

STENOGRAPHER'S MINUTES

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THE RESERVE BANK
ORGANIZATION COMMITTEE.

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"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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Date January 6, 1914.

Law Reporting Company, Official Stenographers

115 BROADWAY, — NEW YORK

TELEPHONE, 2820 RECTOR

New York City, January 6th, 1914.

Met pursuant to adjournment at 10:00 A. M.

Present: Parties as before.

STATEMENT OF IRVING T. BUSH.

The Secretary of the Treasury: Mr. Bush, we will hear you first, if you will take the stand now.

Mr. Bush: Certainly.

The Secretary of Agriculture: Will you please state your full name and your official connection.

Mr. Bush: Irving T. Bush; I appear as the Chairman of the Transit Committee of the Merchants' Association of New York, representing that Association.

The Secretary of Agriculture: You know the problem confronting the Committee?

Mr. Bush: Yes, we have had some correspondence with your Secretary, who has given us two definite questions to answer.

The Secretary of Agriculture: Yes. We have to designate the places for these Federal Reserve Banks, at least eight and not more than twelve, and define the territory. We would be very glad to have any assistance you can give us in

that direction, telling us especially with reference to the section which you have in mind.

Mr. Bush: We received a notice from your Secretary that this meeting was to be held here, and we addressed a letter asking what specific information was required, and he gave us two questions.

The Secretary of Agriculture: Yes.

Mr. Bush: And while it was very short notice, we have prepared a statement answering those questions. I thought I would file that with you, and answer any questions covering that statement that you might wish to ask us. Shall I read this statement?

The Secretary of Agriculture: Please give it to us in any way you please, or the substance of it.

Mr. Bush: The first question is: Should a Reserve Bank be organized in New York, and if so why?

To that question we say: The extent and importance of the commercial and business operations of New York are so well known as to make the answer to this question obvious. The essential facts, stated as concisely as possible, are as follows:

New York is by far the most important manufacturing

city in America, the value of its annual output being more than two billion dollars, or one tenth of the product of the entire United States.

That was in 1900. It has 21 separate industries the yearly output of each of which is more than twenty million dollars.

It has over 25,000 separate factories, employing over 700,000 operatives.

One fourth of the population of the United States is located within a radius of two hundred miles of this city. The State of New York, New Jersey and Connecticut, which in effect comprise an economic unit, either dependent upon or closely allied with this City, embrace a population of over thirteen million. The industrial and business relations with this city of the population in excess of thirteen million, of the other states from Maine to Maryland, are likewise very close.

About $27\frac{1}{2}$ per cent of the export and import business of the entire United States is carried on through this port and financed in this City.

I should like to say that while $47\frac{1}{2}$ per cent actually passes through the port of New York, there is probably

over 70 per cent actually financed here. There is a great deal of the cotton movement in the South, and a great deal of the business done through Baltimore, Boston, Philadelphia and other nearby ports that is practically financed through New York.

About 60 per cent of the bank clearings of the entire United States are credited to New York banks.

The mere statement of these figures, showing the extent of New York's manufacturing, distributing and export trade, show conclusively why a regional reserve bank should be established here.

That is in answer to the first question. I should like to say very briefly upon that point that as we are an association of merchants here, it seems to us that New York should be considered in this matter, not primarily as a money center, or because of the huge financial transactions here, but because it is the greatest manufacturing center, because it is the export and import center of the country, is carried on here. We think that is the basis by which New York should be judged.

The second proposition is: If a reserve bank is

organized in New York, what territory should such a bank serve?

In answer to the second question we say:

In considering this question it should be borne in mind that New York is the principal center for first hand distribution of merchandise, its credit relations with other parts of the United States being exceedingly intimate. By reason of the commercial credits thus established the banks of this city are often the best judges of commercial paper arising out of transactions such as the Federal Reserve Banks are authorized to rediscount. The banks of this City have particularly close business relations with the principal manufacturing and distributing business interests from Maine to Maryland and from Buffalo and Pittsburgh eastward.

This Committee believe therefore that the western boundary of the New York banking zone should be established at a point not further east than a line which will include Buffalo and Pittsburgh. Between this line and Chicago and St. Louis there is certain debatable ground, and the question whether the line should not be established even further west can only be determined after a careful analysis

of the banking relation of the territory.
If the banks in this middle territory should express a desire to become a part of the New York zone, it is believed that such inclusion would be warranted.

As to the Southern boundary, it is the view of this Committee that it should depend, to a large degree, upon whether Baltimore is made the center of a Southern banking zone, in which case we think that the Southern boundary of the New York zone should include Wilmington, Delaware. If Baltimore is not made such a center, it is believed that Baltimore and the State of Maryland should be included in the New York zone.

As to the Eastern boundary, it is the Committee's belief that in any event the State of Connecticut should be included in the New York zone, as its banking and business relations are almost exclusively with this City. If a separate banking zone is not created for New England, we believe that all of the New England States can properly be served by New York.

It is obvious that the natural Northern boundary of the New York zone will be the Canadian border.

This is respectfully submitted by the Committee on Banking and Currency of the Merchants' Association of New York. I shall be glad to answer any questions as to why

we reached that conclusion, if you would like to ask them.

The Secretary of Agriculture: Have you made any figures as to the banking power of the Reserve Bank established in that territory?

Mr. Bush: We have not as a Committee made any figures, although we have discussed figures which have been made by others and submitted to us.

The Secretary of Agriculture: If you were to include New England and as far South as you indicate, it would probably consume 50 per cent, would it not -- very nearly of the working power of the country? That would leave the question of the remaining 50 per cent for the other seven as a consideration that the Committee has to bear in mind?

Mr. Bush: Well it seems to me that some confusion exists in the minds of some people as to the benefit it would be to the rest of the country, if this territory were divided. Now, as a matter of fact it will not have any effect, as I can see it, upon New Orleans, San Francisco, or Chicago, or Western territory. Here is a certain territory, with certain banking power. If you divide that into two or one hundred parts you do not in any way increase Chicago's banking power or New Orleans banking power.

The Secretary of Agriculture: On the other hand, if you were to establish only one bank here, taking in this territory, you would leave just that much banking power for the other sections; whereas, if you were to establish two or three in this section, you

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would have to establish only five or six in the other territory.

Mr. Bush: Yes; you would divide the balance of the country into a fewer number, if you limited your number of regions to eight. Of course, you have the power to go above that, but the principal question as I see it is as to whether this territory which represents a certain banking power, is divided into one, or two or three sections; that by doing that you do not increase the banking power of the rest of the country, unless you decide to divide it into a smaller number of sections than you apportion -- -

The Secretary of Agriculture: But if you discuss it with reference to the minimum number provided by law, you would simply increase the strength of each of the units outside?

Mr. Bush: Yes, that is true.

The Secretary of Agriculture: Whereas, if you divide this into one section, you would have to distribute the other into seven?

Mr. Bush: That is true. Geographically, of course, this territory is very closely united and by the laws

of business customs very closely united, and this particular section here is a section which has the greatest dealings with foreign countries. In my own view, the amount of capital is a relatively unimportant matter, except in its relations with foreign countries. The ordinary reason for establishing a large capital for a private bank, is to make more money and to give a sense of security to its depositors. In the functions of these banks, both of those considerations are more or less limited.

The Secretary of Agriculture: Do you understand it is the function of any one of these 8 or 12 regional Reserve Banks to handle the financial transactions?

Mr. Bush: I should not think so.

The Secretary of Agriculture: That is a matter that primarily lies in the hands of the Federal Reserve Board?

Mr. Bush: I should think so.

The Secretary of Agriculture: So it would not make any great difference whether this was a bank of fifty millions of capital twenty millions of capital or seventy-five millions of capital would it?

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Mr. Bush: Except in its effect up on our dealings with foreign banks. In other words, I think a bank located here, for instance, it would make relatively little difference whether it had three millions or ten millions, because its dealings are exclusively with its member banks, who know its conditions and organization, but a bank here whose dealings not only with its member banks, but also may have large foreign dealings with people who are not familiar with our financial condition altogether, I think a larger capital stock here is of greater importance. Do I make myself clear on that? Or I might say in New Orleans, or I might say in San Francisco -- I think at any of the ports where you touch foreign commerce and deal with foreign nations, I think a substantial capital stock means more.

The Secretary of the Treasury: Mr. Bush, have you got the figures upon which you base this suggestion?

Mr. Bush: We have eliminated from our consideration, really, the question of figures, because it has not

seemed to us that that was the vital consideration. It has seemed to us that the vital consideration was the geographical relationship and the established trade in banking lines which must be served. In other words, as I said before, the actual amount of capitalization seems to us relatively unimportant, except in its relation up on foreign nations.

The Secretary of the Treasury: Of course, the capitalization is bound to have a very decided bearing upon the organization of these banks, and especially where, as provided in the Act there must be a minimum of eight and a maximum of twelve. The power of the New York bank must have, of course, relation to the business done within that district which the bank is to serve, and by the other provisions of the Act, that is the subscription the banks must make of six per cent of their capital and surplus to the capital of the Reserve Bank, has an automatic relation to the banking capital of the entire territory served by anyone of the regional banks. Now, that being true, why is it necessary, aside from the foreign idea which you suggest, that is the foreign exchange ques-

tion to make this bank here so preponderant?

Mr. Bush: It is not necessary. I have stated as my view that the volume of capital, beyond a reasonable limit, is relatively unimportant. We have based our suggestions up on the trade relations which exist and which would be somewhat disturbed if that territory which now works closely together with New York were separated into different units.

The Secretary of the Treasury: Well, you consider the domestic phase of this question of much greater importance than the foreign aspect, do you not?

Mr. Bush: Yes, but of course with 50 per cent of the commerce of the country passing New York the foreign aspect here is very important.

The Secretary of the Treasury: Unquestionably, but the domestic is of greater importance?

Mr. Bush: Yes.

The Secretary of the Treasury: New England is rather a distinctive unit itself?

Mr. Bush: I think so.

The Secretary of the Treasury: For instance, we would not be in violation of commercial transactions to New York, if a Reserve Bank were to establish in Boston? It

is a fact that the commerce and exchanges of New England are rather distinctive of New England and rather center in Boston; is not that so?

Mr. Bush: My information is that if you would draw a dividing line, that probably the Connecticut Valley would perhaps be the dividing line and a great deal of the business east of the Connecticut Valley would be done in New York, but I agree with you absolutely that there would be no harm done to New York if a Bank would establish in Boston. On the other hand I think that Boston would be better off as a part of the New York zone. I think the harm would come to Boston, not to New York.

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The Secretary of the Treasury: Of course, you understand, Mr. Bush, that the theory upon which these banks are organized is that the Reserve Banks in each one of these districts act as clearing agencies for the commercial transactions of these respective districts and will be able to make the exchanges between themselves in short order. For instance, it is a matter of only five or six hours from Boston to New York.

Mr. Bush: I understand that.

The Secretary of the Treasury: Assuming that you had a district south of New York here -- I am, of course, tentatively speaking -- comprising Pennsylvania, Southern New Jersey, Delaware, Maryland, the District of Columbia, and probably Virginia and West Virginia, the commercial transactions of that district and its exchanges would be dealt with through the Reserve Bank of that district or such part of it as had to be dealt with by New York would be dealt with by it as one unit.

Mr. Bush: I understand it.

The Secretary of the Treasury: The theory of the law is that these different agencies throughout the country

will greatly facilitate the ^{course} of exchanges. Instead of having a rather random method of check collections as we have now, passing through many intermediaries, you would have them focused in each district and exchange would be expedited. In carrying out that idea the Reserve Banks themselves must be strong enough to take care of the exchange in the respective districts, and the districts themselves must be sufficiently large -- it is not a question wholly of area, it is partially a question of area -- but the banking power of these districts must be sufficiently large to enable the Reserve Bank to adequately serve all parts of that district. Hence, if we put 50 per cent or 40 per cent of the banking power of the country into a Reserve Bank in New York, as Secretary Houston has suggested, you will be obliged to divide up the remainder of the country into seven units which would be comparatively lean.

Mr. Bush: Does it not really come down to this question which I attempted to state in the beginning. Here is a certain territory under consideration. The real question to be decided is whether this is to be made into one section or two or three. I hardly think you would go

beyond three. We have assumed in our discussion that you would make a separate section of New England. We have suggested in that case that Connecticut should be put in the New York zone. We have stated that if you did not make a separate section, although we assumed you would, that New England could properly be served from New York. We have therefore come to the point of having two sections, being perhaps in agreement with your views.

The Secretary of the Treasury: I haven't any views yet. I am trying to get light.

Mr. Bush: Those which we suspect you hold.

The Secretary of the Treasury: You must not suspect me yet. I would like to be above suspicion until the decision is rendered.

Mr. Bush: The next question is whether you should go beyond the two and take that further section and make three sections instead of two. I cannot see that any harm is done to New York in that. The great banking power of this whole eastern territory is centred in and around New York, and I conceive that the greater benefit of the inclusion of, for instance Pittsburgh, in the New York zone would be to Pittsburgh rather than to New York.

Pittsburgh now does most of its banking business with New York. If that further separation is made and you take in Pennsylvania, Maryland, Virginia and West Virginia, from the standpoint of your exchanges and clearings, it would be of convenience perhaps and we should not oppose that.

The Secretary of the Treasury: Of course, what we are really trying to do, Mr. Bush, is to get all the light possible to enable us to intelligently determine what would be the equipoise, so to speak, of the banking power of the Nation when concentrated or consolidated into a number of Reserve Banks which can be determined upon. There is a minimum of eight and of course we could not go below that; we might go to twelve. In reaching this conclusion we must have regard to the course of commercial transactions and exchanges, as to the accessibility of the Reserve Bank to all parts of the territory to be served by it, and other considerations. Now, in the course of the hearing yesterday it was developed and admitted by some of the bankers who were here that the clearings in the different cities are not a reliable index of normal transactions, because under the reserve system of the country as now established, the reserve cities attract a great many accounts -- some

of them attract a larger number of accounts, for instance, than would normally come to them because they pay high rates of interest on deposits; and again they clear bank checks without charge. To that extent you do not get a reflection or indication of what the normal transactions would be of such a city.

Mr. Bush: I think that is quite true.

The Secretary of the Treasury: We must, therefore, in considering this question, try to ascertain as far as possible what are the normal courses of exchange in business, and then try to divide the country with reference to the normality of things rather than the abnormality. That is the problem we are trying to work out.

Mr. Bush: I think that is quite true, but I think perhaps too much stress can be laid on the fact that a very large percentage of the banking power of the country would be centred here in New York. It is centred here today.

The Secretary of the Treasury: Well, that is not the point --

Mr. Bush: Here is the point of attack. If you were commanding an army and were defending a country, you would not put your army in orderly regiments all over the country, but would concentrate it at the point of attack.

The Secretary of Agriculture: Why is it the point of attack?

Mr. Bush: Because business customs have built it up to be so. I do not mean from the standpoint of panics or disturbances, but here is the point where the great volume of the business of the country is done in financial transactions. As I pointed out, the actual statistics of our export and import movement show that 47-1/2 per cent of the actual value passes through New York.

The Secretary of Agriculture: But even the export and import movements are negligible compared to the domestic transactions.

Mr. Bush: Yes, they are small, of course. But in addition here is a section in which New York City alone manufactures over ten per cent of the entire manufactured

products of the country; that is, New York City alone, not counting all this immense surrounding country. I can see from an industrial standpoint how you might say that this section, I do not mean New York City alone, is the point of attack. It is the point of the greatest demand, and you should mass your armies there somewhat.

The Secretary of Agriculture: It has been the point of sensitiveness.

Mr. Bush: Yes, but that has been due to its financial relations rather than to its industrial development.

The Secretary of Agriculture: And to no inconsiderable measure to the abnormal financial development.

Mr. Bush: Yes. I wish to say that while I have been Chairman of this Committee for many years, I am not, in a strict sense, a merchant. I am a business man, with no connection with the banks. But we have two other members of the Committee here; one, Mr. Page, who has had very considerable experience with wholesale business and is familiar with credits; and the other is Mr. Cowperthwait, who has had an equally extensive experience with the retail business in New York, and whose firm has been in business for over 100 years. I assumed you would

like to know the different phases of the business of New York, and I have asked these two gentlemen, one representing the wholesale business and one the retail, to come with me; and after you have asked me any questions you desire, I should like to have them heard.

The Secretary of Agriculture: Aside from that section west of the Connecticut River, the handling of the business of New England through New York would be a disturbance of present conditions, would it not?

Mr. Bush: My information is that most of the textile business of New England, whether it is east or west of the Connecticut River, is distributed through New York; I speak from my experience at the Terminal. And that New York is the great distribution center for the textile industry. The textile industry is the great business of New England, and I know that the great volume of textiles comes here to be distributed, and I think there is no gainsaying that statement. I am told that is the actual fact, that while the actual manufacturing and milling is done in New England, the actual distribution^{and}/to a large extent the financing, is done in New York.

The Secretary of the Treasury: Of course the actual

distribution in a physical sense would not have much bearing, because that is a matter of transferring the goods from boat and rail lines and so forth; but the commercial transactions, of course, would have a decided bearing.

Mr. Bush: The commercial transactions in the textile industry Mr. Page can speak of, because he has spent a lifetime in that industry.

The Secretary of the Treasury: We are much obliged to you, Mr. Bush. Mr. Page.

Mr. Page: STATEMENT OF MR. EDWARD D. PAGE.

I am now connected with the firm of Holbrook, Corey & Company, dealers in commercial paper, New York, Boston and Chicago.

The Secretary of Agriculture: You have heard the questions we have asked, Mr. Page, and the problems that we are trying to solve. Could you tell us anything you have in mind bearing on this situation?

Mr. Page: As I see your problem, you have got to establish regional banks that would perform three functions: The first is the concentration of reserves, that is to say, dealing with other banks; the next is the mobilization of

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credit, which is most important thing for the business man.
the merchant; and the third is the building up of institu-
tions that will draw gold or capital to this country from
other countries in time of need.

Now to perform the first function satisfactorily, you
have got, of course, to place your regional banks in railroad
centers, in centers to which and from which capital normal-
ly comes and goes. If you should establish a regional
bank dealing with member banks in a city far distant from
the banks with which it has to deal, it would have no
means of knowing from personal contact how good the credits
were that were offered to it. It is true that a regional
bank under such circumstances would receive what are
practically endorsed notes, notes guaranteed by the member
banks under your system. But simply to have two names
on a piece of paper does not tell you very much about the
paper. You want to know the people who make it ; and as
you cannot know the people who make the note originally,
you want to know the bank which endorses it. The question
of character comes in as a very important element in the
selection of good paper. You certainly do not want to
have these banks have poor assets, you want them to have

good assets, and in order to enable them to have the best kind of assets, the men who finally pass upon the paper have got to know the men who put their names on the back of it. It will not do to consider because you see a strong statement from a bank, that it is going to make a strong note. It is a question of how they do their business and the sort of men who do it. And if, as has been suggested by one gentleman, zones be thrown across the United States in this way, and a regional bank given to each zone, you would labor under the very great disadvantage of the lack of personal contact which is the fundamental basis of credit. Therefore, in looking over the United States—

The Secretary of Agriculture: Just on that point, Mr. Page, you know that the bill provides for much more constant and intimate touch and examinations than we have heretofore had.

Mr. Page: I do, and yet the effect of formal examinations is not the same thing as seeing a man in your office and knowing how he transacts his business. No Examiner can ever tell that to the man who discounts a note. We have been for a great many years in the business of extending

credit for very large amounts, and we have always insisted on knowing the men with whom we did the business, and I have found that is the only safe way. You cannot tell anything from a mercantile statement or an Examiner's statement except as to the superficial facts.

The Secretary of the Treasury: You are developing one of the very strong arguments which was made in favor of the regional bank system instead of a central bank system.

Mr. Page: Precisely.

The Secretary of the Treasury: The various elements of the country to be served by these banks, and their knowledge of the credit of these sections.

Mr. Page: Yes.

The Secretary of Agriculture: On this point I was just speaking about, you remember that the Bill provides, not only for examination by the Federal Reserve Bank, but by the Federal Reserve Board and the Comptroller, which brings about, to that extent, this more intimate and constant knowledge.

Mr. Page: Exactly. But the Governor of one of these regional reserve banks, if he is going to pass intelligently upon the paper that is offered you, must know the men

who make the paper himself. And a Bank Examiner in Washington will not answer the purpose. The average class of Bank Examiners, I regret to say, will not answer the purpose; they are not capable, they are not big enough men, and you cannot get them to size up the real character of the man behind the note.

The Secretary of the Treasury: But this system accomplishes what you are driving at in a more effective way than that, and that is through the establishment of branches of the regional bank in all important places in the district, and each branch is to be conducted and managed by a Board of Local Directors.

The Secretary of Agriculture: And that gives you an additional advantage?

Mr. Page: It gives you an additional touch, but at the same time, if you had a zone extending across the United States, you would see what a foolish thing it would be.

The Secretary of Agriculture: We see your point.

Mr. Page: I want to take up New York last for the sake of seeing what is left when you get down to it, because I consider it makes no difference to New York how small its territory is. The less territory it has, the less respon-

sibility it has. The serious matter about all of these reserve banks is the liability they assume. It is not the amount of capital they have or the greatness of the bank, but the amount of responsibility they have to assume. The smaller the New York area, the less responsibility there is placed upon New York.

The Secretary of Agriculture: What importance is it to a locality to have one of these banks, from your point of view?

Mr. Page: Well, I really do not know, except local pride. But there is quite a necessity —

The Secretary of the Treasury: ? You may be telling too much of an unacceptable truth when you say that.

Mr. Page: Well, I am trying to tell you the truth.

The Secretary of the Treasury: That is what we want.

Mr. Page: Now you may have to have a bank on the Pacific Coast. The mountains cut off that territory and segregate it from the rest of the country. Where you should have that bank, I do not know. I do not know enough about the Pacific Coast to give you that information. I do think you have to have a bank for the intermountain region, and I suppose Denver is the most centrally and best located

place. It is a great railroad center. The main thing is to get a place where the railroads will bring exchanges in under 24 hours, if possible. That is not quite possible in Denver because there are a good many inaccessible places in those mountains, but generally it is possible, so I suppose you will have to have something located there.

The Secretary of Agriculture: Preferably 12 or 15 hours, would you not say?

Mr. Page: Preferably 12 or 15 hours. There is no real business center in all that district other than Denver. Now I am pretty familiar with the United States east of that. And so when you come east, it seems to me that inasmuch as this district here (indicating Middle Northwest) centers in Minneapolis and St. Paul, you have to locate your reserve bank in Minneapolis or St. Paul. Then when you come South, there is a special class of paper made in all this district here, that is not understood in the rest of the United States.

The Secretary of the Treasury: Just describe that district for the sake of the record.

Mr. Page: Say Nebraska, Kansas, Missouri, Iowa, Colorado. That is cattle paper.

The Secretary of the Treasury: And Oklahoma.

Mr. Page: And Oklahoma, to some extent, although Oklahoma is not so much a cattle country as a cotton raising country, I think.

The Secretary of Agriculture: You have spoken of Denver.

Mr. Page: Yes.

The Secretary of Agriculture: How far east would you have that district extend?

Mr. Page: Say 8 or 12 hours on the train, or something like that.

The Secretary of the Treasury: Would you have it embrace Omaha and Kansas?

Mr. Page: Well, of course there is a difficulty about that that would be like the tail wagging the dog. This is a very large financial center, and yet this financial center can hardly serve these regions around here (indicating), with due regard to promptitude. Here there is a special class of farm and cattle-raising paper that is not understood well anywhere else in the United States. That paper ought to be handled by specialists, to have it good. It is good, it is first rate paper, but you have to know your man very intimately indeed.

The Secretary of the Treasury: Is St. Louis the place for that center?

Mr. Page: I think not. I do not think St. Louis understands it either. But it is well understood in Omaha and Kansas City and those cities there, and it might be necessary to have a center there. Coming further East, St. Louis is the normal center, strange as it may appear, of Oklahoma and Texas and Arkansas, because the railroad lines radiate out in that direction, as you know. They understand all the classes of mercantile credits that are extended in that district.

The Secretary of the Treasury: You are speaking of St. Louis. You mean the territory you are speaking of, Arkansas, Oklahoma and Texas?

Mr. Page: Arkansas, Oklahoma, Texas and Missouri.

The Secretary of the Treasury: And a part of Louisiana.

Mr. Page: I do not think so. I do not think they understand that, or have many dealings with it. But there in St. Louis you have also a good class of credits that are extended all through this country and that are well known in St. Louis. They are not in the least known in New York and are only partially known in Chicago. That would seem to make St. Louis the proper center of a territory to the southwest of it, because it has the banking power that is necessary for your successful regional bank, and because it has the business connections that run all through that territory. They understand it.

Then of course Chicago would be the natural center I should suppose for Wisconsin, Illinois, Indiana, Michigan, part of Ohio and part of Kentucky. Now that makes six.

The Secretary of Agriculture: What was your sixth?

Mr. Page: Chicago.

The Secretary of Agriculture: What was the fourth?

Mr. Page: Kansas City.

The Secretary of the Treasury: Kansas City was the fourth.

Mr. Page: It is a question whether Kansas City should be, but it seems reasonable.

The Secretary of the Treasury: I understand.

Mr. Page: That brings you to Chicago. Chicago takes in a large and rich territory. I have given you the names of the States which I should think would naturally form that territory.

Then there has got to be some southern center. Atlanta is the greatest railroad center, and is the center of the distributing business of the South, and it has always seemed to me that Atlanta, from the standpoint of reaching the banks in its territory within a reasonable time, and from the standpoint of being a very extraordinary railroad center, would possibly be the best place for a regional reserve bank. Yet it has very slight foreign exchange business; but it does understand the mercantile credits of that district, which would

naturally come to center there.

The Secretary of the Treasury: Mr. Page, in that connection may I ask to what extent does Savannah figure in the foreign exchanges?

Mr. Page: I think to a very slight degree— a comparatively slight degree.

The Secretary of the Treasury: Is that business all done through New York?

Mr. Page: Yes, it is mostly done through New York.

The Secretary of the Treasury: It is not done directly?

Mr. Page: No, and the foreign exchange business in New Orleans is largely done through New York, owing to a lack of banking facilities in New Orleans, and it is the same in Savannah.

The Secretary of the Treasury: And the location of transportation facilities out of New York as well. All that transportation via the fast steamship lines has to proceed through New York, and that determines the foreign exchange in some measure, does it not?

Mr. Page: The cotton of Texas all centers in Galveston, for transportation across the Atlantic.

The Secretary of the Treasury: I am speaking of the foreign exchanges.

Mr. Page: Yes. There are no rail steamers from these other places.

The Secretary of the Treasury: The foreign exchange naturally gravitates to the port from which these rapid steamship lines run?

Mr. Page: Certainly, that is true. Now, how many have we got?

The Secretary of the Treasury: You have enumerated seven.

Mr. Page: Then we come to the question of the Eastern States. I will take that territory next. Boston of course is the center of the manufacturing districts, partly of Maine, New Hampshire, part of Vermont, and they have a special class of paper, manufacturing paper peculiar to themselves. They understand it better than anyone else does, and there is a good argument in favor of a regional bank in Boston. Besides, ever since the Suffolk banking system was established, they have very intimate relations with a large number of banks principally to the north and east of Boston.

The Secretary of Agriculture: That system is very old.

Mr. Page: It is a very singular thing that the business relations of Providence are much more intimate with New York than they are with Boston. That is true of Springfield, Massachusetts. It is true of the Connecticut Valley running up for a considerable distance. For instance Keene is more intimately connected in a financial way with New York than it is with Boston, and the whole of Connecticut is more intimately connected with New York than with Boston.

The Secretary of the Treasury: The whole of Connecticut?

Mr. Page: Yes.

The Secretary of Agriculture: How about Vermont?

Mr. Page: Draw a line passing through the Green Mountains and the territory east of the Green Mountains is nearer Boston. That west of the Green Mountains is nearer New York, and more intimately allied with New York than it is with Boston. Credits in that part of the country are better understood in New York than they are in Boston, and it is very important to have the district

of your regional bank one where the bank will understand the credits that are offered, so that it will not be uphill work for the bank, so that they will not have to go and make an investigation and then be shy of the thing, because the banker does not know, because he cannot find anyone who has had business relations with a certain man. Credit is extended freely in inverse ratio to the distance, or to the knowledge that the banker has. We have got to know a man. It is not a question of his statement. We do not believe statements any longer. They are only accessory. We want to know the man, who he is and what his character is.

That brings us to New York. Looking away from New York for a moment, Baltimore is the center of distribution for West Virginia, Virginia, North Carolina and part of Tennessee. It has very intimate business relations there. The credits of that part of the country are understood in Baltimore.

Baltimore has relatively a better banking system than some of its neighboring cities. It is much more important as an export port than some of its neighboring cities.

The Secretary of Agriculture: You mean from a larger territory?

Mr. Page: It draws merchandise from a larger territory, and it has a better export and import business than some of the neighboring cities; and it has always seemed to me that Baltimore would be a pretty good place. The banks there understand Southern mill paper. That is not well understood in New York.

The Secretary of the Treasury: Baltimore is a very large grain exporting port also?

Mr. Page: Baltimore has a very large grain export business. That makes a great deal of foreign exchange, and business in foreign exchange would be built up, I think, in Baltimore by having a regional bank there.

Now that brings us to the territory which our committee have outlined as being proper for New York.

The Secretary of Agriculture: That is including what?

Mr. Page: Including Pennsylvania, New York, Delaware, New Jersey, and all of Connecticut. It would be a great hardship for most Connecticut merchants to be obliged to make their credits in Boston. They are not known there and they are known in New York.

The Secretary of the Treasury: Mr. Page, upon that particular point, it seems to me you are laboring under a misapprehension. They will not have to make their credits with the regional bank. The location of these banks will not disturb the ordinary course of credits with the member banks. They will proceed just as they do now. The regional banks simply rediscount for the member banks. They will take the paper that is turned into them by the member banks. That paper is discounted in the first place by the member bank upon the credit of the individual customer, and upon the endorsement of the member bank it will be rediscounted by the regional bank.

Mr. Page: But if I understand the operation aright, it is very much like the issuing of clearing house certificates here in time of panic. The regional bank must be and ought to be a judge of the quality of the paper that it takes. If it is not a judge of the quality of the paper it takes, you are bound to get mixed up with a lot of poor notes; you are bound to get mixed up with a lot of poor bankers, who will take advantage of the ignorance of the regional bank as to the paper discounted, who push in a lot of notes that are poor. You are dealing

with human nature, and that is a peculiarity of human nature, that when it is not watched it is apt to do things that are inimical to the public interest.

The secretary of the Treasury: Yes, but the point I wanted to make with you is that the regional bank is not primarily the judge of the credit, because the paper comes up to it from the member bank. Now the regional bank of course must have intelligence enough to judge of the paper presented to it by the member bank, and also must satisfy itself that the endorsement of the member bank is itself good, aside from the paper that is presented to it. So it is not so thoroughly important I think as you seem to feel it is, that the regional bank itself shall have the same degree of intimate knowledge of the makers of the paper as the member bank must inevitably and will always have; but of course the larger knowledge it gets, the better.

Mr. Page: I think your line of thought proceeds upon the assumption that when a man wants money he goes to the bank in his neighborhood to get it. Now that is true of small industries, but the man who is conducting a large industry and distributing goods throughout the country cannot get for his needs the money that he wants

at his own bank. We has got to sell his note, and it would be an undue risk in the first place for his own bank to take all the paper that he puts out, and so he has got to go to another city. Now to whom does he go in another City? Naturally that paper falls into the hands of a correspondent of his own bank, because that would be the first place where it would go, because they have intimate connections with the home bank. Take Connecticut for instance. There are many manufacturers in Connecticut who bank with little banks in their own towns, which banks could extend to them \$40,000 or \$50,000 worth of credit, but they need \$1,000,000 or more, and so their credit spreads out to the place where it is known.

And, therefore, it is disadvantageous to those men and it would be a hardship, if, in your regional banking system you did not take account of the established habits and customs of discounting paper. Am I giving you what you want to have?

The Secretary of Agriculture: Yes.

Mr. Page: And, therefore, that is the reason why I speak so strongly about Connecticut, because I know how that Connecticut paper comes to New York; so does Pennsylvania paper come to New York.

The Secretary of Agriculture: Now, you speak of Baltimore as being an important centre for a large territory, and having knowledge you would think that Baltimore, rather than Philadelphia --

Mr. Page: Very much, and for this reason: Baltimore is a distributing city. Philadelphia has lost its distributing trade. Philadelphia is practically now a purely manufacturing city. It no longer distributes the large quantity of goods throughout this territory that it used to. Its jobbing business has passed away. The consequence is that the notes that naturally come to Philadelphia are of a less liquid character than the notes that naturally

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come to Baltimore. Now, in order to make your system a safe one, you have got to base it not on unliquid notes, but on liquid notes, and you will get a better class of paper in Baltimore, always, than you do in Philadelphia. Now, what is the result. Every panic that I have been through, Philadelphia has been tied up. It could not pay its own checks drawn on it even; and why? Because its assets were of that unliquid character that are always found in the neighborhood of manufacturing, where there is no leaven of distributing business to give a liquid portion of the assets, at least, so that in time of trouble they could simply stop discounting that kind of paper and have the notes paid off and acquire the cash to redeem their own paper. That is the reason why.

The Secretary of Agriculture: Now, what would you say as to Washington and Pittsburgh?

Mr. Page: Well, Pittsburgh is the centre of another special class of business. It does quite a good distributing business, but of course its paper there is iron and steel, mostly, and having but that one class of paper it is more liable to hang up in time of trouble than would be a city that had a mixed lot of paper. All cities that

are dependent upon a single industry, are very liable to hang up in time of panic, and as a matter of fact we could not collect our Pittsburgh exchanges in 1907, under ten days to two weeks, simply because they did not have the stuff. It is not that they are not good bankers. It is not that they don't do their business well, as far as they can, but it is that they are hung up with special classes of paper and don't have much of anything else.

The Secretary of the Treasury: Well, they have a certain fixed condition there from which they cannot escape.

Mr. Page: Yes, they have. I do not think they can escape from it.

The Secretary of the Treasury: Now, as to Washington and Baltimore, you were referring a moment ago to Baltimore.

The Secretary of Agriculture: It has been suggested that because this Federal Reserve Board is to be in Washington, it would be a good idea to have one of the going concerns there.

Mr. Page: Well, I do not see exactly what advantage it is. Washington is not a commercial centre. It does not exchange credit in any large degree to the rest of the country. It is not a business town. It is a retail town

and a governmental town.

The Secretary of the Treasury: You mean a political town.

Mr. Page: Well, I did not say that. I can see no advantage, when you have got Baltimore only an hour away. The Federal Reserve Board can have its wire into the Baltimore board room, and it can know the Baltimore business, if it wants to in person, by running over there any time; so I think there would be a distinct disadvantage in having it in Washington, owing to the fact that what would Washington exchange be worth in London. It would not be worth anything. They don't know anything about it, but Baltimore exchange is something they know about, and we have got to consider the facility of drawing coin when we need it, to our coffers, from abroad.

The Secretary of Agriculture: Now, Mr. Page, you have suggested ten centres.

Mr. Page: Yes.

The Secretary of Agriculture: Why do you have this stretch west of the Rocky Mountains, from Seattle to San Diego and as far east as, we will say, some place in Utah,

perhaps.

Mr. Page: Well, I was thinking of the Coast Range.

The Secretary of Agriculture: Now, right here (indicating on map) in this section you have three, within 24 hours.

Mr. Page: Yes.

The Secretary of Agriculture: You have suggested three.

Mr. Page: Yes, sir.

The Secretary of Agriculture: St. Louis, possibly Kansas City, or Omaha and Denver.

Mr. Page: Yes, sir.

The Secretary of Agriculture: Now, that would give very narrow strips there.

Mr. Page: Yes, but there is an immense business done there, and it so happens that the character of paper in St. Louis is very different -- not totally different, but very different from the character of paper on the Missouri River.

The Secretary of Agriculture: And different from this in the mountain section.

Mr. Page: Well, the mountain section I do not know much

about, to tell the truth. I only suggested in the mountain section, because thinking of these radiating lines here of railroad that bring it in communication with towns that would otherwise be two days away, from either San Francisco, considering that to be a centre, or from Kansas City on the other side.

The Secretary of Agriculture: Now, would you not get that intimate local knowledge from your branch bank?

Mr. Page: Oh, you might. I have suggested these places, because --

The Secretary of Agriculture: I know, but in case you found that you had to have men who knew the local conditions and they could not establish a Reserve Bank there, you could get that intimate local touch through your local board of seven, could you not?

Mr. Page: I think you could. I think, in other words, that a regional bank in St. Louis, with branches in Kansas City, St. Joseph and Omaha, would be a better proposition than a regional bank both in St. Louis and one of those other cities -- for the country. I am thinking for the United States.

The Secretary of Agriculture: Your scheme, as you have

suggested it is that you have these five banks right here in this section, and from Baltimore to Denver -- St. Louis, you have only suggested one.

Mr. Page: Well, because the greater part of the southern country -- a very large section -- the greater area of the southern country naturally centres at St. Louis.

The Secretary of the Treasury: It feeds into St. Louis.

Mr. Page: It feeds into St. Louis.

The Secretary of the Treasury: What would you do in New Orleans?

Mr. Page: Well, of course there is a question. New Orleans is not a very great railroad centre. It is a very great export town.

The Secretary of the Treasury: Well, her exchanges likewise handle through New York, do they not.

Mr. Page: Yes, their exchanges are handled through New York, owing to a lack of --

The Secretary of the Treasury: Transportation?

Mr. Page: No, not necessarily, but a lack of banking capital in New Orleans as much as anything else. New Orleans singularly enough only handles, if I recollect right, part of Mississippi and Louisiana as a banking

centre. Under established custom, it is a comparatively small banking centre.

The Secretary of the Treasury: Does it take in part of Texas?

Mr. Page: No, sir.

The Secretary of Agriculture: Where does that go?

Mr. Page: That goes St. Louis way.

The Secretary of the Treasury: And Arkansas goes to St. Louis?

Mr. Page: New Orleans is probably well built up, but you have it in your power to establish other banks after you get through. Your branches would help a great deal, but it has a singularly small deposit bank connection -- New Orleans has.

The Secretary of Agriculture: Now, Mr. Page, would you take a map at your earliest convenience and give us your views, based on these varieties of transactions in the different localities, on the basis of the minimum number, as well as on the basis of a larger number which you may think necessary?

The Secretary of the Treasury: And accompany it with a brief statement.

The Secretary of Agriculture: Brief explanation of the factors that enter into your thinking that way.

Mr. Page: I will be very glad to do that.

STATEMENT OF GATES W. MCGARRAH.

Mr. McGarrah: I am President of the Mechanics & Metals National Bank. It is with a good deal of trepidation that I take your time, after the array of talent yesterday, gentlemen who are much more experienced than I am in international exchange and banking generally, but I come to plead for not more than eight regional reserve banks, for the reason that it seems to me so easy to establish more. I was very much impressed with the tabulation of the Comptroller of the Currency's Called Report of August 9th, which represents the minimum operating of country banks of August 9th of this year, in which, following the custom of his office he divides those up into six groups: New England, Eastern, Southern, Middle West, Western and Pacific States. Of course, these figures would be subject to correction. I have only taken them in a very rough way. I find as he groups the Western cities and as he groups the Pacific cities, there are two groups. Paying

in three per cent would not have adequate capital for -- that is, they would not have the four millions which is the minimum for the Federal Reserve Bank. That of course, could be adjusted by shifting the territory.

The Secretary of Agriculture: Not limited to three per cent?

Mr. McGarrah: No, you are not limited. It could be adjusted.

The Secretary of the Treasury: It shall have a subscribed capital of not less than four millions, and, of course, the subscribed capital is in each instance six per cent.

Mr. McGarrah: Now, that brings me to the point of those sections -- that represents their maximum operating and that brings me to the territory, or the strength of the bank to be located, provided it is located at Chicago and New York. As far as the localizing of the territory is concerned, if it is in the wisdom of the committee to give a wide territory to New York, they need have no fear of the bankers being willing to take the responsibility. Bankers are born to that. Need not hesitate on that account at all. But it seems to me very necessary to have

one or two banks -- three central Reserve Banks of large capital. That is, the Federal Banks located at the central reserve cities of large substantial capital, from the standpoint of the power which is given the Federal Reserve Board to request one bank to re-discount that of another, and there would be times in my judgment when it will be necessary, if you establish -- in your wisdom you establish eight, which the law says you must, as I understand it -- it will be necessary to call upon some Reserve Banks to re-discount for others. That having located eight, there will be times when you won't be able to take care of the -- they will be spread out too thin, that's the idea.

The Secretary of Agriculture: Well, the total volume will be the same, no matter how it is distributed.

Mr. McGarragh: Well, that might be, but perhaps I don't make myself clear. My point is this: That, for instance, a Federal Reserve Bank located at New Orleans, might reach the point in its loans whereby the Federal Reserve Board would feel that they would like to have some other bank re-discount a portion from them, and then your eyes would naturally turn, I think, to the bank that had

the power and capital to do it.

The Secretary of Agriculture: You might turn to more than one.

Mr. McGarrah: Yes, but in any case it would be the stronger ones, because their reserves would be the greater.

The Secretary of the Treasury: Aren't you acting upon the assumption in your argument there, Mr. McGarrah, that the only means of relief afforded by this measure, in circumstances of that character -- the only means are the power of the Federal Reserve Board to require one regional bank to discount for another, or to permit one to re-discount for another? Aren't you proceeding upon the assumption that that is the only recourse.

Mr. McGarrah: That is the principal recourse, as I see it.

The Secretary of the Treasury: You know the bill provides that the Federal Reserve Board may, upon the application of any Federal Reserve Bank, issue currency.

Mr. McGarrah: Yes, I have that in mind.

The Secretary of the Treasury: So you have got a central reserve. Of course, so far as the Federal Reserve Bank and member banks applying for that aid, they can segregate or

set out the required gold reserve and furnish the eligible paper under the bill. You do not have to call upon the other members. I think there would be more force in your argument if no such provision as the one I have just described, existed in this system, because then your only reliance would be upon the other banks of the system.

Mr. McGarrah: Even so, that would naturally come first, would it not, the application for re-discount?

The Secretary of the Treasury: Well, nobody can tell. It would depend very largely upon the conditions at the time and upon which method will afford the quickest and most reasonable relief.

Mr. McGarrah: That is all. We have nothing to compare with. We don't know how it will work out.

The Secretary of the Treasury: We know that relief can be had through various sources.

Mr. McGarrah: Exactly.

The Secretary of Agriculture: Organized relief.

The Secretary of the Treasury: Organized relief ready at any time, upon demand.

Mr. McGarrah: But I hope the Board will give very serious consideration to not establishing over eight.

The Secretary of the Treasury: What are your views, Mr. McGarrah as to what territory, assuming that a bank is located in New York City, it ought logically and properly to serve. Let us take the minimum territory first; you would think such a bank ought to serve and then the maximum.

Mr. McGarrah: I should say New England, New York, Pennsylvania and New Jersey.

The Secretary of the Treasury: The whole of New England?

Mr. McGarrah: I should think so.

The Secretary of the Treasury: You would cut out Boston altogether?

Mr. McGarrah: Yes, I think I would. With a provision for branches, naturally.

The Secretary of the Treasury: Have you formed any ideas about the division of the rest of the country into these eight districts?

Mr. McGarrah: Only in a very general way.

The Secretary of the Treasury: You haven't made any figures on it?

Mr. McGarrah: No, I have not.

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

STATEMENT OF MR. HENRY GOLDMAN.

The Secretary of the Treasury: Kindly say what has
been your banking experience and business experience
generally.

Mr. Goldman: Commercial banking.

The Secretary of the Treasury: State the name of your
firm.

Mr. Goldman: Goldman, Sachs & Company.

The Secretary of the Treasury: How long have you been
in business as a firm?

Mr. Goldman: Thirty odd years.

The Secretary of the Treasury: What is the principal
business that you do?

Mr. Goldman: Commercial banking all over the world;
issuing credits to commerce and industry in this country
and abroad; to merchants in this country for use abroad.
If you will permit me, I would prefer to talk to you
about general principles and not about details.

The Secretary of the Treasury: Well, Mr. Goldman, you
can make your statement just as you prefer.

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The Secretary of Agriculture: That is bearing on this problem.

Mr. Goldman: On this problem that you are investigating. I believe that you will want to create the minimum number of banks which you can under the law, not because of discrimination but in order to make them as strong as you can. If I understand it rightly the Currency Bill was passed to mobilize our reserves and to prevent the spasms that we have had in this country often-er than we have had in any part of the world, to the extent that they became brutal in times of extensions and distress. I believe you want to make these banks, in capital, as strong as you can possibly make them, irrespective of any small view of locality. If you can make them as strong anywhere else as in New York, make them anywhere else. You will, though, gravitate always along the lines of human experience and custom and imagination. You cannot get away from that. You will follow the lines of transit, the quick steamship lines, the lines where exchanges both foreign and domestic, have to be made, where they are immediately disposable. You will never have in my opinion, two foreign exchange markets. You will have many places dealing in foreign exchange, no matter what you resort to, but

when it comes to a foreign exchange market, you will always land in one spot; you will always land in London if you are doing business and organize such a system there. You will always land in certain centers, and you will always land here in certain centers, where the business is, no matter where you have artificially created it, that will have to be redone at the expense of a loss to your people, because if you create it so that it is perforce done somewhere else, it will have to be redone or resold or re-executed somewhere else. I think you want to make the regional banks as strong as you can in capital. They are going to be large discounters of exchange abroad. According to the custom in England we are the largest discounters, but it is to two British names that they look. I do not mean to say that we are entirely negligible, that one endorser is not considered somewhat stronger than another, but you will rarely hear the American endorser mentioned. Nobody cares. It must be the intention to change that so that the Reserve Bank will be considered a strong factor, and you can only do it by using a large capital and large reserve.

I have no local pride in this matter. I look up on it as a commercial banker with close relations all over Europe. I presume New York probably will have a Reserve Bank. I believe it will not be strong enough to perform the functions that it will be called upon to perform unless it includes a large territory. I believe it ought to include practically the northeastern seaboard and Pennsylvania. You have got to look out that it does not over-trade. It will do a certain part of this business, no matter how the government under its powers arranges it, and if it does not provide for it by the territory it gives it, not because of the territory, but because of the resources, with a sufficient amount of capital, it will over-trade. It will be a new menace in lieu of the old one. The word "aid" should be dismissed from our minds. "Get aid". That means alarm. We used to get aid by clearing house certificates, another word for suspension of paper. "The bank" as it is spoken of in London, excites the imagination of everybody who uses it. This new system ought to do that. It ought to be perfectly normal for a bank to go to the Reserve Bank and take discount, not in

the sense of its being "aid".

The secretary of the Treasury: That is what exactly the bill is designed to accomplish.

Mr. Goldman: But it won't do it unless you overshadow our local institutions. They will overshadow you unless you make it strong enough. You have plenty of remedies to cover some of the points I have heard made here; as to who knows about this mill paper and iron paper -- those are details. Branch banks will cover that and will have the necessary local color. Those are details that at this moment I do not think are worthy of discussion, because now you have plenty of remedies for it. You have got to have your Federal Reserve Banks ^{not} strong institutions if they are going to be overshadowed in New York and Boston, and they will be -- it will be done, not malevolently, but in the natural ambition of men, and if you are going to have it overshadowed by huge institutions, those institutions won't give aid, they had rather restrict commerce as they have done in the past. This must be a bank to which everybody goes when he wants business done without reflection upon his

credit. In the past it has been a reflection on a bank. The old definition of a bank has not been applied, the buying and selling of debts. When they were full of debts --

The Secretary of the Treasury: They would not sell any.

Mr. Goldman: There was no place to sell them.

The Secretary of the Treasury: There was a place but they did not resort to it.

Mr. Goldman: Because it reflected upon their credit.

The Secretary of the Treasury: They have had a perverted imagination on that point.

Mr. Goldman: I do not think it is perverted. I think, for instance, without mentioning any names, that if half a dozen banks in New York had shown re-discounts other than clearing house certificates, it would have affected their credit. I think this will do away with that, if you have your reserve strong enough.

Eight is the minimum: Some people thought less were better. That is not material now. This is the law. You want to distribute those eight so that they will be as strong as possible. If you make them strong you create a new line of business in this country which will add more

liquidity of your system than anything else can, and that is bankers' acceptances, heretofore practically unknown here, the mainstay of merchants. Today all our merchants who want credits for foreign lands must buy foreign acceptances. That paper makes us only drawers. That paper is the most liquid paper on God's earth. It will follow your discount market; it cannot live without a discount market. There is no banker of standing unless he has, through his imagination or knowledge, belief that his paper is discountable. It forms the bulk of the credit of the world and institutions like the Credit Lyonnais advertise a thousand millions of francs on bankers' bills made discountable. That will form a very large part of your portfolio here and be the most liquid asset. If it is the intention as it was of the Government and of Congress that our banking system should be freed from lines of securities that practically never liquidate, as a secondary resort you must afford them something liquid in lieu of it that can change hands readily and that passes with twenty endorsements. That is as good as currency, as good as coin. It will be this that will

give us the leaven, as was stated here today, for the finest short-time paper that exists in the world, which is the obligation of the merchant in the form of a banker's acceptance. The merchant buys and the banker furnishes the credit, and it is the most liquid asset you can find. Unless you have a discount market so broad and resources concentrated so large that this is necessary, you won't call that into life. It is the most valuable asset you have, the power to call that into life, through this new legislation which I believe will come into life if your reservoirs are strong enough.

The Secretary of the Treasury: Do you think that you can get sufficiently strong reservoirs, Mr. Goldman, with the eight regional banks as provided by the law; I mean the minimum number thereof; have you studied the subject with relation to the entire country and have you an opinion?

Mr. Goldman: I was of the opinion that eight was too many, but that is past, that is academic now. I think you are going to find some difficulty unless you resort to branch banks and confine it to that; working at it with all the intelligence you have, concentrating on it your efforts and those of your friends and advisers, I think you will

have difficulty to get eight banks strong enough; but I think you can do it. The rest of this is detail which I personally consider child's play whether the man in New York understands mill paper or whether the man in Boston understands New York importers' paper. The branch banks will teach that very quickly.

The Secretary of the Treasury: With your knowledge of the course of commercial transactions in the country, and I judge from what you have told us of your business, you must have a very wide knowledge of such transactions, both domestic and foreign, what would your views as to the most appropriate headquarters for the remaining 7 banks? You have given New York as one.

Mr. Goldman: In a general way?

The Secretary of the Treasury: In a tentative way if you wish.

Mr. Goldman: I should say one bank in the South Atlantic States.

The Secretary of the Treasury: Let us take cities.

Mr. Goldman: I think the suggestion of Atlanta was a good one.

The Secretary of the Treasury: How about Baltimore?

Mr. Goldman: I think it would be a mistake.

The Secretary of the Treasury: What would you say in lieu of Baltimore in that section?

Mr. Toldman: I think Atlanta. I think New York and Atlanta in the East is all you want.

The Secretary of the Treasury: Where else would you go?

Mr. Goldman: Chicago, of course. San Francisco --

The Secretary of the Treasury: That is four.

Mr. Goldman: And Denver.

The Secretary of the Treasury: That is five.

Mr. Goldman: New Orleans.

The Secretary of the Treasury: Six. St. Louis, I
p resume?

Mr. Goldman: St. Louis for the southwest.

The Secretary of the Treasury: What else?

Mr. Goldman: And possibly one in the far northwest.

The Secretary of Agriculture: How about that section between Atlanta and Chicago and New York and St. Louis?

Mr. Goldman: I think you are covering it all by radiating east and west and north and south. If your business is large enough at Denver, or if your business is large enough at St. Paul, have a branch bank there tributary to

the Federal Reserve Bank that heads that territory.

The Secretary of the Treasury: You said New Orleans, I recall it?

Mr. Goldman: I did. I believe New Orleans is an important point.

The Secretary of Agriculture: You regard that as a fairly strong center?

Mr. Goldman: I do, yes.

The Secretary of Agriculture: And likely to grow?

Mr. Goldman: Yes, and one of the most intelligent centers, and one that will, under the new commerce to be opened up by the Canal be a center of great importance. A great deal of business will radiate from the northwest down the Mississippi towards New Orleans.

The Secretary of Agriculture: Just one question in connection with what lies back of this arrangement, speaking of the strength of the reserve banks, you do not regard each of these reservoirs as tight?

Mr. Goldman: No, not at all.

The Secretary of Agriculture: I wanted to ask whether we might not, in thinking of these foreign relations and the domestic strength, concentrate too much thought on one

one specific reservoir -- whether we ought not to think rather of the whole?

The Secretary of the Treasury: More as coordinate units.

Mr. Goldman: I think we can for ourselves, Mr. Houston, but I do not think we can for the world.

The Secretary of Agriculture: Will not the world grow to see that?

Mr. Goldman: No. The world don't deal with so many points.

The Secretary of the Treasury: Pardon me for interrupting you, Mr. Goldman, but to follow that thought out, will not the world, when it becomes acquainted with the system, come to view as the real resources of anyone of these banks the fact that their power is coordinate?

Mr. Goldman: They will never get a chance.

The secretary of the Treasury: Why not?

Mr. Goldman: Because I think certain lines of business will always gravitate to certain points. Chicago, so long as nature, will be the grain center.

The Secretary of the Treasury: I am not by my question seeking to disturb that. I am assuming that will continue. I have in my mind a bank at New York, as one of the eight,

to illustrate the point; the resources and power of the New York bank will not be regarded by Europe as related to that unit only, in view of the fact that the entire system is coordinate, and that there is a reserve power back of the New York bank.

Mr. Goldman: Surely. It will improve its credit.

The Secretary of Agriculture: Will not the bankers of Europe quickly see that?

Mr. Goldman: Yes. That each one is after all a part only of a great system with the Federal Reserve Board controlling it and overseeing it.

The Secretary of the Treasury: And coordinating its power?

Mr. Goldman: They will recognize all that; but, nevertheless, all of certain kinds of business is going to be done with one of these banks, for a certain purpose, and with another for other purposes. So that Europe will look to the Chicago Reserve Bank in its grain business, to the New Orleans bank in the cotton business, and for its exchange and discount business it will probably look, if you create a bank at New York, to that bank, just as it would look to a bank at San Francisco in other lines. One will I believe improve the credit of the others. The details as

to the kinds of paper -- and I consider myself an expert on commercial paper -- you can dismiss from your minds. Regulations will handle that, branch boards and branch banks will handle that. We know now, with perfect intelligence, in various parts of the country, handle the paper of other parts that are two thousand miles off, and the losses that have resulted to banks from commercial paper have been practically nil; the percentage to the whole is negligible; and if we could do it with our disjointed, antiquated system of old, we certainly can with this well-worked out system under the new bill. I have myself no misgivings whatever that if the Federal Board were to call upon let us say the New York Federal Reserve Bank to discount for the one in Oklahoma, that we would have a perfect means of assuring ourselves that the paper we are going to get is good reliable paper. The machinery is perfected for the credit system for working it out most scientifically.

The Secretary of the Treasury: This is not germane to the inquiry, Mr. Goldman, but your remarks about the character of commercial paper are very interesting. Have you any doubt in your mind that there is a sufficient amount of available commercial paper under our present system to afford these banks ample business? I mean under the definition of eligible paper in the Bill.

Mr. Goldman: I will answer that yes or no, and if I am too strong in my assertion -- and I have thought it over a good deal; I have just returned from Europe and have had plenty of time on the steamer to think about it -- if you make these banks strong enough you will have a sufficient amount of activities for them. They will invite business, they will act as an encouragement to the member banks to afford the accommodation to their customers at times when they have not the resources of their own sufficient to do it with. But if the member bank in various sections of the country, or many of the member banks, overshadow the Reserve Bank, they will not go ^{to} it for discount; they will rather curtail business; and that is what we are trying to avoid.

The Secretary of the Treasury: Well, that is due, do you

not think, largely to the prejudice that exists against rediscounting, as you described it heretofore.

Mr. Goldman: No, I think it is due to an operation of the human mind that is so old that you cannot controvert it by law, and that is that the greater will not go to the lesser for business.

The Secretary of the Treasury: But are you not overlooking the very important element of strength in these banks' resources when you express that view? The of a Federal Reserve Bank are not limited either to its capital or to the reserves deposited with it, by any means, because it has in addition to that, the power of drawing through the Federal Reserve Board bill to such an extent as it is able to put up the necessary gold reserve and liquid paper.

Mr. Goldman: No, I do not overlook that.

The Secretary of the Treasury: And that is an element of strength which is, of course, irresistible.

Mr. Goldman: They will take that opportunity, but they will not take the other. But that is not a business-making feature for the Reserve Bank; that is simply one of the functions it is to perform, to furnish the bills.

The Secretary of the Treasury: Why is it not a business

feature.

Mr. Goldman: I mean from the sense of profit.

The Secretary of the Treasury: Why not?

The Secretary of Agriculture: It arises out of business transactions.

Mr. Goldman: I am not criticizing it, you understand—

The Secretary of the Treasury: But it can be a profitable business. The Reserve Bank can make a profit on those transactions as well as on anything else.

Mr. Goldman: But not to a sufficient extent. Their principal business ought not to be the printing of bills or mediums of exchange, so called money, but their principal business ought to be discount, and that is what you are looking toward.

The Secretary of the Treasury: Exactly, but that will be discounting in a certain sense, because they will be doing what we call an electric parlance taking up the peak load at anytime when it appears, and that is exactly one of the chief things the Act is designed to accomplish.

Mr. Goldman: I know that, and I believe you will accomplish it.

The Secretary of the Treasury: That is an elastic provision.

Mr. Goldman: I believe it will accomplish it if it is strong enough. I do not believe it will accomplish it if it is not strong enough, if the selfish ambition, in the broad sense, not the narrow sense, I do not mean malevolently selfish, but call it enterprise, if you choose, if the personal ambitions of member banks to overshadow are not curbed by the power and size and strength of the Reserve Banks, you will have many of the old diseases uncured. I believe if they are strong enough, this Bill has been magnificently thought out.

The Secretary of the Treasury: The reserve power that they have through their ability to secure or to convert their resources into money when required, that is into circulating notes, is a power of transcendent importance here.

Mr. Goldman: Yes.

The Secretary of the Treasury: And I say that, disregarding the capital and the reserves which they carry; I mean to say you cannot disregard that power when you consider the strength of these banks, because it is a very essential and enormous element of power.

Mr. Goldman: I do not disregard it, Mr. Secretary,

but I do believe that in business there are psychic factors which are so old and so ingrained in the human mind that no system can set them aside, and one is capital strength of an institution.

The Secretary of the Treasury: There is no question about that.

The Secretary of Agriculture: Sometimes it is nearly all psychic, is it not?

Mr. Goldman: I think there are times, and at the very critical times when it is all psychic. But up to that time, if the psychic operation is in the right direction, some of the cruelties which occurred here in 1907 would never have occurred.

The Secretary of the Treasury: We think this system is loaded with psychics.

Mr. Goldman: I think it is.

The Secretary of the Treasury: And that is one of the things we have expected to accomplish.

Mr. Goldman: I hope I have made myself clear that I think this bill is a magnificent instrument--

The Secretary of the Treasury: You have, Mr. Goldman, and we were just developing the argument --

Mr. Goldman: And I do not want to criticize it --

The Secretary of the Treasury: No, we understand.

Mr. Goldman: But I believe you have in your hands, in the administrative part which you are performing, in trying to make up your minds about the matter the power to make it a great vehicle for good, and the possibility of errors of judgment or advice that might lessen its effects very much.

The Secretary of the Treasury: There is, in addition to the psychic forces to which you refer here the additional power of education which is apt to operate very largely as the system goes into effect and its benefits come to be known and the value of its operations comes to be recognized. That of course, comes along with the development of the system itself.

Mr. Goldman: You know, in my craft of banking, I am very much like you in yours. I believe in following the lines of least resistance, and not doing too much educating.

The Secretary of the Treasury: Well, a lot of it is quite necessary at times.

Mr. Goldman: It is.

The Secretary of the Treasury: We are very much obliged to you.

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STATE OF HENRY H. BIZALLION.

The Secretary of the Treasury: Mr. Bizallion, will you kindly state your occupation and official connection?

Mr. Bizallion: I am the President of the Gotham National Bank. I have had 24 years experience in New York banking in the retail section.

The Secretary of the Treasury: You know the problem confronting the committee. If you have any views as to the division of the country into these districts, particularly the eastern part of the country here, and as to what territory should be contiguous to a Federal Reserve Bank in the City of New York, we shall be glad to have them.

Mr. Bizallion: I will give them to you very briefly. I do not seem to have exactly the same view of the eight or more Federal Reserve Banks as some of the many men who have preceded me have, because it seems to me that take the Federal Reserve Bank of New York or of Chicago, for instance, people will generally view the Federal Reserve Bank as one of the large banks, with their combined capital of somewhere in the neighborhood of \$100,000,000 or \$112,000,000, and it does not seem to me so important that the Federal Reserve Bank in Philadelphia or Boston may have a comparatively small

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capital, as some of these men have thought.

As I look at it, suppose Chicago has demands greater than it can supply. If New York has a surplus, the funds from New York will be quietly transferred.

I think a Federal Reserve Bank should be located in New York, of course. It should serve Greater New York and Long Island, and possibly Westchester County, Jersey City, Hoboken, and the Metropolitan District generally. My idea is based on our retail business.

Then I think there should be a Federal Reserve Bank in Boston, serving New England. I think that the New York Federal Reserve Bank should also serve New York State, because the general trend of business has been in that direction.

The Secretary of the Treasury: Do you think it should take in a part of Connecticut?

Mr. Bizallion: It does not seem to me that it should. The Federal Reserve Bank would not doubt establish a branch in Hartford, and I cannot see that it is important whether the dealings are had with a branch of the Federal Reserve Bank of Boston, or with a branch of the Federal Reserve Bank of New York.

The Secretary of Agriculture: Suppose it should be dis-

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covered that the normal business connections have been with New York up to that time? Would you disturb those normal business connections?

Mr. Bizallion: I would not consider those. I do not see how they would enter.

The Secretary of Agriculture: You think that is negligible, do you?

Mr. Bizallion: I think it is, inasmuch as the eight Federal Reserve Banks will be practically all one bank, that is, under the same principal control. Their funds are transferred from place to place as needed, in the form of re-discounts.

The Secretary of Agriculture: You look at them all as an aggregate reserve reservoir.

Mr. Bizallion: Yes, that is the way I look at it.

Then it seems to me that Federal Reserve Bank No. 3 should be located in Philadelphia, serving not the entire State of Pennsylvania, but the eastern section. I think the western section of Pennsylvania should go to a bank located in Cincinnati.

The Secretary of Agriculture: Would you put the Pittsburgh business there?

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Mr. Bizallion: I would put it in Cincinnati.

The Secretary of the Treasury: Coming on down the Coast, where would you put the next one?

Mr. Bizallion: I would put the next one at New Orleans.

The Secretary of the Treasury: You would disregard Atlanta, would you?

Mr. Bizallion: I would.

The Secretary of Agriculture: That means nothing between Philadelphia and New Orleans.

Mr. Bizallion: No. I think Philadelphia would serve as far south as North Carolina.

The Secretary of the Treasury: What would you do with Florida, Alabama, Georgia and South Carolina?

Mr. Bizallion: I would send them to New Orleans.

The Secretary of the Treasury: You would turn them in there?

Mr. Bizallion: I think that the Federal Reserve Bank at New Orleans would no doubt have a branch at Jacksonville.

The Secretary of the Treasury: Then what next?

Mr. Bizallion: Then it seems to me I should locate one at St. Louis, one at Chicago and the other at Denver, but for my conclusions I need nine instead of eight.

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The Secretary of the Treasury: Where is the other one?

Mr. Bizallion: The other one, of course, at San Francisco. It seems to me the one at New Orleans could very properly serve the southeastern portion of Texas.

The Secretary of the Treasury: Have you prepared any figures showing the capitalization of the different banks on that basis?

Mr. Bizallion: Roughly, Mr. Secretary.

The Secretary of the Treasury: Will you be kind enough to transcribe those and submit them with a map marked as you think the territory should be divided for the benefit of this committee.

Mr. Bizallion: I should be very glad to.

The Secretary of Agriculture: What would you do with the northwest Pacific Coast?

Mr. Bizallion: I would have all the Pacific States served from the Federal Reserve Bank in San Francisco, with a branch probably at Los Angeles and another in the northwest. My thoughts have been on the supposition that a branch of the Federal Reserve Bank in San Francisco could serve as well as the Federal Reserve Bank in San Francisco itself.

The Secretary of the Treasury: Each branch is supposed to

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be able to exert the power of the whole institution if
necessary.

Mr. Bizallion: So I understood from my reading of the law

The Secretary of the Treasury: I mean that it is available for the purposes intended, at any one given point.

Mr. Bizallion: So that I see no disadvantage in the banks of the State of Washington, for instance, being connected with a branch in Seattle or Spokane.

The Secretary of the Treasury: If you will submit that data as an exhibit to your testimony, we will be obliged to you.

Mr. Bizallion: I shall be very glad to.

The Secretary of the Treasury: Mr. Clarke and Mr. Townsend come next, and I think Mr. Clarke had an appointment, so we will hear him now.

STATEMENT OF LEWIS L. CLARKE.

The Secretary of the Treasury: Mr. Clarke, will you please state your connections.

Mr. Clarke: I am President of the American
Exchange National
Bank.

The Secretary of the Treasury: You are familiar with the

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problem that the committee is trying to solve, that is, the immediate problem of dividing the country into not less than eight nor more than twelve districts under this law, and the establishment of a Federal Reserve Bank at some point within each one of those districts.

Mr. Clarke: Yes.

The Secretary of the Treasury: Have you given consideration to that question?

Mr. Clarke: I have given it very careful consideration.

The Secretary of the Treasury: We would be very glad to have your views about that.

Mr. Clarke: I have divided the United States into eight districts, feeling that the minimum division was better than the maximum division in point of strength, and for the good of the whole country and for our financial situation as a whole.

The Secretary of the Treasury: I see that you have a tabulated statement in your hand. You need not read the whole of it, but you may state your conclusions, and your figures will be included in your testimony as an exhibit.

Mr. Clarke: I will make a statement of the conclusions.

In reaching those conclusions I have taken the population and

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the capital and surplus, and the square miles in each state which I have included in that particular district. In order to get the population I have taken the census of 1910, and in order to get the capital and surplus I have taken the Comptroller's call of October 31st, 1913, as well as for the number of banks in each district.

Now my feeling is that so far as New York is concerned, it is most important that it have a large Federal Reserve Bank, because of the fact that New York has been looked upon as the financial centre of the United States, always from the inception of the states. New York, I may say, has always been looked upon as the financial headquarters of the country. Take it abroad, foreigners look upon New York as more or less the United States. They look at the quotations, money, rates and everything just as we look at the quotations for London, Paris and Berlin. It is with that idea that I start.

Take the states of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey and Pennsylvania, they have a population of 25,862,000, in a territory of 168,625 square miles; a capital and surplus of \$807,000,000, the number of banks being 1,968. On the basis of three per cent subscribed, the capital will be \$24,210,000,

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with an additional \$24,210,000 subject to call, which would make a total of \$48,420,000. That would make the main bank as large in paid capital as any financial institution in the City of New York, and with a subscribed capital twice as large; and therefore, even though you have got the great aggregates of capital and the central board of control in your federal reserve system, I feel that it is most important that the Federal Reserve Bank in the New York district should be comparable with the largest national institutions located in the same district.

The Secretary of the Treasury: Have you figured the reserves that that bank would hold?

Mr. Clarke: I have not figured the reserves. I have joined up on the basis of capital.

The Secretary of the Treasury: Merely capital?

Mr. Clarke: That is all I have figured on as the basis, and I think that is the most important.

Then I feel that Washington or Richmond should have a Federal Reserve Bank covering the states of Virginia, West Virginia, North Carolina, Maryland, the District of Columbia and Delaware. This district has a combined population of 7,316,000 in a territory of 133,810 square miles, with a capital and surplus of \$100,000,000, the number of banks being

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463, according to the Comptroller's last call. The capital subscribed would be \$6,000,000, with \$3,000,000 paid in and \$3,000,000 subject to call.

I would take Atlanta next, serving the states of Mississippi, Alabama, Georgia, Florida, Tennessee and South Carolina. These states have a population of 10,995,000, in a territory covering 289,205 square miles. The capital and surplus is \$83,000,000, and there are 450 banks. The subscribed capital to the Federal Reserve Bank would be \$4,980,000, of which \$2,490,000 would be paid in, the remainder being subject to call.

The Secretary of the Treasury: You are adhering strictly to state lines in this lay-out, are you?

Mr. Clarke: Yes, I think it is much better to adhere to state lines.

The Secretary of the Treasury: Under those circumstances you would throw Memphis into the Atlanta district.

Mr. Clarke: Yes.

The Secretary of the Treasury: The course of exchanges and of business in Memphis is not in that direction. I want to bring out the point clearly that you have disregarded those considerations in adhering strictly to state lines.

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Mr. Clarke: I have adhered strictly to state lines in view of the fact that in dividing up these districts I have had regard to points which are reached by a one-day mail, and so long as it is a one-day mail it makes no difference whether Memphis goes to Atlanta, or goes to New Orleans, or goes west to Omaha or St. Louis, or north to Chicago.

The Secretary of the Treasury: All right. I merely wanted to call attention to the basis of this division, and the effect that it might have upon the ordinary course of business.

Mr. Clarke: I think the one-day point is the essential thing to look at.

Next I take Chicago, and in that district I include Ohio, Minnesota, Wisconsin, Michigan, Illinois, Indiana, Iowa, and Kentucky, with a combined population of 24,300,000 people, in a territory of 427,805 square miles. I think it is better not to split a state. I think it is better to have each district defined by states.

In this Chicago district the combined subscription would be \$24,300,000, of which \$12,150,000 would be paid up, and \$12,150,000 would be subject to call. That would bring Chicago as second to New York. Chicago is the great grain

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centre, and has been recognized as a great financial centre. It has been growing right straight along, and I think under the circumstances, being a large centre, it would naturally be in a position to serve the western and other surrounding territory.

I next take St. Louis or Kansas City. St. Louis is a central reserve city, but I rather feel that possibly Kansas City might be quite as good as St. Louis. In that territory I include Kansas, Oklahoma, Missouri and Arkansas, with a combined population of 8,216,000 in a total of 275,402 square miles. The total subscription would be \$5,700,000, of which \$2,850,000 would be paid in and \$2,850,000 subject to call.

Next I take Omaha or Denver. I know a good many people always speak of Denver as one of the regional points, because the mint is there, but I do not so consider it. I feel that it is out of the natural order to go to the mountains for your money, and that the more logical place would be at the east end of Nebraska. It would be more central. Of course, Denver would be a one-day mail point as well as Omaha, but I think Omaha would be very much more satisfactory.

In that territory I include Montana, Wyoming, Colorado, New Mexico, North Dakota, South Dakota, and Nebraska, with a

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combined population of 4,001,000, in a territory of 696,430 square miles, with a combined capital and surplus of \$70,000,000, the number of banks served being 746. That would have a total subscription of \$4,200,000, with \$2,100,000 paid in and \$2,100,000 subject to call.

Then I would have San Francisco taking in the region west of the Rocky Mountains, including the States of California, Oregon, Washington, Nevada, Idaho, Arizona and Utah.

The Secretary of the Treasury: By the way, what do you do with Texas?

Mr. Clarke: I am coming to Texas last.

The Secretary of the Treasury: I thought perhaps I might not have heard you when you stated it.

Mr. Clarke: I first drew up my paper for the sake of argument, myself, and --

The Secretary of the Treasury: All right. I simply wanted to know what you had done with Texas.

Mr. Clarke: I have put Texas into the last division, in making up my argument.

San Francisco, as I say, should take in California, Oregon, Washington, Nevada, Idaho, Arizona, and Utah. That district has a total population of 5,177,177, in a territory covering

717,060 square miles; capital and surplus \$130,000,000, divided among 519 banks. The total subscription would be \$7,800,000, with \$3,900,000 paid up and \$3,900,000 subject to call.

Then I take Houston or New Orleans, and in that district I include the states of Texas and Louisiana. Possibly New Orleans is the more logical point on account of the Panama Canal, and so forth, but I am rather inclined to Houston. That district has a population of 5,552,930, in a territory covering 314,500 square miles; capital and surplus \$91,000,000, with 550 banks. The total subscription would be \$5,460,000, of which \$2,730,000 would be paid in and \$2,730,000 subject to call.

The Secretary of the Treasury: What did you do with the northwest? Did you touch Washington and Oregon?

Mr. Clarke: Yes, I put them in the district west of the Rocky Mountains.

The Secretary of the Treasury: You include them with California?

Mr. Clarke: Yes. The territory west of the Rocky Mountains is more accessible to San Francisco. It brings them into the limit of a one-day mail.

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A recapitulation shows \$106,860,000 subscribed, with 7,502 banks, showing a combined capital and surplus at the last call of \$1,781,000,000.

The Secretary of the Treasury: This is all based entirely upon the national banks?

Mr. Clarke: This is based entirely on the national banks, and the figures as I have stated are those given in response to the last call of the Comptroller. I have made my calculation without regard to the state banks. I do not see why all the country banks should be hungry to come in.

The Secretary of the Treasury: Why do you say that?

Mr. Clarke: Because they have got to lose money to come in.

The Secretary of the Treasury: I cannot see that.

Mr. Clarke: The money that they have in their reserve now is in central reserve cities drawing interest, and --

The Secretary of the Treasury: Would it surprise you if I told you that they are coming in very rapidly?

Mr. Clarke: I know they are, and maybe they feel that it is a kind of a good thing to be on the band wagon, but I cannot see it quite so. It may be from their viewpoint, of course, but I have disregarded the question of state institutions. The only way I could form my conclusion was on

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the basis of national banks, those that would lose their charters if they did not come into the system.

The Secretary of Agriculture: Have you considered the normal course of trade? For instance, do you consider the southern connections as coming to Philadelphia rather than Baltimore? You suggested Philadelphia for the section as far down as North Carolina, did you not?

Mr. Clarke: No, I suggested Washington or Richmond.

The Secretary of Agriculture: Oh, yes, I beg your pardon.

Mr. Clarke: Yes, and I have had due regard for the country as a whole, on the question of calling for accommodations. I take for instance, Texas and Louisiana on account of the crop situation there, and I take Atlanta as being a one-day point, and rather central to the section around it, and I take Washington or Richmond as being central to tobacco and cotton, and then I take New York as the main reserve, or whatever you may want to call it.

The Secretary of the Treasury: Or in the vernacular "the main guy".

Mr. Clarke: The main guy, if you choose to call it so, and if after your deliberations you should decide to make New York the main guy, I should be glad to have you do so.

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The Secretary of Agriculture: What would you say to the suggestion that by having the area such as you have defined here there would be very strong pressure at particular times on account of the seasonal movements.

Mr. Clarke: That is my idea in having Chicago a large reserve centre.

The Secretary of Agriculture: But then you would have the same thing here in Texas and Louisiana?

Mr. Clarke: The same what?

The Secretary of Agriculture: You would have the stress coming from all over those two states at one season of the year.

The Secretary of the Treasury: That being a homogenous territory, with one kind of credit.

Mr. Clarke: Then they have got New York to call upon, or you can call upon San Francisco. They probably would not be called upon to serve that territory at such a time, because San Francisco would not be called upon. They do not come in as borrowers to a very great extent.

The Secretary of the Treasury: Then you have grouped the centres here in the Middle West pretty close together?

Mr. Clarke: Yes, but I feel that by grouping them in that

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way it rather strengthens their position.

The Secretary of the Treasury: Will you submit those figures as an exhibit to your testimony?

Mr. Clarke: Yes.

The statement referred to is as follows:

Census of 1910. Comptroller's Call of October
21st, 1913.

State	Population	Square Miles	Capital & Surplus.	No.
<u>New York.</u>				
Maine	742,000.	33,000	11,000,000.	69
New Hampshire	430,000.	9,305	8,000,000.	56
Vermont	356,000.	9,565	7,000,000.	49
Massachusetts	3,366,000.	8,315	96,000,000.	178
Rhode Island	542,000.	1,250	11,000,000.	20
Connecticut	1,114,000.	4,990	31,000,000.	78
New York	9,110,000.	49,170	344,000,000.	477
New Jersey	2,537,000.	7,815	45,000,000.	203
Pennsylvania	<u>7,665,000.</u>	<u>45,215</u>	<u>254,000,000.</u>	<u>838</u>
	25,862,000.	158,625	807,000,000.	1968
SUBSCRIPTION	48,420,000. - 6%	--	\$24,210,000. - 3%.	

State	Population	Square Miles	Capital & Surplus	No.
<u>WASHINGTON or RICHMOND.</u>				
Virginia	2,061,000.	42,450	29,000,000.	133
West Virginia	1,221,000.	24,780	16,000,000.	116
North Carolina	2,206,000.	52,250	11,000,000.	72
Maryland	1,295,000.	12,210	29,000,000.	105
District of Col.	351,000.	70	12,000,000.	12
Delaware	<u>202,000.</u>	<u>2,050</u>	<u>3,000,000.</u>	<u>25</u>
	7,316,000.	133,810	100,000,000.	463

SUBSCRIPTION 6,000,000. - 6% -- 3,000,000. - 3%

ATLANTA.

Mississippi	1,797,000.	46,180	5,000,000.	33
Alabama	2,138,000.	52,250	16,000,000.	90
Georgia	2,609,000.	59,475	24,000,000.	117
Florida	752,000.	58,680	11,000,000.	53
Tennessee	2,185,000.	42,050	19,000,000.	109
South Carolina	<u>1,514,000.</u>	<u>30,570</u>	<u>8,000,000.</u>	<u>48</u>
	10,995,000.	289,205	83,000,000.	450

SUBSCRIPTION 4,980,000. - 6% -- 2,490,000. - 3%

State	Population	Square Miles	Capital & Surplus	No.
<u>CHICAGO</u>				
Ohio	4,767,000.	41,060	94,000,000.	380
Minnesota	2,076,000.	83,365	41,000,000.	271
Wisconsin	2,334,000.	56,040	26,000,000.	129
Michigan	2,810,000.	58,915	23,000,000.	99
Illinois	5,639,000.	56,650	121,000,000	459
Indiana	2,701,000.	35,350	41,000,000.	256
Iowa	2,225,000.	56,025	33,000,000.	341
Kentucky	<u>2,290,000.</u>	<u>40,400</u>	<u>26,000,000.</u>	<u>145</u>
	24,842,000.	427,805	405,000,000.	2080

SUBSCRIPTION 24,300,000. - 6% -- 12,150,000. - 3%.

ST. LOUIS or KANSAS CITY.

Kansas	1,692,000.	82,080	18,000,000.	213
Oklahoma	1,657,000.	70,057	18,000,000.	326
Missouri	3,293,000.	69,415	52,000,000.	133
Arkansas	<u>1,574,000.</u>	<u>53,850</u>	<u>7,000,000.</u>	<u>54</u>
	8,216,000.	275,402	95,000,000.	726

SUBSCRIPTION 5,700,000. - 6% -- 2,850,000. - 3%.

State	Population	Square Miles	Capital & Surplus	No.
<u>OMAHA or DENVER</u>				
Montana	376,000.	146,080	8,000,000.	59
Wyoming	146,000.	97,890	3,000,000.	30
Colorado	799,000.	103,925	19,000,000.	126
New Mexico	327,000.	122,580	3,000,000	40
North Dakota	577,000.	70,795	7,000,000.	146
South Dakota	584,000.	77,650	6,000,000.	104
Nebraska	<u>1,192,000.</u>	<u>77,510</u>	<u>24,000,000.</u>	<u>241</u>
	4,001,000.	696,430	70,000,000.	746
SUBSCRIPTION	4,200,000. - 6%	--	2,100,000. - 3%	

<u>SAN FRANCISCO</u>				
California	2,377,549.	158,360	85,000,000.	258
Oregon	672,765	96,030	14,000,000.	84
Washington	1,141,990.	69,180	17,000,000.	76
Nevada	81,875	110,700	2,000,000	10
Idaho	325,594	84,800	5,000,000.	55
Arizona	376,053.	113,020	2,000,000.	13
Utah	<u>373,351.</u>	<u>84,970</u>	<u>5,000,000.</u>	<u>23</u>
	5,177,177.	717,060	130,000,000.	519
SUBSCRIPTION	7,800,000. - 6%	--	3,900,000. - 3%	

State	Population	Square Miles	Capital & Surplus	No.
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HOUSTON or NEW ORLEANS.

Texas	3,896,542.	265,780	77,000,000.	519
Louisiana	<u>1,656,388.</u>	<u>48,720</u>	<u>14,000,000.</u>	<u>314</u>
	5,552,930.	314,500	91,000,000.	550

SUBSCRIPTION 5,460,000. - 6% -- 2,730,000. - 3%.

F.R.City.	Population	Sq.M.	Cap.& Sur.	No. Banks
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New York	25,862,000.	168,625	807,000,000.	1,968
Rich.or Wash.	7,316,000.	133,810	100,000,000.	463
Atlanta	10,995,000.	289,205	83,000,000.	450
Chicago	24,842,000.	427,805	405,000,000	2,080
St. L. or Kas.Cy.	8,216,000.	275,402	95,000,000	726
Omaha or Denver	4,001,000.	696,430	70,000,000	746
San Francisco	5,349,177	717,060	130,000,000	519
Houston or N.O.	<u>5,552,930.</u>	<u>314,500</u>	<u>91,000,000</u>	<u>550</u>

91,962,107 3,022,837 1,781,000,000. 7,502

SUBSCRIPTION 106,860,000.

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Mr. Clarke: Now if I may be allowed, I wrote a letter to one of our correspondents here who made inquiry of me as to the federal reserve system, and so forth, and wanted to know if he could call upon us, and what my ideas were. I should like to read an extract from my reply to him.

The Secretary of the Treasury: Do you propose to file this as an exhibit?

Mr. Clarke: I will just read the part of it that is a reply to his inquiry. I wrote him as follows:

"Yes, we intend to join the system and you can rest assured it will afford us pleasure to be of service to you in the future in any way possible, whether you are a member or not. Frankly, in my mind the one important question is the Reserve Board. Should the President select and be able to obtain the services of men of high standing and men of stability who in most cases have made their record and desire to round out their career with honor, in my opinion the new currency system will be a great success. The fact is there are so many privileges, direct and implied, that it is necessary to have an exceedingly strong and level headed Board. Should there be any specific questions you desire to put, command me, and it will be a pleasure to respond."

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The Secretary of the Treasury: There is a great deal of stress being laid on the personnel of this Board. Of course, that is a matter of very great importance, but have you any doubt that we can find five thoroughly patriotic and capable men in America to serve on this Board?

Mr. Clarke: I have not. I think you can. I am firmly of the opinion that President Wilson and those associated with him are anxious to get the best men they can, and that they will leave no stone unturned to get the best, and it is my hope that you will find enough patriotic citizens who will be willing to accept. I think you will. It is going to be a good deal for some people to give up, but for a man who has made his record and who wants to round out his career, I think there are plenty of them who will be only too glad to accept the honor and to serve as members of this Board.

The Secretary of the Treasury: Do you think of anything else that we wish to ask of Mr. Clarke?

The Secretary of Agriculture: No, I do not.

The Secretary of the Treasury: We are very much obliged to you, Mr. Clarke.

STATEMENT OF EDWARD TOWNSEND.

Mr. Townsend: I am President of the Importers' & Traders' National Bank of this City.

The Secretary of Agriculture: Mr. Townsend, you have heard some of the questions we have been asking and the problem that is confronting the Committee of dividing the country into districts and designating a reserve center in each district. We would be very glad to have you give us your views as to the general problem, as well as the problems in this section.

Mr. Townsend: Well, I am of the opinion, sir, that the Reserve Bank in New York should have a large capital, probably from twenty to twenty-five millions of dollars, because New York is the financial center of the United States. New York at all times finances largely all the large business interests of the country. If we were to have a tight money market, our accommodations -- the banks in this section would require liberal accommodations and they should have the facilities largely, in my opinion, from their own bank -- Federal Reserve Bank. At the times they did not require it, the Federal Reserve Bank of New York would be better situated, being in the best market to make the choicest

sort of investments for itself, so that in every crop moving period, when there was simply a demand for money, if the Federal Reserve Banks throughout the country at large could not supply the requirements, then, as under the Bill, New York with its large resources in good shape would be prepared to extend assistance to the others.

The Secretary of Agriculture: Have you thought of the district that ought to be included?

Mr. Townsend: Why, yes; I gave a little thought to that and I have drawn up one like this. I understand that Pittsburgh and Atlanta are both anxious to be considered reserve cities. I have made a distribution here of eight and made up in this way: Of New York, New England, New Jersey and four fifths of Pennsylvania would make a capital of \$751,000,000, capital and surplus, which, on a three per cent basis would give the Federal Reserve Bank here \$22,530,000.

Pittsburgh, if it took in one fifth of Pennsylvania, the District of Columbia, Maryland, West Virginia, Virginia, Kentucky, Tennessee and Delaware would have \$180,000,000 of capital and surplus, which, on a three per cent basis, would be \$5,400,000.

Atlanta, if it took in North Carolina, South Carolina, Georgia, Florida and Alabama, would have \$69,000,000, and on the three per cent basis would give it \$2,070,000 capital.

New Orleans, taking in Louisiana, Mississippi, Texas, New Mexico and Arizona, would have \$99,000,000, which on a three per cent basis, would give them a capital of \$2,970,000.

San Francisco, taking in California, Nevada, Oregon, Washington, and Idaho, would make a capital of \$132,000,000, which on a three per cent basis would give them \$3,660,000.

St. Paul, taking in Minnesota, Wisconsin, North Dakota, South Dakota and Montana, would have \$85,000,000 capital, or capital for the bank on a three per cent basis of \$2,550,000.

St. Louis, taking in Missouri, Kansas, Oklahoma, Arkansas, Nebraska, Wyoming, Colorado and Utah, would have \$143,000,000 banking capital, or a capital for the bank of \$4,290,000.

Chicago, taking in Ohio, Indiana, Illinois, Michigan and Iowa, would have \$306,000,000 of banking capital, or a capital on a three per cent basis of \$9,180,000.

turn that into cash at any moment, there will then be a great open discount market, and money will find its way into call loans on the stock exchange.

The Secretary of the Treasury: You say that paper has got to be created?

Mr. Cowperthwait: I do not think it is in existence at the present time.

The Secretary of the Treasury: You mean the specific character of paper you have in your mind?

Mr. Cowperthwait: The paper I mean is the paper that is in the nature of an acceptance which is used abroad.

The Secretary of the Treasury: Are you speaking of domestic acceptances or foreign acceptances?

Mr. Cowperthwait: Well, I am hoping that in this country the sort of paper that is created abroad will be created here. But I do not believe that it will be created here unless there is a great bank in New York City which will give stability and certainty of a market for all such paper at all times.

The Secretary of the Treasury: The paper to which you refer as existing abroad is paper representing foreign transactions, I mean transactions—

that the small interior banks make are not like those the large City banks make, in that they are not as liquid. You take the large city bank on the average and its notes are paid at maturity, except at extreme times, and then application is made in a number of cases for renewals, but under ordinary circumstances they are absolutely paid. I do not understand that is the situation throughout the country. In very many of these smaller country banks, a man gets a note in there and so long as he pays it, the bank is delighted to have his note renewed from time to time, and, therefore, if they are to have larger capital for this purpose, the character of the assets would not be liquid, and it seems to me, to some extent they should rely on the larger reserve places, for instance, at the time they need it, especially the moving of the crops annually, and under this system the probabilities are that ^{panic}, if they were checked in the large centers, panics such as we have had before, would not extend to the interior.

The Secretary of Agriculture: What about the convenience of handling the business in a territory as long as you have sketched here?

Mr. Townsend: Well, I do not see why that would not be

handled all right. We handle business all over the United States.

The Secretary of Agriculture: It would take 48 hours to get from Arizona, longer than that.

Mr. Townsend: Yes, but no banks should be in such a position, except by itself individually, perhaps, on some occasion, that 48 hours should make a very great difference. They ought to know in advance 48 hours of their condition.

The Secretary of the Treasury: You are excepting 1907 when you make that statement?

Mr. Townsend: No, I am excepting no time.

The Secretary of the Treasury: 48 hours.

Mr. Townsend: No, I do not see why not. The banks in New York extended their loans very materially in 1907. Of course, they went short in their reserve. We went short in our reserve very largely.

The Secretary of the Treasury: I was speaking more tactically of the situation than seriously.

Mr. Townsend: The trouble with the country's banks in every panic since we have issued clearing house securities, they very properly perhaps, take alarm, because when New York issues Clearance House certificates, especially in some of the

recent years, they assume very properly that that means the closing of actual cash coming from those large cities to them. They at once commence to fortify themselves, and instead of fortifying themselves up to the legal requirements as the statistics show, they fortified themselves, where they might have from 15 to 25 per cent in reserve, they fortified themselves all the way up from 50 to 75 per cent. They produced the panic by their fright. The first result of that is a derangement of all exchanges between the cities of the Union, and as soon as they get over their fright and commence to let their money come out again, they have more than their necessity for. Then we have stagnation for years. If they could use the reserves, as this contemplates how--if they could have some system so that the banks would not take fright, but could feel they could get assistance as they wanted it, except in individual cases--I do not take it that any bank ever gets in a condition that it does not know where it is days before it requires help.

The Secretary of Agriculture: It has been suggested several times that a bank ought to be able to reach the Reserve Bank in 15 hours--a member bank, 12 to 15 hours

Mr. Townsend: I should not think that was so essential an object, no, sir. It knows generally its demands, except as I say if there were a run on a particular bank, it might be inconvenienced by not being able to do that, but I do not take it in any bank that is properly run, that there is ever such an exigency as that arises.

The Secretary of the Treasury: I do not think it has been suggested that it is essential they should be within 15 hours, but it has been suggested as convenient.

Mr. Townsend: It might be convenient, but I should not consider it necessary.

The Secretary of Agriculture: Your thought in this arrangement was rather in the normal movement of trade.

Mr. Townsend: Generally speaking, that is right straight through,— but you see if Chicago, for instance, has this capital of nine million dollars, it would be large as compared with New York's twenty-two millions -- the difference in the volume of business.

The Secretary of Agriculture: You have gone by State line

Mr. Townsend: Yes, very largely, except in one case, where for Pittsburgh we chopped off one fifth of Pennsylvania

The Secretary of Agriculture: Very much obliged to you.

STATEMENT OF MR. J. H. COWPERTHWAIT.

Mr. Cowperthwait: I am a merchant in New York.

The Secretary of the Treasury: What is your firm?

Mr. Cowperthwait: Cowperthwait & Sons.

The Secretary of the Treasury: What kind of business are you in?

Mr. Cowperthwait: Furniture.

The Secretary of the Treasury: You are one of a committee from the Merchants Association of New York?

Mr. Cowperthwait: Yes, sir.

The Secretary of the Treasury: And a member of the Currency Committee of the Association?

Mr. Cowperthwait: Banking and currency.

The Secretary of the Treasury: Now, Mr. Cowperthwait, you have heard the discussions this morning, and you know the information we want. Will you give us any suggestions you have about the division of the country into these districts?

Mr. Cowperthwait: I put just a little statement on paper. I say: I am peculiarly anxious to help make the Currency Law work well as I believe that I was the first person to suggest to Congress the basic principle of the law.

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It seems to be necessary that the New aYork Reserve Bank should be very strong, because New York is the financial center of the country. If you have a weak bank here you will have a weak system, the whole financial body will be weak because the heart will be weak. The surplus of loanable funds will continue to come to New York and this city will continue to be the financial center no matter how you divide the country into districts. If the New York Bank is very strong, that bank and its member banks will be benefited by the natural drift of money to New York, but if the New York Reserve Bank is weak then this flow of money will use State banks, Trust Companies and private bankers outside of the new system. I think, therefore, that it is the interest of the whole country that at least forty per cent of its banking power should be represented in the New York Reserve Bank. It seems to me best that all the cities of Boston, Baltimore, Pittsburgh and Buffalo should be inside of the boundaries of the New York district.

The secretary of the Treasury: Now the reasons for those conclusions, Mr. Cowperthwait?

Mr. Cowperthwait: Well the principal reason is the view that I have, that a large open discount market will be es-

established in New York. I do not think it is possible to establish any such market anywhere else in the country at first. But if the New York bank should be very strong, I think then there would come into existence discount houses or acceptance houses, and that we shall then develop a discount market with standardized commercial paper which we have not in this country and which they have abroad.

Now, I think the principal reason why they have no banks abroad is that the commercial paper is standardized. That gives banks and investors a chance to invest in commercial paper with the certainty that they can sell it whenever they see fit. There is no such commercial paper made in this country, consequently the loanable funds do not go into such paper. When anybody buys paper in this country, the idea is that he is expected to keep it until it matures. We have no good reason for thinking after he buys it that he can sell it. But abroad, people buy commercial paper with the idea that they can turn it into cash at any minute. Now that is what I believe will make the proper test of this new system. If a great discount market is established in New York City so that any person buying commercial paper will know almost to a certainty that he can

turn that into cash at any moment, there will then be a great open discount market, and money will find its way into commercial paper instead of into call loans on the stock exchange.

The Secretary of the Treasury: You say that paper has got to be created?

Mr. Cowperthwait: I do not think it is in existence at the present time.

The Secretary of the Treasury: You mean the specific character of paper you have in your mind?

Mr. Cowperthwait: The paper I mean is the paper that is in the nature of an acceptance which is used abroad.

The Secretary of the Treasury: Are you speaking of domestic acceptances or foreign acceptances?

Mr. Cowperthwait: Well, I am hoping that in this country the sort of paper that is created abroad will be created here. But I do not believe that it will be created here unless there is a great bank in New York City which will give stability and certainty of a market for all such paper at all times.

The Secretary of the Treasury: The paper to which you refer as existing abroad is paper representing foreign transactions, I mean transactions --

Mr. Cowperthwait: Well, domestic in the country, of course.

The Secretary of the Treasury: Not wholly/

Mr. Cowperthwait: As I understand the situation, I spent some time in England and I studied up the question somewhat, I believe it is the custom in England, where a person buys a large quantity of goods to give an acceptance. The seller of the goods will make a draft against the buyer, and the buyer will then go to some bank and get that bank or banker or acceptance house to give his acceptance across the face of that draft in place of the buyer's acceptance. That then becomes a standardized piece of paper, and the seller of those goods has that piece of paper which he can sell any moment and turn it into cash at any moment, and whoever buys it can then turn it into cash whenever he sees fit; so that when a man in England buys commercial paper he has always in view the chance that he will become short of money and he can turn it into cash instantly. Now that situation does not exist here.

The Secretary of the Treasury: Yes, we do not have domestic acceptances of that character.

Mr. Cowperthwait: And I believe under this law it will

be established.

The Secretary of the Treasury: I do not think this law gives any power to create domestic acceptances of the character you describe but it does give the power to create foreign acceptances; I mean acceptances based upon foreign transactions.

Mr. Cowperthwait: Yes.

The Secretary of the Treasury: Those of course will come into operation under the new law; but purely domestic acceptances are not provided for by this Act.

Mr. Cowperthwait: Yes, but Mr. Secretary, as I understand the law, national banks have no right to give acceptances on domestic exchange under the new law. They have on foreign exchange, but not on domestic.

The Secretary of the Treasury: Exactly.

Mr. Cowperthwait: Now I should hope that acceptance houses would come into existence and that they would then give acceptances and these acceptances would be bought by national banks in this system. I do not think there is anything against them buying it --

the Secretary of the Treasury: There is no trouble about their buying them, because it is, in effect, buying

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paper that is endorsed and then re-endorsed by the member bank and the Federal Reserve Bank.

Mr. Cowperthwait: Well, it is not an endorsement --

The Secretary of the Treasury: I say in effect it is.

Mr. Cowperthwait: Yes, but there is a great difference --

The Secretary of the Treasury: I know the difference. I am quite familiar with it.

Mr. Cowperthwait: Yes. I did not mean to give you instruction in the matter but --

The Secretary of the Treasury: I understand your point thoroughly. I was only speaking of the fact, however, that when this paper comes to the Reserve Bank I must bear the endorsement of the member bank, no matter what the form is, and the acceptance which comes up to the member bank, would, in turn, have to bear the endorsement of the member bank before it would be rediscountable by the reserve bank. There is no doubt in my own mind that the provisions of this law are going to create a demand for commercial paper of a new character and the Federal Reserve Board has the power under the Act to define the meaning or to give a definition of the character of commercial paper

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which is eligible under the Act. No it can by regulation prescribe such forms of acceptances, I think, as will encourage them to come into existence, but that will be a development of the system, we all expect.

Mr. Cowperthwait: I do not know whether I make myself clear, but I think the point is whether this market for commercial paper shall exist outside of this syetem entire-ly. Now the central bank in England or in France or in Germany need not necessarily be a very strong bank, because the paper never reaches that bank. And what I hope here is that an enormous volume of commercial paper will be created and bought and sold and never reach the central bank at all.

The Secretary of the Treasury: There is not any reason why it should ns be.

Mr. Cowperthwait: Well, that would depend. It seems to me that depends on the strength of the New York bank. If the bank is so very strong that no one shall have any doubt but that it will always be ready to buy, in case there is a necessity, then they will buy and sell paper freely; but if they have any doubt that it might work along this line, if it is a small bank, somewhat smaller than our

great banks, a great many banks will not ever go it; they would rather not go to it.

The Secretary of the Treasury: Suppose the Reserve Bank, on the other hand, had the power which none of the member banks have, of converting that paper into currency, as they will have, through application to the Federal Reserve Board, it has a strength there that will be unequalled by any member bank.

Mr. Cowperthwait: I do not think it is so strong as if it had a great capitalization.

The Secretary of the Treasury: Suppose it had both? It has an adequate capitalization and all these resources in the form of the loanable portion of its resources, and on top of that it has the power of converting this paper into currency to meet any extraordinary demand or the normal demands of business, through the application to the Federal Reserve Board; it has a strength there which is unapproachable by any of the member banks, because the member bank has not the power of converting its paper into currency in the same way. The point is, we ought not to lose sight of the fact that the capitalization of these banks is not the sole element of consideration. It has

beside and beyond that a power, through the Federal Reserve Board, which is unlimited, so long as it can put up the necessary amount of gold reserve and furnish the necessary amount of liquid or eligible paper required by this Act.

Mr. Cowperthwait: I do not want to disagree with your ideas at all. In fact I do agree with them.

The Secretary of the Treasury: I was only wanting to bring out the point that there is an element of strength which, in all the testimony we have heard here, seems to be wholly disregarded.

The Secretary of Agriculture: And attention is directed almost exclusively to the thing which is not of most importance.

The Secretary of the Treasury: Yes.

The Secretary of Agriculture: Capital is by no means the most important thing.

The Secretary of the Treasury: It is an element of very great importance, but as the Secretary says, it is not a matter of sole importance. Now, Mr. Cowperthwait, have you considered or studied the map of the country with reference to the division of the country into districts?

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Mr. Cowperthwait: In our committee of the Merchants' Association we went over it very carefully, and I think the views that Mr. Bush and Mr. Page have expressed, are the views of all of us.

The Secretary of the Treasury: They are going to submit a map with their suggestions, as I understand it.

Mr. Cowperthwait: My general idea is, I think there are seven certain situations: New York, Atlanta, Chicago, St. Louis, New Orleans, Denver and San Francisco. Now to make up the eighth bank, I should say there would be a choice between Baltimore and Boston and Pittsburgh. I would rather have all those three included in the New York district but I should say if in any one of them there is a very strong feeling about it and they want a bank of their own, let them have it, and in that way have eight.

The Secretary of the Treasury: Have you anything else to offer?

Mr. Cowperthwait: No, I thank you.

The Secretary of the Treasury: We will hear from Mr. Ludlow. Mr. Ludlow is Chairman of the Clearing House of Hudson County.

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STATEMENT OF SAMUEL LUDLOW, JR.

The Secretary of the Treasury: Just state your connections, Mr. Ludlow

Mr. Ludlow: I am President of the Union Trust Company of Jersey City. I do not appear officially as representing the Hudson County Banking Association, but merely incidentally.

The Secretary of Agriculture: You know our problems here?

Mr. Ludlow: Yes.

The Secretary of Agriculture: And we would be very glad to hear from you.

Mr. Ludlow: There were two elements which occurred to me in connection with this investigation that I felt I would be justified in suggesting. Of course, the element of districting the country for the Reserve Banks is the primary element which enters into your investigation, as I understand it. You cannot very well dissociate the idea as to the number of district Reserve Banks from the problem. In other words, in testifying in connection with this hearing, it would seem that some sort of a definite idea should first be determined as to the number of district

Reserve Banks that might be necessary. That thought has occurred to me because, in reading this Act, it does not seem to provide specifically for a method of changing your scheme of classification. I mean by that, the act provides that you are to arrange for not less than eight nor more than 12 district reserve banks. It also provides a method of adjustment of the stock --

The Secretary of the Treasury: You mean there is no provision in the bill for a readjustment of the lines of the district?

Mr. Ludlow: Yes.

The Secretary of the Treasury: v That is expressly provided for. Not only is it provided that the Federal Reserve Board may readjust the districts, but it may increase them, if it starts out with eight, to a maximum of 12, at any time, within its judgment.

Mr. Ludlow: That appeared as the object of the bill, I do not think there is any doubt about that --

The Secretary of the Treasury: It is expressly provided in the bill.

Mr. Ludlow: But it seemed to be rather ambiguous in the bill, because of the definitions. If you will just permit

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me a moment on the definitions --

The Secretary of the Treasury: pardon me, Mr. Ludlow,
but that is provided for --

The Secretary of Agriculture This is the statement,
that they shall not be subject to review except by the
Federal Reserve Board, which may readjust them.

Mr. Ludlow: I see.

The Secretary of the Treasury: That is the action of
the organization committee which may not be subject to re-
view except by the Federal Reserve Board, but there is
another power expressed in another part of the bill, which
in very definite terms confers upon the Federal Reserve
Board the right to readjust the districts.

The Secretary of Agriculture: That is in the same sec-
tion.

Mr. Ludlow: Well, I did not come here to discuss that
question in particular but --

The Secretary of the Treasury: That is a legal question,
and we could not deal with it here.

Mr. Ludlow: But in connection with the districting
proposition I would like to suggest this thought, that in

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considering the location of the sectional reserve bank for the City of New York, for instance, if too wide territory were attempted to be included in this section, it might throw the general scheme in connection with the other sectional reserve banks out of financial poise.

The concentration of such a large amount of banking energy in this metropolitan section of the country, both in consideration of the capital as well as in consideration of the deposit liabilities of the bank, is so out of proportion to the general situation throughout the country, that it has occurred to me that this particular district ought to be concentrated as much as possible. Under the most drastic concentration, the capitalization of the sectional reserve bank would be, in all probability, without question, much larger than the capital of the other sectional reserve banks.

The Secretary of the Treasury: Now, Mr. Ludlow, in that connection, we should like particularly to have your views about what part of New Jersey ought to be incorporated in the district to be served by a Federal reserve bank in New York, assuming of course, that one is located here.

Mr. Ludlow: I should say that portion of New Jersey that

might be included in the metropolitan section of New York; I would say the counties bordering on the Hudson River, Essex and Hudson Counties bordering on New York Bay. That would include the thickest populated section of the state. Then added to that Manhattan Island and Westchester County probably and Long Island. That would bring a population of possibly seven to eight million people.

The Secretary of the Treasury: You are speaking, for instance, of what we would call the greater metropolitan district?

Mr. Ludlow: Yes.

The Secretary of the Treasury: Embracing, I mean to say, Westchester County, the present metropolitan district of New York, and what we might call the metropolitan area in New Jersey?

Mr. Ludlow: Yes.

The Secretary of the Treasury: That would, of course, take in Newark; you would not go as far as Trenton?

Mr. Ludlow: No, sir, I would consider that in an entirely different section. The object being to concentrate the energies of that particular section as much as possible, in order not to throw the capitalization or resources of the

sectional reserve bank unreasonably out of proportion to the other banks, on the theory that in the event of the availing of the provisions of the Act to relieve situations in various parts of the country under the direction of the Federal Reserve Board, New York should have to be relieved at some time, which is liable to happen, it would practically absorb the energy from every other bank throughout the country in full, if the capitalization of our New York bank were out of all proportion to the capitalization of the remaining sections. So that the thought has occurred to me, that that New York institution will of necessity be large; it will by reason of the character of business here, be extremely liquid as compared to the assets of the other sectional reserve banks, so that we should not try to embrace too much territory in the establishment of this local sectional reserve bank.

The Secretary of the Treasury: Exactly. Now, have you, thought of the other districts in the country, Mr. Ludlow?

Mr. Ludlow: Only in a general way, Mr. Secretary. It strikes me that the natural law of commercial gravity has seemed to have established the markets which would indicate the logical places to locate the various other sectional reserve banks. The growth of cities depends on the energies

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of the outlying territory, and where one city has a larger growth than another, it is a natural indication that comes from the more general concentration of the energies of that community in that particular city.

The Secretary of the Treasury: What cities would you have in your mind as being the headquarters of the eight banks?

Mr. Ludlow: I should say generally New York City, Boston and Philadelphia; that seems like a great many for the East, but the financial energies of the country are and have been up to the present time, and will be, no doubt, for a great way in the future located in that particular community; and then adopting Chicago, New Orleans, or St. Louis, Omaha, San Francisco, and possibly Seattle or Portland.

The Secretary of the Treasury: Thank you, Mr. Ludlow: We will not take a recess until 2:30 o'clock P.M.

Whereupon at 12:45 o'clock a recess was taken until 2:30 P.M.

AFTER RECESS.

STATEMENT OF J. P. MORGAN.

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

Mr. Morgan: My experience in general business is in the firm of J. P. Morgan & Company for a good many years. I have been a partner there for some twenty odd years. Also in London for seven years, in J. S. Morgan & Company.

The Secretary of the Treasury: You, of course, are quite familiar with the courses of foreign exchange.

Mr. Morgan: I have more or less familiarity with that.

The Secretary of the Treasury: And domestic exchanges-- the courses of trade and commerce in the country?

Mr. Morgan: Yes, I think I have a certain amount.

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

Mr. Morgan: Well, I am moderately familiar with it, sir. I have not learned it yet.

The Secretary of the Treasury: I presume you know what the immediate problem confronting the Organization Committee is,

to divide the country under the requirements of the Act into not less than eight nor more than twelve districts, and to locate within each one of them the headquarters of a Federal Reserve Bank. The Committee is addressing itself to that problem now. We should like to have your views as to what, in your judgment, would be, assuming that the Reserve Bank should be located in New York City, the tributary territory which that bank should serve.

The Secretary of Agriculture: And also the larger question.

The Secretary of the Treasury: Yes, I was coming to that. You might assume, Mr. Morgan, for the purposes of your answer, that the minimum number, we will say, of eight, was going to be established. The Committee, of course, has not determined how many, but so that you may have some basis upon which to answer the question I have just submitted.

Mr. Morgan: Well, I did not look at the matter so closely on the suggestion as to where the division should be as to the territory that should be applied to each one. I was trying in my own mind — figuring on your problem, I was trying to see how the whole United States can handle this thing.

The Secretary of the Treasury: You might address yourself to the entire problem, if you like.

Mr. Morgan: Yes. I cannot say I think it ought to be in New York, in Boston or in Philadelphia, because it all depends on how large areas you are going to take in. I think the essential in the matter is that there should be one of the banks, which probably would be in New York, or near New York at any rate, which would have so large an amount of assets and capital that it would command the respect of Europe, the European national banks of similar character and be able to work with them, with every perfect understanding of its condition and position. Of course, that can be arranged by all the banks working together. This, as I understand, is not to be a lot of separate banks, but a lot of banks that are going to work together.

The Secretary of the Treasury: Co-ordinative units.

Mr. Morgan: Co-ordinative units by the Central Board.

The Secretary of the Treasury: Yes.

Mr. Morgan: So I suppose there would be one in New York. I suppose there would be one in Washington, where there must eventually be the headquarters of your Central Board and where they must see — there they have strings to all of the United States.

The Secretary of the Treasury: Now, where else would you think banks should be located, Mr. Morgan? Assume that there were eight, what cities would you think were the best for that purpose?

Mr. Morgan: Well, it is very difficult for me to sort it out. It would require discussion. I should say myself that you would want three on the Atlantic seaboard, counting Atlanta as one of the Atlantic seaboard places.

The Secretary of the Treasury: Would you disregard Boston?

Mr. Morgan: I would take Boston into an eastern district. Might put headquarters in Boston and let New York have a branch. I would put three on the Atlantic seaboard. I would put three in the middle; that is, Denver the western one of those three, and I would put one over the other side. That would give seven. I cannot find your eight to make me feel that they are necessary. However, under the provision of the law you have got to have eight.

The Secretary of the Treasury: A. a minimum. Mr. Morgan, would you be good enough to take one of these maps and think the question over, and draw a tentative division of the map into districts.

Mr. Morgan: I would be delighted, sir.

The Secretary of the Treasury: And submit with it any figures you think would have a bearing upon the problem, and let us have it and we will attach it as an exhibit to your testimony.

Mr. Morgan: I will be delighted to do anything I can. I do not think that I want to attempt to make up a scheme, with figures and all that sort of thing.

The Secretary of the Treasury: It is merely suggestive, of course.

Mr. Morgan: I really have not the time you have got to give to it.

The Secretary of the Treasury: If it comes within the next two weeks it is time enough.

Mr. Morgan: I will do my best sir, and see what I can do.

The Secretary of the Treasury: Thank you, Mr. Morgan. How much importance do you attach to the preponderating capital, as I understand you to say, that the New York bank should have for its influence upon the confidence of foreign bankers.

Mr. Morgan: It was not so much the amount of capital as the amount of assets it represents.

The Secretary of the Treasury: Precisely, the resources.

Mr. Morgan: As I understand it, the capital will increase

by profit.

The Secretary of the Treasury: A great many of the witnesses who testified here seemed to attach an extraordinary amount of importance to the capital, but the resources of the banks —

Mr. Morgan: Of course, the capital represents margin on those resources, and it is, therefore, important in that figure.

The Secretary of the Treasury: That is an element, of course, of very great importance, but not the essential thing.

The Secretary of Agriculture: Do you think, Mr. Morgan, that foreign bankers, for instance, after the system is in operation and understood, would look at any one bank, say one in New York, or would come to regard this system of units as a thing they would look at through the co-ordinating Board?

Mr. Morgan: That would depend, I think, so greatly on the action of the Co-ordinating Board. If the Co-ordinating Board can show to the whole country that this is one system which is divided into parts, but is one that is co-ordinative, I believe that the foreign government would feel they were treating with all, when they were ^{treating} /with one of these

banks.

The Secretary of Agriculture: As you said at the outset, these different units -- they are not a separate reservoir of banking power.

Mr. Morgan: No, I regard them as a whole.

The Secretary of Agriculture: I suppose, Mr. Morgan, in thinking it over and trying to indicate definitely eight or more of the centers, you would necessarily have to, in a tentative way, outline the districts, and that would give us what we want.

The Secretary of the Treasury: Well, if you will do that,--

Mr. Morgan: The real idea, I suppose, is to get the thing which is going to be of the most convenience to the total Federal Bank Organization.

The Secretary of the Treasury: And what will best serve the country's commerce.

Mr. Morgan: Yes, what is going to be to the interest of the Association.

The Secretary of the Treasury: Mr. Morgan, if you will do that and submit it to the Committee within the next two weeks, at any time, we will be very much obliged.

Mr. Morgan: I will be delighted to do what I can.

The Secretary of Agriculture: Well, any statement of the

factors that enter into the consideration of the matter.

Mr. Morgan: Yea, of course. I will do what I can.

The Secretary of the Treasury: Thank you very much.

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STATEMENT OF MAX MAY.

The Secretary of the Treasury: Mr. May, will you kindly tell us what is your connection with the Guaranty Trust Company?

Mr. May: I am one of the Vice-Presidents of the Guaranty Trust Company, in particular charge of the Foreign Exchange Department.

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

Mr. May: I have read it, yes.

The Secretary of the Treasury: The committee is addressing itself at this moment to the problem of dividing the country into not less than eight nor more than twelve districts, as required by the Act, and to the question of the location of the headquarters of the Federal Reserve Bank in each of these districts. Have you given that any thought?

Mr. May: To some extent, yes.

The Secretary of the Treasury: Will you give the committee the benefit of your views as to how you think the country could be most advantageously divided, and particularly with reference to the eastern part of the country here.

Mr. May: To my mind it is essential that we have a very strong and large reserve bank in New York, or in the neigh-

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borhood of New York, in Boston or Philadelphia. It is not absolutely necessary to have the main bank here in New York. You could have a branch here; but ^{it} ~~x~~ would need to have enough prestige to attract attention to make itself felt in Europe; because the idea of these Reserve Banks is after all to control the money market in the United States, and also in Europe to some extent; and in order to make itself felt in Europe it needs to command sufficient resources, capital and deposits.

You might perhaps have three Reserve Banks, one in Boston, one in New York and one in Philadelphia. That would cover the east pretty well. They could work in conjunction with one another. It seems to me there should be one in the south, or possibly two.

The Secretary of the Treasury: Where in the south, would you think?

Mr. May: One in New Orleans and perhaps another in Savannah, because there is a great deal of cotton moved through Savannah during the season -- or one in Atlanta.

The Secretary of the Treasury: Savannah or Atlanta?

Mr. May: Yes.

The Secretary of the Treasury: What would you say as

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between Philadelphia and Baltimore, for instance?

Mr. May: I think it would not make very much difference.

The Secretary of the Treasury: Where does the larger amount of foreign exchange originate -- in Philadelphia or in Baltimore?

Mr. May: More in Baltimore. Baltimore has come more into prominence because of shipments of grain from Baltimore to Europe.

The Secretary of the Treasury: Are there large cotton shipments from Baltimore also?

Mr. May: Not very much, no, sir. Grain seems to be the principal shipment from there.

Then of course, one in Chicago or St. Louis.

The Secretary of Agriculture: That will be six.

Mr. May: One in San Francisco, and there ought to be one further northwest, in Minneapolis.

The Secretary of the Treasury: Would you disregard Denver?

Mr. May: Of course, Minneapolis is quite a shipping centre.

The Secretary of the Treasury: That is quite accessible to Chicago, is it not?

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Mr. May: Yes, or you might say Denver and San Francisco.

The Secretary of the Treasury: In the conduct of the business of these Federal Reserve Banks, especially those located on the Atlantic Seaboard here, particularly the Reserve Bank in New York, if one were established here, what percentage of the business of such a bank would be foreign and what domestic? Could you form any approximate idea of that?

Mr. May: I do not know about the domestic, but I can give you actual figures for the year just passed as far as foreign exchange is concerned, and you can draw your own conclusions. I can give you actual figures. I have made a few memoranda here which I can give you.

During the year just closed we handled bills of exchange with bills of lading for cotton attached, covering 2,389,966 bales of cotton.

The Secretary of the Treasury: What did they aggregate in money?

Mr. May: About \$60 a bale, or \$50 a bale -- \$60 a bale; that is about \$150,000,000.

The Secretary of the Treasury: What is the capital of the Guaranty Trust Company?

Mr. May: Its capital is \$10,000,000 and its surplus is

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\$24,000,000.

The Secretary of the Treasury: So you have a working capital of about \$34,000,000?

Mr. Day: Yes. We handled in grain bills \$38,000,000. We handled in metal bills, mostly copper and silver, \$43,000,000.

Now our turn-over in London alone for the year just closed was \$1,827,000,000. Of course, bankers bills of exchange, from the sale of securities, put everything else really in the shade. As I say, our turn-over in London was \$1,827,000,000.

The Secretary of the Treasury: Did that embrace these cotton bills?

Mr. Day: Yes, that included everything. In Germany our turn-over was \$654,000,000, in France \$340,000,000, and in all the other countries combined \$42,000,000, a total of \$2,863,000,000. Naturally the commerce of the country will continue to be done from here as a centre.

The Secretary of the Treasury: What was the total value of the cotton crop last year, or for the year preceding, approximately? It was about \$700,000,000, was it not?

Mr. Day: About \$780,000,000.

The Secretary of the Treasury: And you handled nearly

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one sixth?

Mr. May: There is about 14,000,000 bales, roughly speaking. About 8,000,000 bales are used in home consumption, and about 6,000,000 bales exported. We handled not quite half of it.

The Secretary of the Treasury: For export?

Mr. May: Yes, not quite half of the exports.

The Secretary of the Treasury: How does your foreign exchange compare with that of your largest competitor we will say, in New York?

Mr. May: It is difficult for me to say, because I do not know what they are doing, but in a general way I would say that they far exceed the others.

The Secretary of the Treasury: Would you think that the Guaranty Trust Company handled say, half, of the foreign exchanges?

Mr. May: Of all the foreign exchanges?

The Secretary of the Treasury: That is, out of New York?

Mr. May: No, I believe, speaking of the whole country we handle about one third of all the exchange there is made in the United States, and all the others combined two thirds.

The Secretary of the Treasury: You have branches in London and Paris, I believe?

Mr. May: No, we have only one branch in London.

The Secretary of the Treasury: Only one foreign branch?

Mr. May: Yes. None in Paris.

The Secretary of the Treasury: You at one time had a branch in the Philippines?

Mr. May: Yes.

The Secretary of the Treasury: You discontinued that, did you not?

Mr. May: Yes, because we could not get the proper parties to conduct it at such a distance from here. In other words, we found we were not fully in control; it was

too far removed from us and did things which we did not approve of, and it was too late when we found it out.

aThe Secretary of Agriculture: The cotton crop was \$798,000,000 in 1913, estimated value.

The Secretary of the Treasury: From what parts of the country do you draw most of these foreign bills; take cotton bills for instance?

Mr. May: From the South.

The Secretary of the Treasury: But from what cities in the South?

Mr. May: Texas and Georgia and Alabama, to a certain extent; Texas by far the largest.

The Secretary of the Treasury: Could you name the cities in Texas from which most of that exchange comes?

Mr. May: Dallas and Houston, Fort Worth to some extent, and Galveston, of course.

The Secretary of the Treasury: Have you large transactions of that character with New Orleans?

Mr. May: Yes, but it cannot be compared with Texas.

The Secretary of the Treasury: And in Alabama, I suppose?

Mr. May: Yes.

The Secretary of Agriculture: And in Atlanta?

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Mr. May: Yes, in Atlanta and in Georgia, and this year particularly it has been very large, because Georgia had a very good crop.

The Secretary of the Treasury: Do you get more from Atlanta or Savannah or Augusta?

Mr. May: We get more from Savannah.

The Secretary of the Treasury: How about South Carolina, Charleston?

Mr. May: We get considerable from there.

The Secretary of Agriculture: Memphis?

Mr. May: Yes, Memphis also.

The Secretary of the Treasury: Is Memphis a very large creator of that sort of exchange?

Mr. May: Yes.

The Secretary of the Treasury: How about Birmingham and Montgomery, as between those two?

Mr. May: Well, they are relatively small.

The Secretary of the Treasury: Mobile is larger?

Mr. May: Mobile, yes.

The Secretary of Agriculture: Which would you say are the two largest points in the South?

Mr. May: Georgia and Texas.

The Secretary of the Treasury: And which is the largest city in each?

Mr. May: Well, in Georgia I would say Savannah and Dallas in Texas.

The Secretary of the Treasury: Now, in North Carolina do you get much from Wilmington?

Mr. May: Not very much.

The Secretary of the Treasury: How about Norfolk, Virginia?

Mr. May: Norfolk some.

The Secretary of the Treasury: And Portsmouth?

Mr. May: Yes.

The Secretary of the Treasury: But not so much?

Mr. May: But not so much.

The Secretary of the Treasury: How are your exchanges with Baltimore are they large?

Mr. May: They are all grain shipments from Baltimore and they ship extensively.

The Secretary of the Treasury: Are your exchanges with Baltimore very large?

Mr. May: Yes.

The Secretary of the Treasury: Very much larger than Philadelphia?

Mr. May: Philadelphia does not sh p so much.

The Secretary of the Treasury: It doesnot originate so much of this foreign exchange?

Mr. May: No.

The Secretary of the Treasury: In the location of these Federal Reserve Banks would you regard it of more importance to have one situated at a city which originates a large amount of foreign exchange than in an interior city which does not?

Mr. May: I think it would be better to have it where the exchange originates.

The Secretary of the Treasury: You think it would be better to have one at Baltimore as against Philadelphia for that reason?

Mr. May: Well, perhaps.

The Secretary of Agriculture: Your idea is basedon the foreign trade?

Mr. May: Yes, on the foreign trade.

The Secretary of the Agriculture: That is inconsiderable as compared with the domestic trade, is it not?

Mr. May: Well, yes, it is relatively small compared with the domestic trade.

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The Secretary of the Treasury: To what extent would you consider the Federal Reserve Banks -- of course this is a very wide sort of a question, but I would like to get some sort of an idea of the relation of the foreign to the domestic business that such a bank would do, for instance, in New York; in other words to what extent should the foreign feature have consideration as against the domestic?

Mr. May: Well, the foreign feature of a reserve bank is, according to my notion; their principal business is to control the money market and in controlling the money market to control the gold movement. Now as it is not in the interest of the United States to lose too much gold at any one time naturally the Reserve Bank would see to it that their rates of interest are correspondingly high.

The Secretary of Agriculture: Can that be done by the specific separate bank or by the Federal Reserve Board, for the whole system?

Mr. May: As I understand it, the Reserve Board in Washington would more or less control that.

The Secretary of the Treasury: It may control it, it has the power.

Mr. May: Yes.

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The Secretary of the Treasury: Your idea is that the Reserve Board would have to exercise that power constantly for the protection of the gold reserve?

Mr. May: Yes.

The Secretary of the Treasury: How do you protect it now under the old system?

Mr. May: Well, there is no way of protecting it. What we do now is, we lock the stable door after the horse or cow is stolen.

The Secretary of the Treasury: It has not been stolen for some time?

Mr. May: When a great deal of gold has been exported, then the rates for money begin to advance when it is too late.

The Secretary of the Treasury: Do you know about what our gold exports were this past year?

Mr. May: I cannot recall the exact total; somewhere in the neighborhood I believe, of forty or fifty million dollars.

The Secretary of the Treasury: Mr. Stephens, do you know how much exportation there was?

Mr. Stephans: No, I will look it up.

Mr. May: It was mostly early last Spring to France and to South America and to --

The Secretary of the Treasury: When you see the gold going out, I mean in times past as you have seen it going out, for instance last Spring, when the movement was under way, what measures are used by the banks here to protect themselves against any undue exodus of that character?

Mr. May: Generally nothing is done until the movement is well under way.

The Secretary of the Treasury: But when the movement is well under way what do you do?

Mr. May: The call money rates advance just as the supply of money has become lessened.

The Secretary of the Treasury: Well, you have to have some understanding among yourselves as to what that call money rate shall be, in order to make it effective, do you not?

Mr. May: Call money rates are generally established on the Stock Exchange, on the money counter.

The Secretary of the Treasury: I understand, but when you set about deliberately to influence the movement of gold, and check it, if too much is going out, you have to do it in

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that manner? You have to have an understanding among yourselves as to what shall be done in the matter of rates?

Mr. May: Yes.

The Secretary of the Treasury: And you establish that on the Stock Exchange?

Mr. May: Yes, and generally make it higher than those in Europe, where the gold is flowing.

The Secretary of the Treasury: To what extent is that efficacious?

Mr. May: A high money rate will at once stop the outflow of gold, and sometimes even effect a stopping of that gold that is already engaged but which has not yet gone forward.

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The Secretary of the Treasury: Well, now, how can you, under our present system, where there is no concerted action on the part of the banks throughout the country, on account of the great number of separate units-- how are you able to make that rate effective?

Mr. May: There is no certain way to make it effective.

The Secretary of the Treasury: It generally is operative, however, isn't it?

Mr. May: Yes.

The Secretary of the Treasury: I ask these questions because a great many arguments have been made against the division of the country into as many as eight Federal Reserve Districts, because they say that with those eight units it would be more difficult to control just the situation we have been discussing. It would seem to me it would be easier to control, isn't that the fact?

Mr. May: It is the fact.

The Secretary of the Treasury: Isn't there a greater element of safety, so far as the gold reserve of the country is reserved, in the creation of this system?

Mr. May: There is.

The Secretary of the Treasury: Do you think the provision:

of the Act, if they are properly carried out through satisfactory management, ought to prove effective in controlling that situation and protecting the country in an emergency of that sort?

Mr. May: Yes, that ought to be effective. Also the manner in which European national banks protect the reserve is, in addition to a higher rate to prevent a gold export movement, moral suasion. Every banker or bank carries an account with the National bank. By intimating to them that gold exports at this time, for instance, are not agreeable to the National bank, the bank influences the bankers. They generally will not do what is not agreeable to the Reserve Bank.

The Secretary of Agriculture: Bearing in mind that this Federal Reserve Board which has supervision of these eight or twelve regional banks will be effective in this direction, how much importance, from that point of view, would you attach to ~~the~~ an especially large institution in this large eastern section? Will not the requisite action be taken through the Supervising Board rather than through any particular member reserve bank?

Mr. May: That is the way I look upon it.

The Secretary of the Treasury: In that view of the case then, Mr. May, it would not be necessary to have a bank in New York of preponderating capital or resources.

Mr. May: Not necessarily, so long as all the banks work together.

The Secretary of the Treasury: So long as they were coordinated through this Federal Reserve Board.

Mr. May: Yes.

The Secretary of Agriculture: If there is this aggregate reserve power and general machinery, under this general staff, as somebody called the Federal Reserve Board, and these are not separate or isolated reservoir, these 8 or 12, looking at it as a whole, it can effectively operate on this inflow and outflow of gold, and is it not likely that foreign bankers will come to look upon the system as a whole rather than on any particular part?

Mr. May: I think they will.

The Secretary of Agriculture: You spoke of having a Reserve Bank in Washington. What was in your mind there? Is Washington a commercial power?

Mr. May: No, not at all.

The Secretary of Agriculture: Did you suggest Washington?

Mr. May: No.

The Secretary of Agriculture: I beg your pardon, it was Mr. Morgan. In Europe a different sort of commercial paper is used from the ordinary run of paper in this country.

Mr. May: Yes. They are mostly bank acceptances.

The Secretary of Agriculture: Will that develop in this country?

Mr. May: It would be a good thing if it would, and I think it will, eventually.

The Secretary of the Treasury: This system ought to encourage it?

Mr. May: Yes.

The Secretary of the Treasury: Do you attach much importance to domestic acceptances?

Mr. May: Do you mean as we have them in our notes?

The Secretary of the Treasury: No, I am talking about the ordinary domestic acceptances which would have the same characteristics as foreign acceptances, except that they relate to domestic commerce between the states -- do you think well of those?

Mr. May: I do.

The Secretary of the Treasury: That system is not practiced to any great extent in Europe?

Mr. May: Yes . A borrower instead of going to his own bank, will say "I want to borrow \$100,000 or 100,000 marks or francs," and the bank furnishes it and simply says "We place our credit at your disposal." Against collateral, or if the man's credit is good, without any further security. He draws against the bank at 60 or 90 days, and these acceptances he takes into the open market or puts through a bank, if he has another, and discounts them there.

The Secretary of Agriculture: Unless banking conditions are stable and banking operations are careful and conservative, this system of acceptances might lead easily to overstraining of credit, might it not, more easily than the system of loans that you speak of?

Mr. May: I would not say so.

The Secretary of the Treasury: In Europe the banking power is divided into a smaller number of powerful units than in this country. For instance, we have here 7500 national banks, approximately, many of them having only \$25,000 of capital. Suppose they were all engaged in domes-

tic acceptances of the character you describe, don't you think that might lead to a very serious condition of affairs.

Mr. May: Yes; but haven't we now, under this new law, a limitation put upon us?

The Secretary of the Treasury: These domestic acceptances are not authorized under this law. I was merely getting your point of view, because you were familiar with foreign transactions.

Mr. May: I don't think there is necessarily an inflation, because a bank in giving an acceptance is virtually doing the same thing, in effect, as though they are lending them the money.

The Secretary of Agriculture: Still as a rule, the bank knows that the call will not be made upon it for a certain time, whereas, when it makes a loan it can be called at any time.

Mr. May: Yes.

The Secretary of Agriculture: And knowing that that responsibility rests upon it, it is likely to be more careful. I mean if there is any danger of lack of conservative management.

The Secretary of the Treasury: In other words, it would be selling its credit contingently and carrying no reserve against it, and it might lead to very serious results.

Mr. May: It depends upon the management.

The Secretary of the Treasury: I assume that these acceptances to be of any real avalue, would have to emanate from banks of such established credit and resonsibility as would pass current anywhere.

Mr. May: Yes.

The Secretary of the Treasury: The acceptance of some little bank of \$25,000 ^{capital} in Oklahoma or Wyoming would not sell in the East.

Mr. May: Not here at all.

The Secretary of the Treasury: In other words, our system does not seem to be suited at the moment to the adoption of domestic acceptances in the way that they are current in Europe.

We are very much obliged, Mr. May, and if you will be good enough to send us some of those figures or any additional data relating to the whole subject of a statistical nature that will be useful to the Committee, we should like to have it and will attach it as an exhibit to your testimony,

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The Secretary of the Treasury: Are there any gentlemen present who care to be heard on the questions before the committee? If so, we will be glad to hear them.

Then, the committee will adjourn until tomorrow morning at ten thirty.

Whereupon, at 3:20 o'clock P. M. an adjournment was taken until Wednesday, January 7th, 1914, at 10:30 o'clock A. M.