

St. Louisville

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Federal Reserve Bank

FEDERAL RESERVE BOARD FILE
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HEARING BEFORE THE FEDERAL RESERVE BOARD
ON BEHALF OF THE CITY OF LOUISVILLE,
PETITIONING FOR A BRANCH FEDERAL RESERVE BANK
OF THE ST. LOUIS RESERVE DISTRICT,
WASHINGTON, D. C.,
DECEMBER 31, 1916.

Present at the hearing were:

Hon. Paul M. Warburg, Member of the Board, Presiding;
Hon. Frederic A. Delano, Member of the Board;
Hon. Charles S. Hamlin, Member of the Board;
Hon. John Skelton Williams, Comptroller of the Cur-
rency, Member of the Board;

Representing the City of Louisville:

Hon. Ollie M. James, United States Senator
from Kentucky;
Hon. Swagar Sherley, Member of the House of Repre-
sentatives from Kentucky;
Hon. Embry L. Swearingen, President First National
Bank, Louisville;
Hon. John W. Barr, Jr., Director National Bank of
Kentucky, Louisville;
Hon. F. M. Gettys, Vice-President Union National
Bank, Louisville;
Hon. H. C. Johnson, President Seymour National Bank,
Seymour;
Hon. Percy H. Johnston, Vice-President Citizens Na-
tional Bank, Louisville;
Hon. W. C. Montgomery, Vice-President First-Hardin
National Bank, Elizabethtown.

REPRESENTATIVE SHERLEY: Mr. Chairman, if I may be permit-
ted, it was not with the idea so much of an open hearing or

speech making as it was that, growing out of the talk that I had had with the Board informally, some questions came up touching purely banking matters with which I did not feel myself as qualified to deal as bankers themselves. It was suggested that a meeting be arranged by the Board with certain representatives of the St. Louis Bank present, and some of the Louisville bankers also, in connection with Louisville's application for a branch Bank, and these gentlemen have come on in response to that suggestion.

I do not know that it is necessary for me to enumerate the matters that we went over at our former conference.

The proposition was simply this, that the situation that confronts Louisville is, to our mind, an intolerable one that no community could be expected to sit quiescent under, and certainly one that, with all respect, the city of Louisville is not going to sit quiescent under, because it believes that as a result not only of the districting that was made, whereby Kentucky was divided in half, the eastern part of the State that in the old days used to be the pauper part of the State, and the government of which Louisville helped maintain through taxation, and which has now become one of the rich and growing sections, is absolutely denied to us through the arrangement that forced us to go to a community that we never did any banking through in the old days, and we find that our customers are going to St. Louis by virtue of the better inducements that they could offer them under the system as it exists than the Louisville banks. It means, if it is to continue, we are to

deal there and be bled to death, or be compelled to put up a great deal of idle capital that is taken away from the communities that we serve in order to meet the advantages that are, by the existing arrangement under the law, given to the St. Louis banks.

We believe that it was hardly to be expected that a Board whose interests, as reflected by its personnel, were necessarily more with St. Louis than with Louisville, should consider fully our situation; so that we wanted to bring the matters directly here, and make the appeal here, and exhaust, at least, our resources with you gentlemen, before considering other matters in relation to it.

And these gentlemen are here today to bear witness, as actual bankers, as to what is occurring, and what will continue to occur, and the reasons why they have thought it is not only in the interests of Louisville, but in the interest of the system, that we should have a branch bank.

I have understood today that the Board has determined at its recent meeting that the time is not ripe for branch banks, and St. Louis has wired that they acquiesce in that view on the part of the Board here. It may be that I may be simply in the situation that the Member of the House was the other day, who was to speak on a point of order, and the Chair said, "I am prepared to rule, but I will hear the gentleman!" And of course we do not want to waste your time or ours under that condition. At the same time, the matter is as acute as the time I tried to present it to you before. I would be glad if the Board would

hear these gentlemen.

THE CHAIRMAN, MR. WARBURG: May I state first that Governor Harding is exceedingly sorry that he is unable to be here today. He has contracted quite a severe cold, and is confined to his home.

The next matter of regret is that I do not see anybody here representing the St. Louis bank. Governor Harding had arranged that some gentlemen might be here, but I do not think anyone has come. These other gentlemen here from St. Louis are present with reference to the Clayton matter and do not have any interest in this hearing.

REPRESENTATIVE SHERLEY: Mr. Chairman, we had a wire from Mr. Martin, and he expected to reach here at one o'clock. His train may be here by this time.

THE CHAIRMAN, MR. WARBURG: He may be here. We expected him to be present.

REPRESENTATIVE SHERLEY: Mr. Chairman, perhaps it is futile for us to take the matter up without somebody from St. Louis being present. That was the very idea of the meeting, that they might learn just the situation that confronts us, and that the matter might be discussed from all three angles, -- the general view of the Reserve Board here, the St. Louis Bank, and Louisville.

THE CHAIRMAN, MR. WARBURG: That, of course, is not for me to say, what your preference is, whether you desire to wait for Mr. Martin's train, or whether you want to proceed to present your case without his being present.

REPRESENTATIVE SHERLEY: Well, Mr. Chairman, it seems to me, in order to get somewhere, I might say that we have presented our brief to St. Louis. We have gotten no action out of St. Louis because they have constantly said the matter rested with you gentlemen. Then, when we came here, the suggestion was made that the initiative must come from St. Louis. And it was because of that, that I frankly said I felt as though I had been playing "pussy in the corner" for months, and it seemed to me we should come to a point where we would know just who had the say in the matter and get a decision on it. I say that on my own initiative. Perhaps these gentlemen may not agree with me. But, as I expressed very frankly to you, gentlemen, it seemed to me I was just wasting your time and mine for weeks here in order to find out who had charge of the matter.

THE CHAIRMAN, MR. WARBURG: But would we not be wasting more of your time now that you are here by not proceeding with the hearing? Would it not be better to wait to see whether Mr. Martin arrives?

MR. SWEARINGEN: May I speak for the gentlemen from Louisville? We do not believe it would be very satisfactory to have a hearing without having St. Louis fully represented. We also would like to have the pleasure of seeing the full Board, and we would be delighted to come back in January at any time the Board directed.

THE CHAIRMAN, MR. WARBURG: Speaking for the Board, it would be entirely satisfactory to us.

MR. SWEARINGEN: That would be better. We all have the

Christmas spirit in our bones anyway, and everyone likes to be at home at this season, and we would rather come back in plenty of time, and have the St. Louis men represented.

THE CHAIRMAN, MR. WARBURG: I am sure it is perfectly satisfactory to us to fix a date that would suit you in January.

(Discussion resulted as to the time of arrival of Mr. Martin's train.)

THE CHAIRMAN, MR. WARBURG: While we are waiting, let me state this for the Board: You made a statement that the Board had decided it was not time to open branches of the Reserve Banks?

REPRESENTATIVE SHERLEY: I just heard that informally. I should be glad to hear the facts of the matter.

THE CHAIRMAN, MR. WARBURG: I may state we have not reached any conclusion as to that, and I may say frankly that the whole problem troubles us a great deal, because we cannot deal with Louisville alone without dealing with similar propositions in other districts. There is a question of administration involved there, and while we are certain that at the proper time these steps are to be taken, it is a question whether the proper time is here. But we have not decided one way or the other, and so in coming here for this hearing you are not wasting your time.

REPRESENTATIVE SHERLEY: I was misled by a telegram I was shown from St. Louis, to the effect that the St. Louis Bank agreed with the Reserve Board that the time was not ripe for the establishment of a branch bank. I just assumed from that

knowing that you gentlemen had been in conference last week, that there had been some conclusion reached by the Board. I am very glad to know it is not so.

THE CHAIRMAN, MR. WARBURG: Do not understand that, that it is closed. It is not at all.

MR. DELANO (Reading message just handed to him): The train will arrive at two-fifteen. It is due at one-five. It must be in now.

REPRESENTATIVE SHERLEY: Mr. Chairman, it has been suggested, if you gentlemen have, as seems to be apparent, some other gentlemen to hear on another matter, that we might retire. That will probably take only a little while, and then if Mr. Martin appears, we can go on with this hearing this afternoon. If he does not, we can fix some time in January that would suit the Board.

THE CHAIRMAN, MR. WARBURG: We could very likely go upstairs and hear those two gentlemen, if you decide to wait here.

REPRESENTATIVE SHERLEY: We would be glad to wait at either place. We do not want to discommode the Board.

(Whereupon a recess was taken, during which time Mr. Martin, representing the St. Louis Reserve Bank, appeared.)

THE CHAIRMAN, MR. WARBURG: (After the hearing reconvened): Shall we hear Louisville first? Will the gentlemen from Louisville tell us what they have to say first?

MR. JOHN W. BARR, JR.: Mr. Chairman, and gentlemen: If we may, we should like to present this matter in a very informal way. I listened with much pleasure upstairs to the way in

which that question was presented, and at the same time we are delighted that we have waited until Mr. Martin arrived. By the manner born he is a Kentuckian. He has been transferred to St. Louis, however, and we are delighted that he is here. I think it is only right that under the circumstances we should speak with the greatest frankness with regard to the situation, not discussing the law, of course, but discussing the conditions which apply in our particular case.

Sometime in the early summer, we made an application, that is to say, a large number of petitioning national banks in the State of Kentucky, a part of the Eighth Regional District, and a number of banks tributary to Louisville located in the southern part of Indiana, asked for the establishment of a branch bank in Louisville, their theory being that the law was mandatory.

With all due respect to you gentlemen, we fully recognize that the time is with you and also that the place is with you; but we take it that under the law, as enacted by the legislative body of the Government, it was intended that branches should be established in due time and at the proper places.

Now, the situation in Louisville is this: We have a community south of us and north of us that has been doing business for a great many years with our city. The course of trade and the course of banking has not been east and west, but north and south; and therefore the interchange of business has been with Chicago and with New York very largely, and not, as now, under the ruling of you gentlemen, with St. Louis and Cleveland. Our

State, as you know, is divided into two parts, the eastern part being in the Cleveland portion, and the western part being in the St. Louis district.

At the present time we feel this -- and I am going to speak with absolute frankness, so that there may be no misunderstanding with regard to it. Many of the gentlemen in St. Louis are intimate personal friends of ours. We look on them with the greatest confidence. But there is, gentlemen, very frankly speaking, irreconcilable conflict of interests. That's all there is to it. That's what we seek for you to set aside. I say it to you with the greatest respect and confidence, because the gentlemen in charge of the St. Louis Bank are friends of ours. They have been most courteous to us in many ways. But their interests are different, separate and distinct. Now, it is natural, in a way, that advantage should be taken of this situation, and, in another way, I do not think the law contemplates that undue advantage should be given to a particular locality over any other locality which may be within the region.

To illustrate this, -- and it's no personal grievance, it is simply a statement of fact, -- of the nine directors in the Federal Reserve Bank at St. Louis, five of them are residents of St. Louis. Now, that may be entirely proper, and I am not denying that it is proper, but it shows that we have very little voice in the conduct of that business. Now, it is not a matter of pride with us, but it is a matter to be considered. We feel it would be a benefit to that Bank, if we should come in more intimate contact with them.

To illustrate: If paper is to be passed on by the Bank in St. Louis, it's quite essential, in our opinion, at least, that someone who is thoroughly familiar with the paper which is considered for discount -- and some of it is of a peculiar nature, namely, what is known as whiskey paper and tobacco paper, which is largely restricted to Louisville and Cincinnati, I may say, and is not so well known to those other States. Therefore, it is proper that someone in touch with the situation should aid and advise in the purchase, or rather the settlement, of the question, as to whether it is proper paper for discount or not.

I pass that by simply as the conditions which exist, and with absolutely no reflection on the individuals. It is simply a condition, and not at all personal.

Now, showing how there is an irreconcilable conflict, for that's what it is, we ascertained that a large amount of business in the form of bank deposits, not only national bank deposits, but also State bank deposits and trust companies, are being diverted to St. Louis. It's natural that under the circumstances from the St. Louis standpoint they should be diverted there. Now, they are not diverted to the Federal Reserve Bank there, but they are diverted to banks in St. Louis. The result of it is that the deposits in Louisville are not growing as they should, if we had a branch. The deposits are growing in St. Louis as they would not grow, if reversed.

Now, to illustrate that: We are required to keep larger balances in St. Louis with banks, as well as with the Federal Reserve Bank, than we feel is necessary. The result of that is

that that money is idle; we lose the benefit of it; and furthermore, gentlemen, the position is just this, that the plea has been made, and I say it again with no disrespect to our friends there, it is very natural that when persons are told throughout the State, as they have been, that if you send your paper over to St. Louis, we know every one there in the Bank, and they know us, and we can have your paper explained, and all that, why you will likely get accommodations. Now, of course, the result of that, and I speak purely from the material standpoint, is that bank deposits throughout this territory, which we think should belong to a branch bank, are now going, and will continue to go, to St. Louis, whereas it isn't customary, according to the tradition of the past, that those deposits should go to St. Louis. The same thing might apply if the Bank were located in Cincinnati, but nevertheless they are going there in our opinion. We feel that that is detrimental to the State, not only to the city, but also to the State.

Now, that is the condition. You can readily see that if checks are drawn on Louisville and then sent over to St. Louis, and then returned to Louisville, why the result of it is there is a delay of two days, whereas if a branch were located in Louisville -- not an agency, gentlemen, but if a branch were located in Louisville -- we feel that the Federal Bank would be popularized; we feel that a very great deal of business would be done with the Bank which is not now done with the Bank, and concerning which some of our friends have asked us why it is not done with the Bank in St. Louis, and it is proper that that ques-

tion should be asked. The reason it has not been done with St. Louis is that that region does not feel at home in St. Louis. They feel they know the people in our region; they feel they can get on a trolley car and go to Louisville in the morning, do their shopping, arrange to have paper discounted, if need be, and get back the same evening, whereas it is impossible to do that with the distance to St. Louis. The result of it is that a good many bankers in our State, which we feel should be tributary to this branch, now borrow their money in New York and Chicago and other banks, instead of patronizing, as we feel they should do, the Federal Reserve Banks.

We simply come here; we are members of the federal reserve system; we think it is a good law; we think that from time to time it needs facts to be laid before you gentlemen, so that you might rectify unintentional hardships which are now placed upon us.

I shall not go into the arguments with regard to distance, with regard to convenience, with regard to a great many other things, which were presented to the Bank in St. Louis, on which we had the most respectful attention. Those briefs are before you, gentlemen; we simply wish to lay before you, -- and I hope that after we have done so these other gentlemen will have some remarks, -- we have laid before you, and we say it with all seriousness and with all earnestness, that we feel that under the circumstances we are being unfortunately, and, in a way, unjustly discriminated against.

These gentlemen have ably stated the case. Mr. Sherley

has told you about it, and Senator James, and Senator Beckham, -- they feel it is a matter, not for Louisville, but that the whole State at large is concerned.

Now, in that connection, may we disabuse your minds of the question that we are asking for a re-districting of a State. We are not asking for that in any way. The sole question is, as we wish to present to you today, that we feel that as the law is mandatory for the location of branch Banks, that a Bank should be located in Louisville.

Now, the first question that was presented to us in regard to the location of a branch bank was, -- Will it pay, or not? Will it be a drag? Will it be a detriment to the Bank in St. Louis? After careful consideration of that, gentlemen, we came to the conclusion that it was only fair to do as Indianapolis has done, namely, to give a guarantee, which the banks of Louisville, either collectively or individually, or any other way that is satisfactory to your Board, will make, namely, that if a branch Bank be located in Louisville, we will guarantee that it will be self-sustaining; and more than that, gentlemen, we feel that we cannot only make it self-sustaining, but we feel that it will be a source of benefit to the parent bank, that being a child to the parent bank at St. Louis. In other words, we feel that we can, in that locality, popularize the Federal Reserve Act. We feel that we can be self-sustaining where we are not self-sustaining now. We will bear the burden of it if we are not self-sustaining, as we confidently consider we will be. We feel there will be an overplus, which we will gladly transfer

to the Bank in St. Louis.

These other gentlemen are more technical bankers than I am. I am an officer of a bank, and therefore have never gone through the routine and detail. And here are my friends who know well the details of banking, -- Mr. Swearingen and Mr. Gettys, Mr. Percy H. Johnson, and all these other gentlemen, who can answer any question in regard to technical matters, which I cannot. I wish to lay this before you. I felt some embarrassment about it. I feared you might feel that we were aggrieved in some way. We are not aggrieved, except that we feel, and we feel most earnestly, that we are suffering materially, -- the entire State is suffering materially. And the Federal Reserve Board at St. Louis, I can repeat, and especially Mr. Martin personally, has helped us out of very serious trouble, which I sincerely appreciate. Nevertheless, we feel that as the law provides for a branch, and no one will question the propriety of the location, it is only a question of the time, and the reason we feel that immediate action is necessary, is because we see in detail the loss that results from the present situation. I thank you very much.

THE CHAIRMAN, MR. WARBURG: Do any of the other bankers desire to be heard now?

MR. F. M. GETTYS: Mr. Chairman, I will be brief. I want to say first, I doubt if I can answer any technical banking question. I have been a manufacturer until recent years. The arguments made some ninety days ago before the St. Louis Board have been printed, and briefs have been sent you. If they have been

misplaced, we can supply others.

Mr. Barr has gone over several phases of the matter, which I will endeavor not to touch on. Your first interest, of course, is not so much with hardships that are being inflicted on certain cities or sections -- the weather, the tariff, and all enter in to a certain extent -- but your first and greatest interest is in the success of this great system.

Now, to my mind there is a bigger question than the mere lack of representation that Louisville might have on that Board. I think that we can get a patient hearing. Certainly we have had every possible courtesy extended to us by Mr. Martin, Governor Wells, and his associates. I believe we could borrow all the money we wanted there without any trouble at all, and without being inconvenienced. However, I consider that there is a still bigger question in this matter than the mere hardship that is being worked on Louisville. We are prepared to make some sacrifices for the success of this system. We are deeply interested in it. We feel we would not be patriots if we were not interested in the success of this system. Now, the question I refer to is the fact that an important unit of this system is not going ahead. The St. Louis Bank is not performing the functions for which it was organized.

Now, that condition is due to an utter lack of sympathy between our territory and the St. Louis territory, and I am not going to any great length about that. I will simply touch a few points.

As Mr. Barr has said, these gentlemen are our friends.

We wine and dine with them. We enjoy their society. They are as gallant a set of gentlemen as ever "scuttled a ship". We believe that until these twelve regional banks are all maintaining their constituents in close sympathy with them, the full benefits of the system can never be extended to the people.

Now, here is this district No. 8. It is certainly very important. We need not wait until the storm breaks before we prepare for the need of this Bank; and we all recognize the fact that in these abnormal times the Bank has not had an opportunity to demonstrate what it could do. We have to make allowance for that, and we feel that just as the mere fact that we had a Currency Association in Louisville, well organized, the machinery all ready to start up on August 1, 1914, and that we met a situation there, that it is important that we get this district No. 8 synchronous all the way through.

Now, these prejudices exist. We are not bad children. We feel that the banks of Louisville should be absolved from such a little, narrow unpatriotic position as that. We have good reasons for discontent. We were disappointed when we did not get one of the Federal banks. You have heard all about that. We are disappointed, and are still grievously disappointed over the districting; but that's another matter. We have been disappointed and aggrieved over the attitude of some of the St. Louis banks. Before the ink was dry on that great Act, some of them had emissaries in the field soliciting business, reflecting on the integrity of the Board that was to be appointed and to be elected by the member banks by saying, "You must have a

friend at Court when you send your paper up. You must have somebody who can properly represent you." Now, I don't mean to say that the heads of those institutions authorized any such statements as that, but I do know that this solicitation went on after their attention had been called to it; and I also know, and I want to pay tribute to one banker in St. Louis, who sent letters out protesting against such methods, which were stirring up feeling in our territory, and stated very positively that nothing could be done by any St. Louis banks that could possibly note be done by any Louisville banks.

We believe that these prejudices will eventually be broken down, but can we afford to wait for the natural course of things? We have got to take human nature as it exists. There is absolute bitterness, outspoken bitterness, among some of our country banks against the St. Louis Bank, and yet, they all say, we know, that they have every possible courteous treatment from Mr. Martin and his associates. There is indifference and prejudice in our own minds against the proposition.

Now, we believe that can be broken down quickly, -- and we do not know when some financial storm will break over this country -- by the establishment of a branch at Louisville at the earliest possible time. We can assure you results. We have said all that we can say as to the expense. We will do in sixty days under those conditions what it will take six years to do in the natural normal course of events. These prejudices will all disappear in time, but we are human beings and it will take a longer time than this unit, one-fourth of this

system, can afford to wait, in my opinion.

Of course, as has been stated, we cannot hope for those gentlemen -- those five gentlemen, living over there, to divorce themselves entirely from the St. Louis interests. It would be unnatural to expect it. We have felt at times a good deal like the old darkey who had caught a catfish. He was wiggling and trying to get away. The darkey with his knife up-raised said, "Wha' foh you tryin' to wiggle, you catfish? I'se not gwine t' do anyth'ing wit' you except t' clean yo' out, an' eat you!" We have felt at times that after we were "cleaned out and eaten" we would have a very sympathetic hearing over there.

Now, my last word is to say that these gentlemen are all charming, delightful friends of ours personally, but when it comes down to a business proposition, they are not thinking of our troubles at all. We have certain rights over there, and we would like to know where we stand. It came back to us that our petition had been passed to the Federal Board. When Mr. Sherley, flushed with victory, handed me some telegrams, he said the Board had nothing to do with it, that it was back to St. Louis. There is a game of cards called "passing the buck." Now, we are not children. We do not want to bore two sets of gentlemen. We will bore the St. Louis Board or we will bore you, but we would like to know which we should present our case before, and the branch Bank is waiting and needed there, without waiting for this storm to break, which will come some day.

We know that you gentlemen will be actuated by patriotic

19.

motives, and I want to thank you and say in conclusion, if you have any technical questions, don't ask them of me!

THE CHAIRMAN, MR. WARBURG: Let us hear about those technical questions.

SENATOR JAMES: We are "Passing the brick" again!

REPRESENTATIVE SHERLEY: Some question came up by Mr. Delano as to whether there has been an actual guarantee of expenses by the branch bank. The gentlemen are here to bear witness; they are prepared to do it, and not to limit that amount. Mr. Delano seemed to be of the impression that they would simply create enough business to make earnings sufficient to pay some twenty odd thousand dollars, but that the actual cost was not guaranteed. I think I am authorized to say these gentlemen are prepared to make whatever guaranty is necessary.

MR. BARR: Whatever guaranty is necessary will be forthcoming.

REPRESENTATIVE SHERLEY: The other proposition was this: The statement was made they did not see how it was that Louisville was at a disadvantage there against St. Louis. I stated then I was not in position to go into the detail of it as I understand it, gentlemen, and amplify it. It results simply that through their correspondents they have a delay of a couple of days that St. Louis would not have. In order to prevent the resulting loss of interest, they are required to assure their customers that they will be credited immediately upon the

deposit, and in order to make that good they must carry in St. Louis a volume of money. That results in that much money being taken away from them to be used for the service of their customers. Now, if that is not clear, why, I hope some of these gentlemen will amplify it. That was one of the propositions.

Some gentleman on the Board made the statement that when you got all of your reserves in under the law, you could demonstrate to the bankers of Louisville that they would be as well off as St. Louis. I replied, for once, that we were from Missouri, and we would like to be "shown" about that, and if you could convince these bankers, I was through.

I want to add one word. There is a fundamental thing in this matter deeper than all the claims of Louisville or any other section. I realize you gentlemen are concerning yourselves with what you will have to do elsewhere in case you give us this branch Bank at Louisville. I may answer that it is very little satisfaction to Louisville to be told that her rights cannot be granted because it would involve somebody else, somewhere else. I want to express, and I think it will be borne out by my colleagues, those of us who have been in Congress, know why this law came to be enacted, and know that it could not have been enacted except by the positive repeated assurances made on the floor, made in caucus, generally, that we were decentralizing the money power of America. Those of

us who had studied the question realized that it was not proper to accept at its face value any proposition that looks to a denial of that basic purpose in the creation of the Federal Reserve Law. I think the debates themselves will show that Mr. Glass, who had more than any other one man to do with putting this law on the statute book, stated that it was the expectation of the authors of the bill that most of the business of this system would be done through these branch banks. The law was written, as plain as it was possible for a human being to write it. It did not say, "you may." It did not say "we hope you shall," or "hope you will"; but said "You shall establish branch banks."

Now, of course, that, of necessity, leaves a discretion as to time and place. It does not leave an arbitrary discretion as to whether or not the branch banks shall be established.

MR. WILLIAMS: When we had a hearing in Indianapolis, the question was asked Louisville, "Will you not be satisfied with a branch bank?"

MR. BARR: Unquestionably; and the understanding all through the consideration of this bill, from the time of its introduction until it became law, was that there to be this local control by the different sections of the country.

Now, I called attention the other day to the suggestion of Mr. Miller when he spoke about the fact that if there had been a less number of banks created, it would have been per-

haps easier to establish branches; that whatever might be the merits -- and I did not profess to put my judgment against his as a banker -- whatever might be the merits of centralization, neither this Congress nor any other Congress is going ever to permit more of a centralization by reducing the number of these reserves; and sooner or later, if the feeling that is being suppressed all over this country, touching various branches does not find an outlet, the lid is coming off as to the whole business.

Now, we had an illustration of that down at the House the other day. My committee abolished in the bill that it reported the Baltimore sub-treasury, and Baltimore came over en masse to wait upon the Committee to protest, and finally went out on the floor and organized enough votes to upset the Committee, and the Committee on Appropriations. The thing got in more or less of a row. The Committee of the Whole proceeded to abolish the Boston sub-treasury, and I believe one or two others, and a number of speeches there were made that it will repay reading, not for the information they give, but for what lies back in the minds of the men who are making them.

Just as surely as I am talking here, just as surely the Congress is not going to sit content to see any great centralization built up at the expense of other cities by the machinery of Law. Communities are not sensitive over the success of rival communities when that success is earned in a fair

field of competition, but they will not sit content, and ought not, to see that success earned by virtue of law that works to the discredit of one community and for the benefit of the other.

Now, as you gentlemen know, I speak frankly. There is not any use of mincing words. You are not going to get cooperation in the full sense of the term on the part of the territory tributary to Louisville as long as the situation exists that does exist now in regard to St. Louis. If you want that part of the territory to help build up the St. Louis Bank, you have got to convince it that it's not going to be discriminated against. There is many a banker today that is going to Chicago and going to New York, and will continue to go to Chicago and New York, for his accommodation, and will not go to St. Louis; and St. Louis is limiting and will continue to limit, until all parts of the system are made to believe that they are going to be on terms of equality.

Then, a branch Bank cannot succeed in Louisville without its helping the St. Louis Bank. If it does succeed, it is simply that much benefit to the whole system. If it fails, it means, as to the guaranty that these men put up, that they are that much out of pocket, so that their inducement is to make it succeed, and by succeeding to help the St. Louis system.

We have been as patient as men could be. We are not simply complaining out of pique over not having been chosen as a reserve city, but we have seen our State cut in half; we have seen

every natural law of trade upset; and we see now our banks being robbed by a direct propoganda, and if we sat silent we would deserve just what we get, being bled to death.

MR. SWEARINGEN: Mr. Johnston is our technical banker, and he will be the last to speak for Louisville.

THE CHAIRMAN, MR. WARBURG: We will be glad to hear Mr. Johnston.

MR. PERCY H. JOHNSTON: Mr. Chairman, and members of the Board: Mr. Swearingen unduly flatters me. Nothing that we may say in this conversation, or hearing, do we want to be construed that we do not believe that this Federal Reserve Act is a great piece of constructive legislation. We want you also to feel and believe that we have entire confidence in your Board, in its loyalty and in its administration of this law. We find ourselves in the peculiar position of being caught between two mill stones, and before we get ground to death, we want to crawl out. And that's why we are here. You gentlemen doubtless have received a copy of the brief we filed with the Federal Reserve Bank in St. Louis. More than likely most of you have not had time to go over it, and if you have, if you are like the rest of us, you have probably forgotten it. I would like you to bear with me while I read one or two paragraphs from the brief of remarks that I make at that conference.

"WHEREAS, the question of the establishment of branch banks is one of broad general policy, and this board has been giving the question of the establishment of a branch bank in this district its careful consideration, and

WHEREAS, at the recent conference of Federal Reserve Agents the opinion was expressed that branches were not needed at the present time and, therefore, should not be established, and

WHEREAS, at the recent conference of Governors the opinion was also expressed that branches were not needed at the present time and that all the needs of member banks could be adequately cared for by agencies and that, therefore, at the present time branches should not be established, and

WHEREAS, the experience of the Federal Reserve Bank of St. Louis in Memphis has been that the re-discounts of member banks located in that city can be passed on so promptly as to give entire satisfaction to member banks and that, through an agency, the present needs of member banks can be adequately cared for, and

WHEREAS, a conference has been called on the subject of establishing a branch bank at Louisville,

THEREFORE, BE IT RESOLVED, that the Chairman of this Board be appointed to represent this bank at that conference and that he be instructed to present to the conference, as the judgment of the members of this Board, that, at the present time, conditions do not warrant the establishment of a branch bank in this district, though final action on the proposal be postponed until after a report has been received from the said conference."

"GENTLEMEN:-

Mr. Barr and Mr. Gettys have fully set forth the purpose of the request for this hearing and in a general way, what we want and ask is well covered by their remarks.

However, it has occurred to me that it would be well to set forth the wonderful development that is taking place in the Eastern part of Kentucky.

In the mountains of Eastern Kentucky, scientists have said is contained one-fourth of the world's visible coal supply, which at the present normal rate of consumption, they estimate would last the world for five hundred years to come.

Until recently, this marvelous deposit of untold mineral wealth was practically untouched. During the past five years we have seen striking evidence of the immense possibilities of this section of our State. During this brief period of five years, various railroads have spent over one hundred millions of dollars building lines entering these vast fields and during the same period of time, large coal companies have expended something like seventy-five millions of dollars in the preparation for operation - and still this great section of mineral wealth is in its infancy of development.

With the future outstretched before us, and with prospect and possibility that this great section of our State is destined to outrival the famous Pittsburg district, small wonder is it that Louisville and its associated banks should feel keenly the division of our State and the unnatural banking and trade alignments that have and will result therefrom.

In Mr. Barr's statement, Exhibit No. 8, it has been pointed out that the formation of a Branch St. Louis Federal Reserve Bank in Louisville, including the eighty-five banks located in the territory we ask to be allotted, would give the branch bank a capitalization of \$502,006 and deposits of \$2,072,191.

It is further shown in Exhibit No. 11-A that if the branch was operated under a working agreement with our local Clearing House Association, that the expense for its maintenance and operation would be most reasonable.

Under Exhibit No. 11-A and No. 11-B, it is estimated that the branch would not only be self sustaining, but that it could and would earn dividends of 6% on the apportioned stock with a reasonable likelihood of something in addition.

These statements and exhibits we are now prepared to discuss with you and we shall be pleased to have any of you gentlemen question us as to our calculations, conclusions and reasons therefor.

It certainly was not the intention of the framers of the Federal Reserve Act to give undue advantage to the member banks located in the Federal Reserve Cities. The facts are, however, that in order to put themselves on an equal basis with the National Banks of St. Louis, so far as their country correspondents are concerned, the National Banks of Louisville are now compelled to keep large excess reserves, without interest, with the Federal Reserve Bank of St. Louis, for the purpose of obtaining immediate credit for the drafts, drawn on the Louisville banks in favor of the Federal Reserve Bank.

With a branch at Louisville, these excess reserves would be released to the Louisville banks.

We now desire to take up with you the present method of check collection by the Federal Reserve Bank and to show you how it causes the Louisville member banks to have outstanding daily in transit many, many thousands of dollars in items that to a great extent would be corrected by the establishment of a branch bank in our city, which would eliminate largely the loss of interest on these items in transit."

Therefore, now speaking directly to the operation of the Bank in St. Louis and our own bank, a statement has been made by Mr. Barr and Mr. Gettys that representation has been made that the member of banks in St. Louis were in better position to serve banks located within our natural territory, Kentucky, than we in Louisville. To offset those representations, and to stem the tide of business being diverted to St. Louis from Louisville, the national banks in Louisville have made arrangements with the Federal Reserve Bank in St. Louis to pay all customers receipts and charge to our account, therefore causing the national banks of Louisville alone to carry an excess of regular reserves in order to meet the competition of St. Louis. Similar conditions exist in the Cleveland district. Banks that never before dreamed of doing business with St. Louis or Cleveland are now doing business freely with them, and in the eastern part of our State we had no business whatever until this year, and last year the banks had loaned large sums in that territory. The same condition exists in the western territory. We have practically no loans from the western part of our State and southern Indiana. We have done all we could to offset it, and the only solution we see for it is the establishment of a branch Bank in Louisville.

Now, we believe that as business men if we were to make this proposition to any big wholesale house of manufacture anywhere in the United States, -"If you will open a branch in

Louisville, we will guarantee you against any possible outcome," they would take the chance. That is pretty good business we feel, and that's what we have come before you to ask, that we be not further punished.

We know that you have a very trying position to please everyone, and we realize that in the division of all this territory you exercised your best judgment, and the relief that we ask for now is something that we cannot help but believe will be of benefit to the parent Bank. We are shareholders in this Bank, and we are speaking to you as shareholders in that Bank in asking for the establishment of a branch in Louisville.

We will be very glad to have any questions asked us, and we will endeavor to answer them.

THE CHAIRMAN, MR. WARBURG: Shall we hear Mr. Martin before we ask any questions? We have heard from Louisville with great deal of sympathy, and are now ready to hear from Mr. Martin.

MR. MARTIN, REPRESENTING ST. LOUIS: I presume, first, before I undertake to discuss any of the statements made here, that I should read this resolution passed by our Board of Directors yesterday, explaining why I am here, and giving me authority to be here:

30.

In regard to this motion, I would like to state it was unanimously carried, Mr. Finley, of course, voting "no".

SENATOR JAMES: And all of the St. Louis banks voting "aye"!

MR. MARTIN: They did. Now, Governor, May I speak a little further in regard to this matter?

THE CHAIRMAN, MR. WARBURG: Proceed.

MR. MARTIN (continuing): Not only the St. Louis bankers, but the representatives from Little Rock, seconded the motion. The gentleman from Evansville voted "aye". In other words, the representatives on that Board, voted "aye".

Now, how did that Board get elected? Mr. Hill was elected by banks in Group, by banks having a capitalization exceeding \$100,000. How was Mr. Woods elected? I am taking up these St. Louis men, and gentlemen, in this regard please understand that I am trying to come to you as the representative of District No. 8, as far as I know how. I am coming to you in that position, and I am attempting to present facts to you as disclosed by an examination of the district. I believe none of you gentlemen will sit here and say that you have not got absolutely the fairest treatment that could possibly be given in every request you have made through me on the St. Louis Bank. If it is not true, I want to know it.

MR. GETTYS: We have all stated that.

31.

MR. MARTIN (Continuing): I come to you now, and if your statements about St. Louis are right, let us know it. I want to know it as much as you gentlemen do. If it is wrong, you I take it, want to know it. Now, let us investigate the situation.

As I say, Mr. Hill was elected by the bankers in Group 1, the banks having a capital in excess of \$100,000. Mr. Woods, was elected by banks in Group 2, Now, they are banks having a capital of less than \$100,000, and in excess of \$50,000. Those banks, some of them in Union City, Tennessee, some in Kentucky, some in Indiana, voted for Mr. Wood and elected him. They did not have to do it. They did it. Now, Mr. Finley, as you gentlemen know, was elected by the banks in Group 3. Mr. Biggs was elected by banks in Group 1. Mr. Biggs, living in St. Louis, is a Group 1 man. Now, some of these gentlemen on this Board could have been elected by other groups, had they seen fit. Recently, Group 3 has elected a Group 3 man, Mr. Ziegler, from Albion, Illinois, to represent it on the Board. Well, so much for that.

, It seems to me that the banks in the district, and I am trying to give you this fairly, gentlemen, I have no partnership in this matter, I am trying to get myself in an attitude of an impartial investigator of the situation. That's what I have tried to do ever since I have had this position. Now, the statement has been made here several times, and I have

heard it, that the St. Louis Banks are taking business away from the Louisville banks, that they are taking the business away from the Louisville banks by unfair methods. And if that thing is true, we ought to know it.

SENATOR BECKHAM: Mr. Martin, I do not like to interrupt you. I have met in Kentucky representatives of St. Louis banks that were undertaking to do that in the banks in small towns of the state.

MR. MARTIN (Continuing): I am going to speak of that right now. I am familiar with that. It is perfectly true. Louisville is a competitor with St. Louis to a certain extent. You gentlemen have your traveling representatives; New York has; St. Louis has; all the other cities have. And I have not a doubt in the enthusiasm of getting business that they have attempted to get business that want to Louisville. They always have. For fifty years they have been trying to take these accounts away from Louisville. I have not a doubt they tried it here. The Senator has seen them, and has heard the statements made. That proposition is true.

Now, to see what effect that has had, I have tried to investigate the situation and see what has occurred. I took the Comptroller's last report, in which there is a division where balances are kept, and I find this situation: taking 59 member banks in Kentucky, the territory tributary to Louisville, I find from that that these banks have on deposit a

33.

total in New York, Chicago, and St. Louis, of \$502,000.00. They have with other reserve agents, that is like Pittsburgh, Philadelphia, Cleveland, etc., \$1,455,000.00. Now in St. Louis at that time these 59 banks, not counting Louisville -- these 59 banks, had on deposit \$96,115,00, and there were only 12 that had deposits there, and the total deposits of all these 59 banks tributary to Louisville were just \$96,000.00. On the other hand, 45 of those banks had deposits at Louisville of over a million, showing that -- I do not care what St. Louis has done; I do not care what its representatives have said,-- Louisville has not suffered, according to this record.

REPRESENTATIVE SHERLEY: Will you permit an inquiry right there?

MR. MARTIN: Sure.

REPRESENTATIVE SHERLEY: Is it not due largely to the fact that Louisville has met them by putting sufficient deposits in St. Louis so that it could treat their accounts the same as the St. Louis people? And is not the harm done to Louisville not simply in losing accounts, but having to lose the use of six hundred odd thousand dollars worth of capital?

MR. MARTIN: I will answer that, Mr. Sherley. I think that can be answered; and right there I hope that the fairness of the St. Louis Bank will be testified to. The very minute that you gentlemen called it to the attention of the St. Louis

Bank that you were having trouble because checks on you could not go the same way as checks on St. Louis, arrangement was made. Now you cannot call that an excess balance, gentlemen; it is not that; You cannot call what you hold there above your required reserve an excess balance, because our books show it is practically all used every day. Really you have an advantage over the St. Louis banks in that, Mr. Swearingen, and I will tell you why. Some of your banks are using it. You are doing this: The St. Louis Bank, -- and I am not holding a brief for the St. Louis Bank; I am just trying to show you, and if you gentlemen see any merit in the plan, why get on to it and use it! The St. Louis Bank has to keep money in its vaults on which it receives no interest, to take up these checks against its account. What do some of you gentlemen do? Evansville is doing it, and one other city -- Memphis, I believe. There is an arrangement with our bank where by if you choose you may keep money in St. Louis and get two percent on daily balances. If you want us to we will notify that bank so they can have a deposit over to us to take care of your withdrawal at the time it is needed. Therefore, St. Louis banks can get two percent interest right up to the second it is needed on their balances.

Now let me tell you something else about that. The Evansville banks have got the thing down to a fine point. Some of the Louisville banks have, too.

MR. SWEARINGEN: A May I interrupt you? We might get two per cent on that, but we might get six per cent in Louisville.

MR MARTIN: But you would have to take care of your checks,

MR. SWEARINGEN: Would be one day late.

MR. MARTIN: Would be one day late. You could not bare ^{lend} (ec) it out at six percent and be meeting \$50,000.00 worth of checks at the same time. Now you are getting two per cent interest on it, and also meeting your checks when they fall due. It seems to me, gentlemen, that if I were in Louisville and could work the St. Louis banks that way, I could make a little something.

MR. JOHNSTON: I would be much obliged to you.

MR. MARTIN: Are you not doing it?

MR. JOHNSTON: I cannot tell you.

MR SWEARINGEN: Mr. Martin, your statistics there as to deposits in St. Louis banks are confined simply to member banks in Kentucky. The petition does not come simply from member banks but from the States banks and trust companies in the State of Kentucky.

Now the cases that came under my observation have been not only member banks but State banks in Kentucky that have opened accounts in St. Louis, because they were told by St. Louis, "We can help you in time of stress." They have been induced to close accounts in Louisville and open accounts in St. Louis. Until those statistics are completed it does not seem to me they are of any great value, because you

confine yourselves to the smallest percentage of the banks and trust companies in the State.

MR. MARTIN: I would have been glad to get the other figures. These are all that were available to work that out. I cannot understand that though, Mr. Swearingen, -- How can a State bank in Kentucky say that St. Louis can do more for it than Louisville?

MR. SWEARIGEN: In case of stress the St. Louis Bank can provide them with money. We in Louisville have to go correspond with you and make that arrangement. We are behind time, at least that is emphasized by the St. Louis banks, and it is effective in getting accounts.

THE CHAIRMAN, MR. WARBURG: No member bank can rediscount for a State bank without the approval of the bank, nor as agent.

MR. SWARINGEN: Nor as agent, -- but they take out their own paper, and lend the bank money. This is a custom, and you cannot divide your customers up and say, "We cannot lend to State banks at all." Anyway St. Louis is using that as an argument, and getting deposits. I understand the point, but I do not understand how you could enforce it. If we have a bank wanting to borrow money, and we are willing to lend, and do not have it here, should we not be able to borrow from the Federal bank in St. Louis?

THE CHAIRMAN, MR. WARBURG: If you would want to rediscount very heavily, you would keep the door open for yourselves, and

not be too anxious to use your rediscount power for all the State banks. It is an argument that can be used both ways just now.

MR. SWEARINGEN: A great many State banks, Mr. Chairman, do not hold assets available for discount, even if members of the system, and they may borrow on absolutely safe security and effect safe loans, but the only way of getting help would be through some member banks. I am sorry indeed Mr. Martin has not those statistics. Take our bank, which is one of the small banks in Louisville. Our national bank deposits are about one-fifth of the banks deposits that we have,- about one-fourth, I think and the rest of them are State banks. A few days ago a case came under my observation where we had two banks in Jefferson, about eighteen miles away, that closed all their accounts in Louisville, though remaining with us, and opened accounts in St. Louis. That argument was effective there, and it is being used all over the State and everywhere where St. Louis comes in competition with Louisville.

MR. MARTIN: It seems to me, Mr. Swearingen, Louisville can counteract that argument.

MR. JOHNSTON: That is what we are trying to do now.

MR. SWEARINGEN: You suggest by keeping money in St. Louis banks that would be of advantage. I do not know today what the deposits of any of these banks in Louisville would actually be if all the checks drawn on them today were charged against the deposits of any of these banks in St. Louis.

Some checks are out a few days and some two weeks. It would be brought down, I expect, to thirty or forty percent, and we are cut down to that extent by these checks cashed in St. Louis. Those checks come in a day sooner than otherwise they would come in, and if a day late our deposits would come in to more than meet them.

MR. MARTIN: We would be glad to give you there the average account so far as our experience goes.

Now, in regard to any of the banks interested. There is in Evansville, I started to mention a while ago, -- those gentlemen there, I do not know how they have done it,-- they seem to work it out so they are able to handle checks drawn on Evansville now with a remarkably small excess in our hands, if you want to call that an excess. Now they meet that situation, and I think, Mr. Swearingen, there are some other banks -- I am not talking theoretically now; that suggestion came to me by seeing how some banks were using the situation. Evansville is, and she is getting two per cent on that interest.

REPRESENTATIVE SHERLEY: Do you think it is a good thing, and in accord with the system that has been established, to induce additional money to be taken from the member banks and put into Federal reserve banks, because if you do, you and I differ fundamentally as to what was intended.

MR. MARTIN: No, sir. You are absolutely with me, Congressman Sherley. I think, too, that the money should be in

that community, so that the Bank can lend at a reasonable rate to its customers, and it can be done through the Federal Reserve system.

REPRESENTATIVE SHERLEY: Putting it in St. Louis does not work that way.

MR. MARTIN: No, it does not put it there, because it does not stay. Now look at this: Here is a balance of \$100,000 today; you keep \$50,000 excess to meet your checks, that is \$50,000 on balance on our books in the morning, and it meets all those checks. At night there is no balance; by another remittance you build up your excess to \$50,000. It does not stay in St. Louis; it meets your local Louisville needs on checks.

REPRESENTATIVE SHERLEY: It cannot both be there and somewhere else.

MR. JOHNSTON: One of our real problems is how we can create enough exchange in St. Louis to care for the incoming checks through the Federal bank, because our business does not go that way. We have no trouble whatever in crediting enough on Chicago and New York in the bank I am engaged with. We have been sending on an average of \$75,000 of New York paper to St. Louis each day, and stand discounts of ten or fifteen dollars a day on New York loans. In addition we estimate it costs us \$100.00 a month to keep a surplus balance in St. Louis banks, in order not to get below the requirement in your bank, and get the six per cent slapped on us for that. All

would be eliminated if we had a branch in Louisville.

MR. MARTIN: How about an agency in Louisville? Could you not do it with an agency as well as a branch?

MR. JOHNSTON: I am not really prepared to state, because I do not know how far an agency can go under general laws. Agencies have different powers.

MR. MARTIN: We give you full power of clearing checks from there.

MR. JOHNSTON: Loaning money?

MR. MARTIN: No.

REPRESENTATIVE SHERLEY: That's what we want.

MR. MARTIN: Memphis has found it all right. There will be no delay in that.

MR. JOHNSTON: But we are offering you something that we think will make you money. Why don't you take it?

MR. MARTIN: We will, if it is a right thing.

REPRESENTATIVE SHERLEY: I would like before you finish, if you will affirmatively state -- not simply negative our view -- affirmatively state why you do not think a branch ought to be established. I do not want to interrupt.

MR. MARTIN: I think it is stated in the resolution.

REPRESENTATIVE SHERLEY: No; that is a conclusion. I do not want a conclusion. I have known that for months. I want to know the reason on which the conclusion is based.

MR. MARTIN: I will try and sum that up before I finish

41.

There have been some statements here than Louisville does not say the business exists there now. Does it, Mr. Barr?

MR. BARR: No; we say it will popularize the Bank, and we can develop the business.

MR. MARTIN: It does not exist now?

MR. BARR: No, but it will exist through Louisville, if a branch Bank be established.

MR. SWEARINGEN: Banks now go to Chicago and New York, which would develop some business with us. They would come to us.

MR. WILLIAMS: Mr. Martin, may I ask you one question? I am told the objection has been made that there is one banker in Louisville who is not in favor of this branch. He frankly states that he is not in favor of this branch, and he has given as his reason for wanting the branch there, that if the Federal Reserve branch should be opened in Louisville, it would do so much business it will take away some business from his bank in Louisville.

REPRESENTATIVE SHERLEY: We would like to know who he is.

MR. WILLIAMS: When I was told that argument was used, I said that was an argument in favor of the establishment of a branch Bank in Louisville!

MR. BARR: I wish we had brought that man along! (Laughter)

MR. WILLIAMS: One of your bankers in my office this past week told me that there was one such banker in Louisville. I

said that is an argument not against the branch Bank, but in favor of it.

MR. SWEARINGEN: Mr. Williams, I did hear one man say he did not care about the branch because it would reduce the rate of interest.

MR. BARR: Another argument in our favor!

MR. WILLIAMS: This was quoted to me. He thought it would give the branch Bank so much business it would take away some of the business from his own bank.

Mr. JOHNSTON: We have every bank's signature on this petition.

SENATOR JAMES: We might get one of them to say that if it would help any! (Laughter)

THE CHAIRMAN, MR. WARBURG: Proceed.

MR. MARTIN: I have also tried to find in looking into this thing -- to see what the actual attitude of the St. Louis banks have been to the Federal Reserve Bank. Now, those gentlemen are not perfect. We all know that none of us are. We are all after business. At least, when I was with a bank, we went after it, I guess all the rest of us do it, and this developed from the books, I think it is worth saying, St. Louis carrying seven-eighteenths of its reserve as a total. This is as of December 9th. Total of deposit with the Federal Reserve Bank of eleven million dollars; Louisville having six-fifteenths had a deposit of \$1, 822,000. The other banks in the district,

carrying five -twelfths, had on deposit in the reserve bank at St. Louis, \$9,228,000. Now that's what they had to keep. How much did they actually keep? They had to keep that much. How much did St. Louis have to keep? Well, it had to keep \$11,014,000. It is actually keeping \$13,085,000. Louisville has to keep \$1,822,000, and Louisville is keeping \$1,924,000. So that, according to that, \$100,000 is all the excess Louisville is needing to take care of all of its checks, provided it is not keeping any more than that. Now, the other places in the district, outside of Louisville and St. Louis, have to keep \$9,228,000. They are actually keeping \$10,000,000. That's an increase of a million.

I just bring that before you because I am impress, gentlemen, with the fact that the Board of Directors of the St. Louis Bank are doing the best they know how. Speaking for myself, I will say to you that I am doing the best I know how, trying to come to a proper judgment as to what is good for a Federal Reserve system. And I do hope that I have a broader viewpoint than the Federal Reserve Bank, just of St. Louis. The good of the entire system is my chief aim.

SENATOR BECKHAM: You would be benefitting the Federal Reserve system if this bank is established.

REPRESENTATIVE SHERLEY: That's just what I want to know.

MR. MARTIN: Now, I will summarize the things, if I am able, the things that to my mind make me feel that a branch

bank is not warranted at Louisville. I have no objection to stating the facts upon which my conclusions are based.

First, the Federal Reserve Bank at St. Louis has been established just a little over two years. The system has been operating just over two years, and it is not fully developed. I do not see any necessity of taking on a new function in any hurry. That's the first thing.

Second, it is my opinion that through an agency at Louisville every clearing facility that could be wanted can be given to Louisville.

Third, based on our experience at Memphis, I do not believe that you can have a need for re-discounts that can't be passed on so promptly by the Federal Reserve Bank of St. Louis that all of your needs will be taken care of. And, gentlemen, in this connection, the only reason for a full-fledged bank is to take care of discounting such as exists.

Fourth, it is stated in the brief that the business does not at present exist at Louisville, but that if the branch is placed there, the business will be created. Now, frankly when the system is only two years and a month and a half old, I cannot see why there is a necessity of putting in an agency to create something that does not exist right at this time.

There was one other thing that came to me while I was talking here, but I have forgotten what it was.

MR. JOHNSTON: Mr Martin, may I ask a question?

MR. MARTIN: Sure, maybe you will recall this point to me.

MR. JOHNSTON: Just the last few weeks half a million dollars of paper has gone to St. Louis for discount, which would have been put into the branch Bank.

MR. MARTIN: Can you say that now, Mr. Johnston? Memphis said "given us an agency; we will give you two and a half million and thirty-one thousand dollars. She had what looked like the business in her hands on this cotton crop, but her promise was not fulfilled.

MR. SWEARINGEN: Was that going east instead of to the St. Louis Bank?

MR. MARTIN: I think it was going to Chicago, New York, Boston, and some of it went there anyhow.

MR. SWEARINGEN: If you had not put a branch in Memphis, you would have probably have had that one there anyhow.

MR. MARTIN: No, sire; no, sir; I want to say for the Memphis bankers, I believe they put everything through that would normally have come to any branch or anywhere else. I do not believe they would have put in a cent more.

REPRESENTATIVE SHERLEY: We believe you have made a system which, according to the existing machinery, requires trade to run in channels that it does not run in naturally. Now, to say that because it does not run, it does not exist, is to try

a conclusion the facts do not warrant. It does exist, but it follows the natural law and course of trade, and will continue to do it, and unless you afford it a facility equal to that, it goes along its old and natural course. I know of two of the biggest financial houses in Louisville who do all of their big borrowing east, and do not do it at home at all. Now, that ought not to be a healthy condition there for St. Louis or for Louisville. It can be remedied by a branch bank. But you cannot by any law that you will pass, or any system, compel them to go to St. Louis against their interests. They are not going to go.

MR. MARTIN: Some of that is due to local conditions, Mr. Sherley, I think.

THE CHAIRMAN: Mr. WARBURG; I would like to understand that. You said they had two houses that did business away from home?

REPRESENTATIVE SHERLEY: Two mercantile houses that do business away from home. But they do not go to St. Louis because they have never had connections there.

THE CHAIRMAN, MR. WARBURG: Did they ever bank to any extent in Louisville before the system was started?

REPRESENTATIVE SHERLEY: A certain amount of banking in Louisville. All could not be done there; perhaps, on account of limited capital, but it could be done there through a branch Bank.

THE CHAIRMAN: MR. WARBURG: I do not quite follow. Because it could only be done through your local banks?

REPRESENTATIVE SHERLEY: Yes.

THE CHAIRMAN, MR. WARBURG: If your local banks wanted to re-discount more for those houses, they could do so through St. Louis.

REPRESENTATIVE SHERLEY: I think you could get those people to aid in the development of the branch bank, where you cannot get them to help at all as to St. Louis.

THE CHAIRMAN, MR. WARBURG: I only want to eliminate things that do not apply.

REPRESENTATIVE SHERLEY: I think that is a concrete fact, Mr. Chairman.

THE CHAIRMAN, MR. WARBURG: You will find mercantile houses in St. Louis that borrow in New York.

MR. MARTIN: Many of them.

THE CHAIRMAN, MR. WARBURG (Continuing): And in Chicago that borrow in New York. I do not think that would be remedied by a branch Bank.

REPRESENTATIVE SHERLEY: I differ from you. You have no desire on the part of the people to help St. Louis. Now, we feel we are being absolutely discriminated against. We feel our State has been just arbitrarily cut in two, for there is no possible combination that could have been as unfortunate for Louisville as the one she drew in the lottery of division

of districts.

THE CHAIRMAN, MR. WARBURG: I am not asking that to try to argue the matter at all, but to find out how that particular feature would be affected by the establishment of a branch bank.

MR. WILLIAMS: Your proposition, Mr. Sherley, is that these mercantile houses in Louisville, out of a desire to help Louisville, would be inclined to throw or keep some of their business there, providing you had a branch; that they are not concerned in sending their business to St. Louis now.

REPRESENTATIVE SHERLEY: I think that is unquestionably true.

MR. WILLIAMS: I can see that.

THE CHAIRMAN, MR. WARBURG: I am doubtful about that.

MR. BARR: I belong to two large corporations which do business with two Louisville banks to the limit, and they could discount paper with other banks in Louisville, opening up accounts, and the result would be the re-discount of this paper, which now goes east. I am on those boards and know they do it.

MR. SWEARINGEN: We had an account opened with us last week by a concern that borrows one million or a million and a half dollars, and it was moved from Buffalo and other accounts in New York. That would increase accounts of that kind. I think, if we had a branch there, we could afford to take them on in more ease and comfort, knowing we could get the money, if

48.

called on for a large amount of money, instead of dealing with the Bank far away.

REPRESENTATIVE SHERLEY: and you deal with a directorate that is not familiar with the character of paper handled in Louisville, and the feeling, whether it be justified or a real one or not, actually exists, that you will not get the quick accomodation through St. Louis that you could through a branch bank. Now, that feeling is there, and it is going to stay there.

MR. HAMLIN: Mr. Martin, could you tell us, in a general way, under what conditions a branch bank would be desirable or necessary, or if ever? I am not quite sure whether that resolution means that just at the present moment it is not desirable.

MR. MARTIN: It is at the present.

MR. HAMLIN: When would it be desirable? I mean what condition of things? So that we can all know when and agree when a branch bank would be desirable. Do not confine it to St. Louis, but in general. I am much puzzled there that if branch banks are desirable, why are they not desirable from the moment of inception. If they are desirable at all? I can see the force of that, although we are facing the command of Congress, but I would really like to know the condition of things.

REPRESENTATIVE SHELEY: That is the most pleasing statement I have heard. It is a "command," under the law.

MR. HAMLIN: What is the condition that would make the branch bank justifiable? St. Louis, you state, you can take care of Louisville at the present time. Is there any time when it could not or could do so better than now?

SENATOR BECKHAM: Let me supplement that: Would it not be practicable or desirable whenever that branch should be self-sustaining?

SENATOR JAMES: And is not that met by the fact that Louisville guarantees it to be self-sustaining?

MR. HAMLIN: I can conceive a branch of a railroad absolutely necessary, and yet you could not figure out any profit if you took the returns of the roads alone, I am asking merely for information, because we want to get at the bottom of this thing.

MR. MARTIN: That's what we all want to do.

THE CHAIRMAN, MR. WARBURG: Could we not add to the question of Governor Hamlin,-- What would be the condition under which the Board should refuse to grant the opening of a branch?

MR. HAMLIN: Yes; the whole subject. But what I want to get at is what are the conditions. We would all agree that the command of Congress should force the Board of Directors to give a branch. Now, I do not understand that. I would like to have some information; that is, would the condition ever arise in this or any district where it was perfectly plain

to us we must establish a branch bank?

THE CHAIRMAN, MR. WARBURG: Governor Hamlin, I think you are asking Mr. Martin a question which he should ask you.

MR. HAMLIN: Very much of my information is obtained by questions to others. I am not an expert; I am a judge.

MR. SWEARINGEN: The St. Louis Bank, with five St. Louis men on it, might consider that the proper time had arrived when they had exhausted their competition with us in the district, and could not get anything more. They would say, "Now, boys, you can have a branch."

MR. MARTIN: I am surprised you put it on any such basis Mr. Schweringen.

MR. SWEARINGEN: It is a cold-blooded business proposition. Our business is being taken away from us by St. Louis banks. That's what sticks in our crop.

MR. MARTIN: What do you mean by your business being taken away? Let me have a list of the accounts you have lost.

MR. SWEARINGEN: We have lost balances.

MR. MARTIN: Well, balances. I will keep it thoroughly confidential.

MR. JOHNSTON: I will give you two or three we have lost. The United States National --

MR. MARTIN: (Interrupting): I would like to have it in writing, Mr. Johnston.

MR. BARR: Mr. Martin is about to answer Governor Hamlin's

question, Mr. Johnston. Do not disturb him!

MR. MARTIN: I do not believe you gentlemen are losing the business you think you are. I think you are mistaken.

MR. DELANO: As reserves have been transferedⁿ, have not all bank balances been reduced? These gentlemen may be accusing St. Louis banks for something that has been going on all over the country.

THE CHAIRMAN, MR. WARBURG: That is a very important thing here.

MR. SWEARINGEN: The State banks constitute an important matter here.

REPRESENTATIVE SHERLEY: It should not be anything but a practical question at the present time. What's the good of talking about theory?

MR. DELANO: We want the facts here.

REPRESENTATIVE SHERLEY: If a man in reply to you says, "I am losing accounts," that is a physical fact.

MR. DELANO: Every bank in the country is losing accounts. The law intended it.

REPRESENTATIVE SHERLEY: We understand that, Mr. Delano. These men are not talking about those losses.

THE CHAIRMAN, MR. WARBURG: The idea is right through the entire law, that the country bankers, the small banks, shall be enabled to be free of the necessity of keeping idle balances with other banks, that they shall keep one balance with the Federal Bank. Now, what happens to Louisville is the same thing that happens to St. Louis, and will happen to other

cities also. They will lose a lot of balances when the final transfer of reserves is made. We hope it will be done in sixty days, if you pass our amendment that we have put in.

MR. JOHNSTON: Mr. Warburg, what we refer to is two specific instances and concrete illustrations that cannot be affected whether this law is passed or not. One is the bank at _____, and the other at Hodgenville. Both opened accounts at St. Louis because they said in time of stress St. Louis could give quicker service than they could obtain in Louisville.

REPRESENTATIVE SHERLEY: Those are facts.

MR. DELANO: I am glad to have those facts.

REPRESENTATIVE SHERLEY: I am not caring whether St. Louis can give them better accommodation or not. The fact remains, if as a result of this arrangement Louisville is being constantly bled for the benefit of the St. Louis Bank, it does not make any difference to us; the result is the same; we are losing blood.

MR. WILLIAMS: It makes a difference to us, Mr. Sherley. If the belief is well founded, we have got to reckon with it.

REPRESENTATIVE SHERLEY: We are not making a direct charge against the Federal Reserve Bank in St. Louis that it is refusing to give consideration--proper consideration-- to Louisville patrons, but we do present in the nature of things that they cannot give that consideration which a branch bank in Louisville, familiar with the class of paper that would

originate there, could give. But I am pressing the thing that is constantly evaded here, that I would like to have met, and that is as to the fundamental purpose of the law, which was to have branches, and to ~~keep~~ the money in the different centers and not to pile it into twelve regional centers. Now, the men who believe that there should be eight branches instead of twelve, or four instead of eight, or one instead of four, naturally are not going to favor the theory of branch banks; but against their opinion I put the law and the opinion of Congress which, I think, ought to control in the matter. And this is the reason I ask why--what reason can be given why a branch Bank should not be established, other than that some men believe that it is a bad thing in any way to decentralize, and if you want so to construe the law as to pile the money into as few hands as possible.

MR. DELANO: What is the limit, then? We have four cities within about sixty miles of each other which have claims for branches, Cincinnati, Indianapolis, Columbus, and Louisville. They are all in a nest by themselves. One has just about as good a claim as the other.

REPRESENTATIVE SHERLEY: Perhaps, but the time is coming, Mr. Delano, if this law stays on the statute books, when all will have branches.

MR. WILLIAMS: That, I think, is precisely the question, Mr. Sherley. And some of us hope that that time will come very speedily. Some of us regret that that time has not come. Personally, I think the time will have come, whenever

there is evidence that makes it fairly clear that there is an amount of business that naturally and normally arises in a part of the district that can be better served by the establishment of the branch in its midst than by obliging it to go to the Reserve Bank at a distance.

MR. SWEARINGEN: This business is not going to go there.

MR. WILLIAMS: That fact is not easy to determine, but the fact is that up to the present moment the Federal Reserve Banks, even where they have served, or been in a position to serve, a contiguous and rich territory near their doors, have had to scrape to pay expenses and to earn something towards dividends. The country is still, and I fancy that is true in Louisville and other sections of the country, - is still at the moment provided with banking resources beyond what the business community would digest. I think it will come, and more speedily than any of us would have believed six months or a year ago. There will be a development of business, a stream of re-discounts, flowing into the Reserve Banks and from agencies that will justify us in planting branches so as to make the facilities of the system more accessible.

REPRESENTATIVE SHERLEY: Now, what harm will come? That question has never been answered. What harm will come if we guarantee any possible loss? We do not break down anything, nor add a burden, because we pay it out of our pocket, if we do not create the business. Now, who's hurt?

(Mr. Williams starts to reply.)

THE CHAIRMAN, MR. WARBURG: May I answer that?

MR. WILLIAMS: That's all right. I will see if it does not agree with my opinion; I will supplement what you have to say.

THE CHAIRMAN, MR. WARBURG: May I say, Congressman, that when this law was still in the frying pan, I was one of those who favored a smaller number of banks, but I put in a special plea to organize a large number of branches, and lead up to that.

MR. HAMLIN: Fifty or sixty?

THE CHAIRMAN, MR. WARBURG: Yes; and I still believe we will have them. In France and in Germany and in many of the smaller countries, they have hundreds of branches. And we will have them, of course, as this develops. But all these began with one branch, and as it grew branches were established. You would not develop or build a railroad except by a trunk line first, and then build a few branches later.

REPRESENTATIVE SHERLEY: May I interrupt there, Mr. Chairman? Your illustration does not apply, for this reason: You already have your railroad. You have banks and natural tendencies in which the trade was going. Now, you are arbitrarily undertaking to determine how trade shall move.

THE CHAIRMAN, MR. WARBURG: No; the railroad goes where it gets business. Of course, you see we are building up very, very slowly. And, moreover, our tracks have not been laid. The thing has not been considered sufficiently, and we have not even gotten our funds in yet. We are going to get the final installment November next, unless there is an amendment to have these funds paid in earlier, -- we hope in two

months. Then, only, will it be complete. But, in addition to that, we will not then have the final force which we should have. We are bringing in another amendment in order to protect this enormous structure of credits and deposits which has grown up in this country, which goes into untold billions. Now, you say, and Senator James has asked, "if we make this guarantee, what's the harm done? Why can you not do it then?" Now, suppose we did for you what we would have to do for Cincinnati, Baltimore, Pittsburgh, and possibly ten or twenty other cities, also Milwaukee, that have exactly the same claim as you have? Milwaukee against Chicago is in the same position as you are against St. Louis. What would the consequences be? You say you guarantee the business. If you look at that chart over there, you will find that the funds we have had to protect this tremendous structure of twelve or thirteen billions is two hundred and thirty five million dollars, and if you add to that, -I do not want to bother you with technicalities, -It may be, three hundred and fifty million dollars of gold; -now, that is not any too much; that is too little. That's why we are coming to you and saying, Give us a way of getting stronger. Now, how are you going to improve your chances by investing more money? Why, if this were nothing but a business proposition, a railroad, that wants to earn dividends, or a bank that wants to earn dividends, I would say, "go ahead and do it, if you promise

to earn dividends for me. Go ahead and open your shop." But you can do it only by investing your money, and your banks would, in that case, go ahead and force business, which possibly would not be the proper way to do for a Reserve Bank. In other words, at a time when we are just now facing the proposition of a large amount of money, where we must have measures to fight the pernicious influence of two or three hundred million dollars of gold that will come into the country,--from the point of view of the country, it is our duty rather to get the gold and shut it up.

REPRESENTATIVE SHERLEY: You say, if I understand, you are afraid that the establishment of a branch bank here and elsewhere would result in the discount of too much paper, and result in unstablizing the whole system by having too ^ugrat an expansion of credit.

THE CHAIRMAN, MR. WARBURG: Let me right there state that is not the conclusion I mean to convey. At the proper time that is just what I want.

REPRESENTATIVE SHERLEY: But not now?

THE CHAIRMAN, MR. WARBURG: I do not think the time is ripe now.

REPRESENTATIVE SHERLEY: I think your mistake is in the assumption you will create business, in order to make the branch pay. What you are going to do is simply to take the business that would go to other sections, and is being done,

and do it through the branch, and the volume of the business in the country remains the same.

THE CHAIRMAN, MR. WARBURG: The difference is this: If it goes to Chicago today the First National Bank invests it. The First National Bank does not care how the United States comes out. They are not charged with the responsibility of keeping our country's finances in a position sufficiently to protect it. But what you want in that case is that the reserve system should step in and take the other business from the other bank.

REPRESENTATIVE SHERLEY: We do not do that. The Chicago bank does business again through the Reserve Bank.

THE CHAIRMAN, MR. WARBURG: No, it does not, if my first contention is right that the Reserve Bank should not, and as a matter of fact our re-discount has been very slight until this recent flurry, the Chicago First National does not come back to us, because only up to the present time the change has come.

REPRESENTATIVE SHERLEY: Let us put it another way, then. Those communities that are fortunate to have banks with sufficient capital to take care of business without calling on the reserve system shall get the business from those communities, and those of us who believe we have legitimate business that ought to be at home and go through the Reserve system are to be denied that until conditions get safe enough

to make it proper to do it.

THE CHAIRMAN, MR. WARBURG: If you are right in your contention, Mr. Congressman,-pardon me, I am not going to make an argument, because I am not discussing your branch at all, but answering the broad and general question,-I want you to sympathize with our point of view and our difficulties. We are not unwilling at all, but we are waiting for the moment when we can go ahead and open the whole business up.

REPRESENTATIVE SHERLEY: Let me suggest, Mr. Chairman, the danger of inflation in this country does not come from interior towns, but from other influences that are piling up considerable credit, without the necessary gold back of it. That is the thing that is making us fearful about this situation.

THE CHAIRMAN, MR. WARBURG: Mr. Congressman, the inflation going on now is due to the fact that in the biggest towns everybody buys too much at too high prices, and consequently, leads to excessive credit. And we see the other side of it, but that is not here nor there.

REPRESENTATIVE SHERLEY: If I understand you, during times, of marked prosperity, when the growth of the city would be the thing to expect, we cannot hope for relief, but when everything gets so tight that there is no business doing, that then we can get a branch. That seems just the reverse, frankly, of what it should be.

THE CHAIRMAN, MR. WARBURG: That would, I believe, not

be putting it quite correctly.

REPRESENTATIVE SHERIDAN: I am trying to strip it, and show just how it affects Louisville.

THE CHAIRMAN, MR. WARBURG: Let me say that I do not think any banker there would say they would not get any relief, if they wanted it. The difficulty now is the natural transactions which would go to a Reserve Bank are hardly extant due to the fact there has been a tremendous influx of gold, and the reason the Louisville banks do not do business with St. Louis just now is really the time has not come for it yet. I think we are talking about two questions, which ought to be disconnected. The one is, and I sympathize with that, that the Louisville banks are in a position of suffering through this temporary condition, because of the campaign in their district which is hurtful to the banks. The other proposition is the broad proposition as to branches. Has the moment come for the Board, where it has got to take a plunge and spend the Government's money? Because whatever we spend is the Government's money. The Government, in the end, is entitled to the money which it finally will get. We are not earning at this time. St. Louis is far away from earning its dividend. What St. Louis and other banks are doing--they are living on nothing. The local business is practically ten per-cent of the business they are doing. They have invested some money in government bonds that is not local business. The rest they are getting through New York. New

61.

York is buying and feeding them to New York. In order to keep St. Louis going there is not enough local business to earn a fraction of the dividend or the running expenses of St. Louis. And, still, you come to us and say in the district which is perhaps the poorest outside of California, we should go ahead and open a branch, and if we do it there, we are increasing the charges.

REPRESENTATIVE SHERLEY: Oh, no; we guarantee that.

THE CHAIRMAN, MR. WARBURG: But, I tell you, that is forced business, business which probably the Federal Bank at this time should not do. And if you guarantee it for one year, if conditions go on,--and moreover I don't believe in this guaranty business, I think it is bad, and I for one would not want it, because if you do it, you cut to pieces the power of the Federal Bank in St. Louis, and you destroy the power of the Federal Bank here to control that business, we could not say to the Bank in Louisville, you must not do at this time as a Reserve Bank what you want to do. The bankers will understand me. Suppose they wanted to invest because they wanted to earn dividends, we could not tell them not to do it.

MR. SWEARINGEN: I wanted just to ask a question. Have you heard any complaint from any other districts of the banks in the Federal Reserve centers reaching out to take business that belonged to other cities?

THE CHAIRMAN, MR. WARBURG: Yes; we have.

MR. HAMLIN: Yes.

MR. SWEARINGEN: While you are waiting and marking time about locating these branch banks all over the United States, these twelve centers are reaching out to take away the bank deposits of those banks not in the Reserve cities. The longer you wait, the worse it is. And, Mr. Chairman, it has always seemed to me that the branches that should be located, ought to be located as soon as possible. The business of these cities has been built up, and if, those branches are established, we have no objection to Cincinnati for instance, having a branch. It would be helpful to us all along the line.

MR. DELANO: Mr. Swearingen, on that we have felt that anybody who was building up bank deposits now was building on a sand foundation, because it was something that was likely to get away from them.

MR. SWEARINGEN: I have always thought, Mr. Chairman, so far as I could figure it out, that every National bank in the United States would be simply like a country bank. That is naturally their position so far as the national bank deposits are concerned. But Mr. Martin left out of consideration the State banks. That they make deposits you of course know, and we make money out of it, just as well as national banks, and I suppose we will lose ultimately national bank deposits.

MR. DELANO: It would be interesting, as a matter of fact, in this record, if we could get a statement of the gain or loss of the bank deposits of the St. Louis banks, and of the Louisville banks, as a whole.

MR. JOHNSTON: Mr. Delano, there is no better indication than clearings of Richmond and Atlanta and increase of their deposits; how they have grown as soon as branches have been established, and how the others have not grown. The clearings of Richmond show something over ninety per-cent increase from last year, and Atlanta seventy-five.

THE CHAIRMAN, MR. WARBURG: That is correct.

MR. SWEARINGEN: It would not be possible to make a satisfactory comparison now. All deposits have increased. We may have lost very little as a matter of relative action. But we have lost part of that custom to St. Louis. I think our bank deposits are more than they were a year ago, but they ought to be greater than they are now.

SENATOR BECKHAM: About the time the division was made, and St. Louis was selected, I happened to be traveling in my State in the eastern part, and I met a gentleman representing one of the St. Louis banks. He was a very affable, intelligent fellow. I ran across him at two or three different places, and learned from him what he was doing there, going into the smaller towns, down there, and his argument to these banks was that St. Louis had been made the Reserve city and their accounts should be established with his bank in St. Louis

64.

where they could be better taken care of than in Louisville or elsewhere; and he was visiting all that part of the State. I got that from him. And then I heard of others doing the same thing. So, there was a regular campaign. It is true, as Mr. Swearingen suggested a while ago. There is such a thing as a legitimate solicitation of business, in a way, but he was using the fact that St. Louis was the Reserve center as an argument to persuade the small banks to take accounts away from the Louisville and to put them in the St. Louis bank. And that's what's been hurting them.

THE CHAIRMAN, MR. WARBURG: Of course.

MR. GETTYS: I believe we are not going to get anywhere discussing our troubles in Louisville. I believe we could talk all night on that phase of the question and not get anywhere. I believe we will have to satisfy ourselves by going home and carrying with us in our minds some sort of definite or concret expression in answer to the question that has been asked by Congressman Sherley and Mr. Hamlin,--If not now, when? Let's get to those two questions that seem to bear on the whole thing, and might be helpful to you gentlemen as well. Can we take that home with us?

MR. DELANO: Mr. Gettys, you and I have both been business men, and are not looking at this thing from any day dreaming point of view. If you were running a big establishment, and it became necessary, or you thought it was necessary, to start a branch in another town, I think before you invested a lot

of capital in that branch, or got a large staff there or anything, you would begin by putting in an agent there and finding out just exactly how much business you were going to win by that branch. We established a branch in New Orleans for a year. That branch was a pretty heavy drag on the Atlanta Bank. Even now, though it is contributing to the Atlanta Bank, the Atlanta Federal Reserve Bank considers that it could do everything that it does with that branch, if it had a good agent on the spot with telephone communication with the parent bank. So, with the night letter service and all that, they could perform every function at an expense of perhaps one-third of what they are now spending. Now, I ask you, as a business man, would you not begin in a new field that way, rather than begin by laying out an expenditure of twenty-five thousand dollars a year?

MR. GETTYS: Well, my impression as to the success of the New Orleans branch is not quite in accordance with yours. The information that I have is that it has been a success, an unqualified success. So, our impressions are different. You have information that I have not.

MR. DELANO: I am not trying to conceal any facts.

MR. GETTYS: On this question of preparedness -- we are all prepared for this branch over in Louisville, and we want to pull the lever, and you are not risking anything; certainly, if the thing is a financial failure, the Louisville banks are not going year after year down into their pockets,

if the business does not develop, year after year putting up a loss. We will come up here and ask you to relieve us of it, if it is not a success. We are taking the risk for the first year, and we can demonstrate perhaps in a year just how much of a success it is. We are not asking you to put your capital there, wholly haphazard, nor are we operating under a wrong principle. If not branch banks now, why should we ever have them? We, in Louisville, are of the impression that if twelve banks are good, fifty-two are better.

MR. DELANO: Congress, I suppose, had in mind that there were going to be twenty-five thousand banks in this system.

MR. GETTYS: But why wait? Let's get right after this thing.

MR. DELANO: Now, as several speakers have said, this is a very new system. The last reserve payment was only made a month ago. The final reserves have not been finally transferred, as you know, and not until next November will the matter there had been more members, directors, or officers of the St. Louis bank coming from Louisville, would have have a different feeling than you appear to express here?

MY GETTYS: Not at all.

THE CHAIRMAN: MRS. WARBURG: It looks to me that you are knocking at the fundamental idea of the Federal Reserve System, and that is this: Because this whole elaborate machinery of constituting directorships of the various Federal Reserve Banks was a great hardship on the big banks which have hardly any

67.

representation at all in these banks except in your district, the idea was that every part of the district should be represented, and that the banks should be the districts and not one city. And I, for one, do not see how you do not make it so.

REPRESENTATIVE SHERLEY: Mr. Chairman, I think some of the trouble is we are looking at different sides of the shield. I labor under the disadvantage of being a Congressman, but I am a practical man, and I know what was in the minds of the men who made the law. You gentlemen are thinking all the time of strengthening these central Banks, and manifestly, no system is going to be of any value that does not make them strong to perform their functions. At the same time, it is not altogether impractical for men to think about the communities that these banks were intended to serve, and the purpose for which we created this machinery. We did not create twelve banks for them to make money for themselves or for "Uncle Sam," but we did have in mind certain communities to be served. Now, we do not believe that proper facilities are being given to our community. We think we are being required to do business in a new and awkward way, in a way that by the natural law of trade we would not do otherwise, and we believe if that is insisted on our banks will just refuse to go into the system, and will do their business otherwise, as a good deal of it is done now.

MR. DELANO: That would be an argument for a change in the

district lines.

REPRESENTATIVE SHERLEY: Perhaps so. But that proposition involves so much that is not practicable we would then be met with the same argument as now,—"If we re-district for you, we have to open up every other district." We are trying to be practical to an extent at least, of offering what we believe is a remedy, though not a complete one; there never will be a complete remedy for Louisville, when she has had the State mutilated the way it has been. But with us, we will be satisfied if we get this. Now, if we have got to come to the proposition of redistricting, why the thing becomes hopeless, because as soon as we get into this, we will be told that these other districts will be affected, and you cannot begin anything like that.

THE CHAIRMAN, MR. WARBURG: Of course, all the arguments here are predicated on the one that with the Louisville banks are not going to do business with the St. Louis bank.

REPRESENTATIVE SHERLEY: I do not say they are not, but I do say water will not run up hill, unless pumped.

MR. GETTYS: Only in our extremity, Mr. Warburg.

THE CHAIRMAN, MR. WARBURG: That is the unfortunate part.

MR. GETTYS: We are human beings.

THE CHAIRMAN, MR. WARBURG: That is the point. I do not know whether I speak for my colleagues here. I have very little sympathy with the point, if every city says—We are not going to do business with Chicago, etc., and so it goes, and if we give a branch to Indianapolis, the cities below Indianapolis

will begin, "Now, you have made Indianapolis a point. Now, you must give us one." We have the same trouble in the case between Seattle, Spokane and Portland. You give it to one, and the other two will be in the same position. So, it means there is no end to it.

REPRESENTATIVE SHERLEY: Of course, if, because you give it to Louisville, you have to give it to everybody else, why then, your argument is sound. But if we do not present a justifiable case, then it is denied us. But you are asking frank questions. You have no hold on the State banks, particularly. You have no hold on the merchants. They are free men to do business as they please. If you do not make the Federal system attractive to them, they will not do business with you. That is not spite, that's the law of self-interest that all of us follow.

THE CHAIRMAN, MR. WARBURG: Nobody knows more than do we that the law of self-interest has made the dickens of a job for us to administer this system. We are trying to look at it from an unselfish point of view at least, and we have got to get into the system the spirit where the system is being considered as a whole, where we have no patience really for the fellow who says "I must have it my way, or I will not play."

REPRESENTATIVE SHERLEY: Are we asking that? Good Lord, has Louisville got anything? It is just by chance left on the map! I am glad to forget it, Mr. Chairman. I am glad to forget

it.

MR. SWEARINGEN: You ask, why don't the State banks come in. In our district I remember one section in the Act which provides-did provide-that if we re-discounted paper, we would have to waive protest, and everything of that kind.

THE CHAIRMAN, MR. WARBURG: It was taken out.

MR. SWEARINGEN: Not entirely.

THE CHAIRMAN, MR. WARBURG: Yes.

MR. SWEARINGEN: We have to waive for ourselves, as I understand it.

THE CHAIRMAN, MR. WARBURG: No.

MR. MARTIN: You do not have to put anything on your notes, Mr. Swearingen.

MR. SWEARINGEN: But I am just giving my impression.

MR. MARTIN: You do not have to put the stamp on.

MR. SWEARINGEN: But you have to waive it, and what is the effect? Why should I send to that bank?

THE CHAIRMAN, MR. WARBURG: When you make that statement, address yourself to the Senate and to Congress Please (indicating Senators James and Beckham and Representative Sherley). (Laughter)

MR. SWEARINGEN: But I want to get before you one proposition. I want to borrow money. I have notes to re-discount. I can send to Chicago or New York. They take them. If their clerk fails to do his duty, they are responsible. But here

we have an arrangement supported by the banks, which says we can do as we please. You suffer. That's what kept notes out of that Bank. I would never borrow money under that condition. That may be remedied now however.

THE CHAIRMAN, MR. WARBURG: The Board suggested it should be remedied.

MR. SWEARINGEN: Would you, as a banker yourself, if you wanted to borrow money, want to send your note to a place where if they failed to send notice, the endorser would be relieved?

THE CHAIRMAN, MR. WARBURG: This is very interesting, but I do not see what bearing it has on the branch bank question.

MR. SWEARINGEN: Mr. Hamlin and Mr. Sherley have asked, If not now, when? Now, we do not seem to have arrived anywhere. I do not suppose we will arrive anywhere. And so far as we are concerned, we are disposed to leave our case with you with what we have said. I do not think we can add anything to it. It is very pleasant and agreeable to hear you able gentlemen discuss these questions, and we get great enlightenment from it, and go home and feel we are wiser men. But I do not think, as far as we are concerned, we can do anything further. We feel very deeply about this. I have not a prejudice against St. Louis or anybody there in my mind, but every time the matter comes up, the thing goes the other way. That's the

proposition all the time. And with that, so far as we are concerned, we are willing to rest the case.

THE CHAIRMAN, MR. WARBURG: May I say for the Board that we have done a great deal, and on behalf of the Board, I want you also to understand the difficulty we are laboring under. I am sorry Governor Harding is not here today, and I want him to have the benefit of hearing what has been said, and he will get that through the report. We want, and you know it,-- we want the system to be a success. If anybody does, the Board wants it.

MR. JOHNSTON: We want it, but Mr. Warburg, we want to help make it a success.

THE CHAIRMAN, MR. WARBURG: I am glad to know it. But with you it is the bank first.

MR. JOHNSTON: That is the law of human nature.

THE CHAIRMAN, MR. WARBURG: We have nothing but the success of the Federal Reserve System in mind, and are practically with it day and night, and have to take a view which may be more remote to those interests which, of course, appear everything to you, because there are so many other things that have to be considered, in order to be fair to everybody. This question of branches is one that we have discussed quite recently very, very considerably, and we have considered the question whether just because it is so far-reaching, we could not develop possibly some time simpler machinery, so as to take care

73.

of the hardships without going to the great expense, and possibly to the complication and disadvantage that it means, if you get too many Boards, forty or fifty Boards, which are the danger to the system. The difficulty is today that every member of every Federal Reserve Board thinks that they are the Federal Reserve system, just as much as you Louisville men have thoughts against St. Louis. So, each Federal Reserve Bank has an interest of its own. That whole thing is passed up with all its difficulties and all its hardships to us and we finally have to see what we can make out of it. I do not want you to go home unhappy at all. I hope you will feel that whatever can be done, will be done by us, and while we cannot answer your question straight off the bat, when will you have the branch I, for one, am willing to say you will have a branch. It ought to come, if the system is a success. There should be and must be a lot of branches.

But one more thought in connection with New Orleans. New Orleans is a success, or more of a success, since it has developed or founded the new banking system, that we have tried to develop. Since the bankers' acceptances have become more popular down there, the bank is not doing re-discounting, but they have been buying bankers' acceptances, against cotton, etc., and Memphis has taken a step and developed something that was a contribution to its new system of banking. Now, there is nothing that will develop the necessity for branches more than

that we have to get the regular business. I believe as soon as the bankers' acceptances develop, as it has,—we have one hundred and sixty million dollars of investments, that is quite a sum for a young baby only two years old. And when we started only two years ago, nobody thought we would have bank acceptances to a larger extent than twenty million possibly. And so it goes. If the thing is permitted to be developed systematically, these branches have go to come. We cannot avoid them, and we would be more happy than you when we have fifty branches coming.

MR. SWEARINGEN: Mr. Chairman, that is interesting and hopeful, but the point in my mind is this: Do you think that it's just to communities to let them suffer by this competition, and delay this introduction of this system, so that in the meantime they will have lost their business?

THE CHAIRMAN, MR. WARBURG: May I give you an answer very frankly, and that is, I had the feeling while you were stating the case, you were not really meeting the St. Louis argument. There is not a thing the St. Louis banks can get out of the system you can not get, and if the State banks think they have not proper opportunities under the Federal Reserve system in St. Louis, it is not so, and if we ever find the least bit of discrimination or hesitation in doing everything for Louisville banks that they are entitled to, we will go into it pretty fast.

MR. SWEARINGEN: The Federal Reserve Bank, of course, is doing its best as far as it is able. But the location of the Bank in that city damages us.

THE CHAIRMAN, MR. WARBURG: I agree it is so, but if a St. Louis private bank goes to a State bank and says it can do more for it in re-discounting than you can do, it is telling a lie.

MR. SWEARINGEN: It can do it more promptly.

MR. JOHNSTON: We are losing business both in the Cleveland and St. Louis districts. We are making every effort to offset it, of course.

THE CHAIRMAN, MR. WARBURG: I would like to have the figures. There may be something, but it may look bigger to you than it is, when in black and white.

MR. JOHNSTON: We want to stop it while we are existing.

THE CHAIRMAN, MR. WARBURG: Please do not misunderstand. We may or may not open a branch there soon. We will consider it from all points of view carefully and sympathetically.

MR. DELANO: Mr. Swearingen, there is one kind of a guaranty you can give us, worth more, I think, than a guaranty, of expenses, which is probably something that you cannot give, because the Comptroller will not recognize a pledge of that kind as binding, but simply a sort of debt of honor on your part, but one guaranty that will really

mean a great deal to the success of the Federal Reserve System, and that is, a guaranty of some State member banks.

MR. SWEARINGEN: That is a large question, and I wish I had the opportunity to sit in the shade of a tree and talk with you about it.

THE CHAIRMAN, MR. WARBURG: Are you a State banker?

MR. SWEARINGEN: We have a title and trust company but there is not one particle of service you can render us. We have nothing at all we can redi^scount with you. The only object of our carrying accounts is to have some money for exchange. That is about the only thing. We loan on collateral; we do not lend on commercial paper. Very rarely, we take a piece of commercial paper. Mr. Barr is the President of the largest trust company of the South. He will make the same statement to you. The Louisville Trust Company, another, is likewise with us, and the United States Trust Company in Louisville. If the Federal Reserve System ever is extended so that it can extend accommodations to institutions on gilt edge collateral, even if they charge more interest for that, and make it not undesirable to get it, I think you will get hundreds of thousands in the system. For myself, if the ruling rate was four or five, I would rather be in that system and pay one per-cent more for the money than to carry our balances in Chicago and New York; but today you could not render any service. That's the real reason we are not in.

It's the same way, -- I think I speak for Mr. Barr.

THE CHAIRMAN, MR. WARBURG: How many State bankers are here?

MR. BARR: Since Mr. Swearingen has mentioned my name, Mr. Martin well knows, we operate a trust company which is a trust company pure and simple. It has the management of trust estates. I appear here in behalf of the National Bank of Kentucky, being one of its directors. The reason that our trust company does not join the Federal System is due to the fact that we have never discounted a dollar of commercial paper, nor do we have any commercial accounts. And, therefore, none of the benefits which would be derived from obtaining money in times of distress would be available to us.

THE CHAIRMAN, MR. WARBURG: Where would you get it?

MR. BARR: We get it in New York.

THE CHAIRMAN, MR. WARBURG: From whom?

MR. BARR: We get it from some of the banks, the Bank of America and the Bankers' Trust Company, and some of the other companies, and we endeavor never to borrow very much. We sell our bonds and conduct the business that way.

THE CHAIRMAN, MR. WARBURG: Do you not think it would be a handsome thing if your bank would be in a position to do that? What are you doing to carry out the decentralization of the system?

MR. BARR: No one in Louisville has been more heartily in favor of the Federal System than myself.

THE CHAIRMAN, MR. WARBURG: Theoretically?

MR. BARR: Theoretically; and if our Board of Directors were willing to go into commercial business, which, sooner or later, they may, I say, without hesitation, my recommendation would be to join the Federal Reserve System. More than that, I cannot say. It shows my approval of it, and it shows that if we could receive the benefits of it, which, under the present system, we do not, I would have no hesitancy in recommendation of the adoption of it.

MR. SWEARINGEN: The Kentucky Title Savings & Trust Company is a combined bank and trust company. Its principal business is, however, issuing mortgage bonds on real-estate. It has a savings deposit and an individual deposit. It is a small bank. Most savings propositions in Louisville are. We had, I think, in 1914 or 1913, sixteen hundred thousand dollars on deposit. I started down to the bank one Monday morning, and I met Mr. Gettys there, and he said, "Have you heard what they are doing to your bank?" He says, "They say you have closed up." That was rather unpleasant news. I did not know why. But that was on Monday, and they were in an uproar. That day we lost about ten thousand dollars of deposits. That did not mean very much, and would not have been noticed except for this talk. On the next day about eleven o'clock bedlam broke loose, and we were called upon during that day, -- I think there were about ten thousand people who paid us a visit, -- and we paid out sixteen hundred thousand dollars between eleven

o'clock and nine o'clock that night. We put up signs we would stay open until every depositor was satisfied. How were you able to do it, you may ask? Our main account is carried with the Merchants Loan & Trust Company of Chicago. As soon as I saw what was pending I telephoned to Mr. _____, and I said, "We are having a run on us and need some money." He said, "How much will you need?" I said, "I want to start on one-half million." He said, "Send your credit over tonight and go ahead and check." Where would I have been with the Federal Reserve System, if we had had to send paper to be perused and accepted by a committee? I would have been broke. We also raised money in identically the same way in the American Exchange Bank in New York, and a bank in Chicago. I asked Mr. McVeigh once how he would have met that situation. He said it would have been met all right. That was before the system was started, but I have never really understood how it would have been met at a distance like that.

THE CHAIRMAN, MR. WARBURG: I did not know Chicago was further away than St. Louis.

MR. BARR: Could we get that kind of service from the Federal Reserve Bank of St. Louis? In other words, I want to get this point out: Our relations with the Bank were such that they relied on us; that when we said we needed the money and would send over the credits, they took our word and judgment. They received our credits next morning, and everything was satisfactory.

THE CHAIRMAN, MR. WARBURG: I do not know whether you fol-

low our weekly statements. You may have known there was a slight flurry in New York last week. On one day the Bank of New York paid out eleven or twelve million dollars. Five millions were re-discounted by banks that had never been there before. They sent over their paper, and there it was, and the rest was taking acceptances from them in a jiffy.

MR. BARR: Our paper is in Louisville and this Bank is in St. Louis.

THE CHAIRMAN, MR. WARBURG: It makes no difference. If you had gone to the trouble of having an understanding with Mr. Martin's bank, there would be no difficulty at all, and if you would begin to buy bankers' acceptances at three per-cent, instead of having them loaned at two per-cent on call, you would have satisfaction. The law permits us only to take certain things, and those we take without any hesitation. And, of course, the whole system is predicated on that. There should be no hesitation. So that you should know for certain if you have good paper, there can be no hesitation at all. And it has been done.

MR. BARR: I brought this out for this reason. This bank could get no service from the System.

THE CHAIRMAN, MR. WARBURG: Let me come to that in a moment. After that, Mr. Barr said, you got your accommodation in New York, and Congressman Sherley, who says we do not decentralize enough, in Chicago. You are the ones that he ought to complain about, even if you had not got a cent that you could re-discount with us, which, of course, would not be so,

because you can arrange your affairs so that you have enough, but if you had only securities, if I were president of the Trust Company, I would become a member of the System, because I wanted to contribute my reserve to that general fund of protection, in this case, for your own bank, and if you strengthen your own bank and your other State banks would come into the System, you would double the strength of the St. Louis Bank or of your Louisville branch, and you would not go to New York. And the only way to break up this centralization is to create central points which are strong enough, and that is where I do not agree with Congressman Sherley at all. You do not decentralize by having five hundred centers, and there you have none at all. If you have one strong point against which you wish to draw Chicago or New York -- if these State banks continue to stay out and say, I get my accommodation from the Merchants Loan & Trust Company in a pinch, in a panic, if they do not become members, though I hope they will very soon, I think they have not done their part toward making the system a success. They do not think about doing what is best for the Nation, but what is best for themselves. The National banks had to give up things when they came into the System, Why not the State banks?

MR. SWEARINGEN: It is not so much in our line to buy bankers' acceptances. We do not want to go into that line of business.

THE CHAIRMAN, MR. WARBURG: What are you here for?

MR. SWEARINGEN: We are loaning money on collateral.

THE CHAIRMAN, MR. WARBURG: My dear sir, you have a right to speak to us, if you are a good citizen, if you have any interest in what concerns the community, but you say you do not like, you do not care about that.

MR. SWEARINGEN: Oh, no.

MR. JOHNSTON: He is only speaking about his Trust Company.

THE CHAIRMAN, MR. WARBURG: I know that. I know the other half of him is all right.

MR. JOHNSTON: Mr. Warburg, we want to thank you very sincerely for the large amount of time you have given us, and I want to say that I hope to see the day come when the State banks do come into the System.