantile interests. Now, let me premise that by stating our association is firm in its conviction that there should not be more than eight Federal Reserve Banks at the inception of the new system. Now,

there are about eight grand divisions in the country as related to trade interests, and our study came from the fact that we are the largest commercial organization in the nation, and our membership extends from the Atlantic to the Pacific, and from the Gulf to the Dominion, and we have clustered together the different trade interests. Now, the eight, as I would enumerate them, whilst the real geographical boundaries could not be definitely or arbitrarily stated without a thorough study, which I have not had the time to give to it, but about as follows:

We would designate the North Atlantic, which could run from either the Chesapeake or the North Carolina boundary, and the South Atlantic, running from that border to the Gulf. Then, we have the central, which is west of a line that would fall between Rochester and Buffalo in New York State and would extend to about Indiana and Michigan. Then, the Gulf.

The Secretary of the Treasury: How far would that extend southwardly?

Mr. Trego: That would extend to about Kentucky. The Gulf would extend north as far as St. Louis; as far west as several hundred miles from the Gulf Coast in Texas,

and east to a line about midway in Alabama. Then we have the Middle West, which runs from the Western boundary of the Central to about Iowa and Nebraska. Then we have the farther west, Iowa, Nebraska, Colorado and perhaps a state or two south of Colorado. Then the North Pacific, north of San Francisco and west of the farther west boundary, and the South Pacific, extending from that divisional line in Texas to the Pacific. Now, those are the general lines as we have located them for the grand divisions of the identity of trade interests in the country.

The Secretary of the Treasury: Well, is that suggestion of yours based upon the knowledge of your organization as to the general course of trade and commerce in these different districts?

Mr. Trego: It is based in this way, Secretary. We have aimed in our associational work to bring about clearances of ledger experience, in order to protect the credits and we have found that the business interests in these divisions are identified with one another. There is an identity of interest, so far as their commercial relations or their shipments are concerned. Now, let me say that it is very difficult on the Atlantic to make those

two divisions, because there is the New England, the far North and also that Central, extending from Delaware to North Carolina, and it might be in making a distribution of eight, to consolidate the Middle West and the farther West into one district and add one more district to the Atlantic.

The Secretary of the Treasury: Mr. Trego, would you mind taking a map -- we can supply you with one of these forms-- and indicating the districts -- the homogenous districts of your trade, and indicate as you view them from the experience and knowledge which your Association possesses of the problem and also indicating then which of those districts -- the places where you think the headquarters ought to be, from a commercial point of view.

Mr. Trego: That is difficult, Secretary, because we have our work located in about 93 cities, and it would be rather difficult to indicate a preference of one over another.

The Secretary of the Treasury: Well, I am speaking of their relative importance, that is all, on account of the extent of their commercial and business activity.

Mr. Trego: We have great confidence in the branches and we are cautioning our cities to subordinate their civic pride to the efficient development of this system.

The Secretary of the Treasury: Well, you can indicate where you think the branches ought to be in the districts. That will cover the problem.

Mr. Trego: I will be very glad to do the best I can.

The Secretary of the Treasury: If you can do that and submit it to the Committee, we shall be very glad to have it, thank you.

Are there any gentlemen here who care to be heard on this proposition? If so, the committee would be very pleased to hear them.

Mr. Marshall: I have something to say on the subject, if by chance a letter which I sent to Mr. Secretary Houston on Saturday, reached him, discussing this proposition. It was a long letter of five or six pages, and if it did reach him I could discuss it now.

The Secretary of Agriculture: Yes, I looked that over.

Mr. Marshall: I would be glad to talk it over with you at any time it is convenient for you.

The Secretary of the Treasury: Do you want to testify or do you just want to have your letter put in the record?

Mr. Marshall: I would rather you both should have a chance to look over the letter and see whether you think that phase of the matter should be discussed, and in that case I should be very glad to discuss it. I would not want to put anything on the Secretaries or the gentlemen here unless they think it should be considered. I should very much prefer that the Board think it over a bit.

Mr. Willis: There is one point I would like to add to my testimony, if it is convenient.

The Secretary of the Treasury: Yes, I was going to say, Doctor, we can hear you now or later. Perhaps later on you may want to come back to the stand, and there may be ~~some~~ questions I want to ask you, but I think I will wait, because we may want to cover some other phase of the matter.

The hearing will be adjourned now until to-morrow morning at ten o'clock.

(Whereupon, at 3:15 o'clock P. M., the hearing was adjourned to Tuesday, January 6th, 1914, at 10:00 A.M.)