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MEETING OF BOARD OF GOVERNORS OF
 FEDERAL RESERVE BANKS
 WASHINGTON, D.C.
 DECEMBER 10-11-12, 1914.

Matter delivered to Board while
 in session:

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- 1-17.....Morning session, December 10.
- 18-30....Part I of afternoon session, December 10.

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- 31-67....Part II of afternoon session, December 10.
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required reserve and they have not a very large surplus. In that case where does your exchange come from?

Mr. McKay: I think that is impossible, but then the federal reserve bank would have the exchange on deposit in the different cities. That would mean that New York banks would stop taking deposits.

Mr. Seay: From banks but not from individuals.

Mr. McKay: There are a great many banks not in the system and many will not come in.

Mr. Seay: Then the member bank will have to purchase exchange from the non-member bank.

Mr. McKay: Yes sir.

Mr. Chairman: The loss of exchange between the federal reserve banks would be met by shipment of currency.

Mr. McKay: If such were possible that banks in reserve centers had no bank correspondents carrying accounts with them. Suppose the federal reserve banks do make all the exchanges, it would not hurt them.

Mr. Seay: For the purpose of suggesting a common idea and helping us I suggest this. We are all one family, the federal reserve banks. You could have these banks report to New York their debit and credit transactions, I mean to Washington, their transactions with all the other federal reserve banks. What is in the way of that idea. Suppose New York is the creditor of Chicago to the extent of \$500,000. Is not that money just as good to New York there as if in its own vaults if it didn't actually need the \$500,000. Therefore it seems to me a plan which might be worthy of experiment at the beginning would be one which didn't contemplate the shipment of any balances whatever. Let the federal reserve banks have their relations with each other and it will resolve itself into a debtor and creditor relation. Let the debtor bank deduct from its gold reserve the net amount of its debtor balance. Let the creditor bank count as its gold reserve that credit balance. If there should come

a time for transfer, let it be done with the sanction of the Board. Or if one bank became heavily indebted to another bank, and if that bank desired it, let that amount be segregated from the assets of the bank and let it be placed with the federal reserve agent as the property of the creditor bank. I think the whole thing could be done that way. There might not be any necessity, then for a transfer of funds at all. If you will allow time for the completion in this exchange and take into account the debit and credit balances, allowing time for the completion of the cycle of the year you will get back to where you started and the whole thing can be worked as a matter of bookkeeping.

Mr. McKay: You cannot convert a check in a bank in San Francisco into money immediately by any process. The time must enter into it as the check takes time to get through and be presented.

Mr. Seay: But I am talking about balances which arise. Suppose San Francisco is in debt to New York and New York is in debt to Minneapolis and Minneapolis is in debt to San Francisco, the whole thing could be settled by the federal reserve board instructing the agent to give proper credits to the banks entitled to them.

Mr. McChord: That is practiced by the clearing house.

Mr. Chairman: We could have 11 or 12 banks radiating from Washington and all the money come from one institution. I don't know that any branch would be particularly anxious to obtain shipments of money to settle its accounts with the head office here in Washington unless it had local need of currency. If it is all in one pot, theoretically, the shipment of money between banks would be actually eliminated unless there was demand for lawful reserve money to be paid out of some bank in a given locality. We naturally approach the discussion of one bank when

we take this matter up and consider we put the money in one pot for the purpose of settling balances between these branches.

We take a new step towards the creation of one bank. I think the matter should be approached from that aspect also. It may be that the federal reserve board --- this is a plan for the settlement of the results of clearances.

Mr. McKay: It is both. The items are cleared every day and settled at intervals. The settlement agent is the man who handles it.

Mr. Fancher: The 12 banks have transactions and advise the clearing agent.

Mr. McChord: At the close of business to-day, I would telegraph to the clearing agent our remittance to New York today is \$123,000, Philadelphia, \$210,000 and so on.

Mr. McKay: It would be the other way. You would telegraph the clearing agent what you received and how you credited the others with the amounts. The clearing agent would telegraph you the credits that they had been advised of from other banks and you would have both sides of your clearance. The clearings are made after the items are received by the banks when they can charge them to the accounts rather than by the other banks when sent to you.

Mr. Seay: There will be a situation where at all times you will know exactly where you are. The banks know what they owe to each other and if you clear between all the banks, where obligations might amount to \$100,000 you might make settlement between the federal reserve banks for 10%. If there is a large amount due another bank, a fund may be segregated to cover the amount, under the direction of the Board.

Mr. Rhoades: How do I pay my checks in my own bank?

Mr. Seay: When there is need of currency it could be transferred.

Mr. Rhoades: But that responsibility is there every day.

Mr. McKay: The bank is given credit each day and the creditor bank must receive its settlement in a reasonable time and before the demand gets too large, otherwise they are advancing money to the federal banks which is in the hands of other reserve banks.

Mr. Fancher: You could not settle with creditor banks until three or four days afterwards. If you notified them each Friday of the week's transactions you will say what they were but it would take several days to make the distributions if you send remittance.

Mr. McKay: But if the banks in the west and the banks in the east carry accounts in New York, settlements can be made by charging and crediting those accounts if New York and Chicago exchange goes to par and they could do what they liked with the excess balances.

Mr. Bardwell: If this plan prevails could we not carry reserves in the bank at Chicago. Suppose we carried 5/35 of our gold in control of the bank in Chicago, but not as part of their assets.

Mr. Seay: It could be in 12 places as well as one.

Mr. McKay: The 12 banks would make good that fund if paid over from one bank to another account. We could warehouse the reserve in a number of places.

Mr. Seay: You could have one warehouse or you could have 12 and regard the federal reserve board as the custodian of those 12. It can be in 12 as well as one warehouse. Let the Federal reserve board be the custodian.

Mr. Chairman: I cannot see the difference between it provided the cost is the same, the difference between establishing a common reservoir of reserves for the settlement of balances and having 12 such reservoirs. Is it not simply to do that thing in one common clearing point.

Mr. Seay: There would be one common clearing point which is the books of this Board to which we will report very frequently. That is the common clearing point. The question of the storage of reserves is one point of difference I see, whether deposited in 12 reservoirs or one.

Mr. Fancher: I Don't see that the federal reserve board have taken up any method to wash out accountings between the banks.

Mr. Seay: That is clearly their idea.

Mr. Fancher: I think the clearing should be done at a central agency like a clearing house.

Mr. McDougall: The plan of Mr. McKay is the same as we have in our cities for clearing local bank checks. The only difference is the question of bringing your checks to the clearing house by messenger and sending them by the mails.

Mr. Wells: And you have a weekly statement instead of a daily one.

Mr. Fancher: In the clearing house you have a gold certificate statement.

Mr. McDougall: I would not say we had that in Chicago.

Mr. Rhoades: You get warehouse receipts.

Mr. McDougall: Yes sir.

Mr. Rhoades: I would ask Mr. McKay whether it is not the experience of the country that for six months the draft of exchange is west to east and the other months it is the other way, showing that to fill the reservoir in Chicago at certain times of the year it would be necessary to ship currency.

Mr. Seay: How can you tell where the clearing and exchange of the country is going to be.

Mr. Rhoades: The foreign exchange is a draft one way and then the other for a number of months.

Mr. Bardwell: There is a plan on foot now to have an international clearance.

Mr. McKay: This will reduce the shipping of currency to a

minimum. The shipments would not be crossing each other all the time either.

Mr. McChord: Mr. McKay, what do you contemplate as to the federal reserve notes for the various banks.

Mr. McKay: They would be handled the same as checks. They would be sent out the same as if they were checks on federal reserve banks, send for credit. They would go right in with the currency, and in connection with telegraphic acknowledgments, they could be followed by acknowledgments in the mail.

Mr. McChord: The retirement or redemption of national bank notes at the Treasury in Washington, could you work that in the plan that would take credit from the Treasury Department in turning into the Treasury national bank notes for redemption?

Mr. McKay: That is a matter I did not go into.

Mr. McChord: That plays a very important part with us at times.

Mr. Seay: I think we all shall certainly have to reconcile ourselves to the fact as a necessary development of the system that the only exchange practical that will exist after we are in full operation will be the exchange created by the federal reserve banks themselves. I don't see how there is going to be that New York exchange purchase if every bank is going to receive at par the checks of every other bank. There certainly will not be the necessity for the maintenance of balances in any center of the country.

Mr. McKay: As to the movements of balances it is taking effect now. Balances will go into new channels and there will be balances in different localities. New York will lose some to the west and regain some balances from Philadelphia, and will gain a larger amount from Albany as New York is in a position to collect nearly all the state without charge. There will be a great readjustment and it is impossible now to say what the result of the readjustments will be.

Mr. Seay: Do you mean member bank or reserve bank of New

York?

Mr. McKay: I mean the member banks. The first national bank cannot deposit under the present rules, items with the federal reserve bank in Chicago drawn outside the Chicago district, but that doesn't bother them. They will send those items to the bank in New York and the National City Bank of New York can deposit them in the state reserve bank. That system is in force now.

Mr. Seay: That is because of this partial system we have installed.

Mr. McKay: The National City Bank as soon as New York opens its gates to take its own District, will take them from anybody and deposit them in the reserve bank in New York. I think now it would be better that the federal reserve bank in New York do not take checks on member banks outside their own district. In Cleveland the bank should not take a check drawn on a bank in Illinois. They can clear out through regular channels. We will have a lot of transit items, but one of the biggest banks in Chicago with 100,000 items a day, told me that when our whole district was ready they would only deposit with us 1500 items a day. That is inside our district. So we are not going to get a tremendous volume of items in our districts from large banks but if we open the gates to the big banks and say we will take something on any bank in the United States, we would get a good deal more. It is not proper to charge the member banks with the cost of handling these checks as the member bank cannot charge the drawer.

Mr. Chairman: Mr. McKay, wont this plan of yours result in the federal reserve bank handling all the items just the same. We will take the First National Bank of Minneapolis for instance. Wont the other items that they get from other banks in other districts be enough to them to handle with the other banks in the district? You will have enough I think, in your own district. The federal reserve bank is going to handle these items and they are going to handle the majority. All that you will handle will come at the time reserve is taken in.

Mr. McKay: Do you know what that means? I do. I get returns from all our banks of all the checks they paid.

Mr. Aiken: Exclusive of the checks paid on the federal reserve banks.

Mr. McKay: One thing, the volume of checks will be reduced in another way.

Mr. McChord: It seems to me we have got to divide the checks. I think we had better confine ourselves to the subject of this clearing house and then get into the subject itself. It is going to take all the time we have got to devote to it.

Mr. Chairman: May I ask one question. The operation of accounting between the federal reserve banks contemplated by your plan, is identical with what the federal reserve bank in New York is doing. You are charging the credit accounts, are you?

Mr. McKay: No, we charge them direct.

Mr. Chairman: But the proposition is identical with your plan as I understand it, and consequently what your plan contemplates is that instead of having 132 avenues of shipment, of ~~XXX~~ money between all of the federal reserve banks, that money will only be shipped to Chicago. You receive from Chicago money in settlement of these balances and you reduce the routes for

the shipment of the money in settlement of balances to 11 in number instead of 132.

Mr. McKay: Yes sir, that is the point.

Mr. Chairman: And it is in effect, a method of arriving at a means of perfecting that settlement at a central point, at what you regard as a minimum of expense; that is, you ship these amounts to one central point?

Mr. McKay: To where your shipping facilities and other ends meet, and that enables you to get shipments at a minimum.

Mr. Chairman: Your plan will also contemplate that any member bank in New York depositing to its credit a check on any other reserve bank, would get an immediate credit for that as soon as it has reached its destination?

Mr. McKay: I personally would not favor granting immediate credit to the personal account of a check unless it is chargeable to another account that has a credit with it. But that is another question. We were discussing the question of the settlement of balances and not how they were going to be made.

Mr. Seay: Your federal reserve bank at San Francisco, how is it going to clear the credits or put them through your clearing agency? How are you going to handle that, wait five or six days?

Mr. McKay: Do you mean, going to wait a few days, is that it?

Mr. Seay: Yes..

Mr. McKay: And the federal reserve bank telegraphs Chicago that it has received a draft on that bank and to credit the account of the federal reserve bank at Chicago. That will make it valuable the same day it is received in San Francisco.

Mr. Chairman: May I ask whether these checks are going

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to have any currency at all on that basis?

Mr. McChord: As I understand it it would only be a reserve on reserve banks.

Mr. Chairman: That is, a check on a reserve bank only that we are discussing.

Mr. Seay: How are you going to handle bringing in a reserve bank in New York.

Mr. Chairman: Of course, you have got to recognize the objection that for five days the member bank in New York has a reserve credit represented by a piece of paper in the mail which has left a balance in the San Francisco bank, which counts as a part of the reserve at San Francisco, and it is a duplication, that is, a paper reserve.

Mr. Rhoades: I don't want to repeat this too often but I think we ought to keep in mind that the whole essence is time, and you cannot wipe it out by law, and the minute you neglect it you are going to build up a great expensive system.

Mr. Chairman: I think we ought to refer to the Act here and see what it contemplates. Let us take Section 16: (referring to Mr. McChord) that isn't the one, Mr. McChord, it is under the subject of notes, Section 132. I think we have all got a copy of this law in front of us. It is paragraph 132, page 26, the last part of Section 16. I do not think it has been changed. The last section, 16, paragraph 108 (Reading):

"Every federal reserve bank shall receive at par from member banks checks" - - - (let us reduce this) 'Checks drawn by member banks against funds to their credit in the reserve banks.'

That is, it means to receive it at par. Possibly before concluding this discussion, we ought to define what "Par" means,

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Mr. Chairman: I think we ought to refer to the bible here and see what it contemplates. Let us take section 13; (referring to Mr. McChord) that isn't the one, Mr. McChord, it is under the subject of "Notice", section 132. I think we have all got a copy of this law in front of us. It is paragraph 132, page 26, last part of section 17, and the last part of section 16. This is the St. James edition. I do not think it has been changed. The last section, 16, paragraph 108 (Reading):

"Every federal reserve bank shall receive at par from member banks checks" - - - let us reduce this 'checks drawn by member banks against the funds to their credit in the reserve banks.'

That is, it means to receive it at par, Possibly before concluding this discussion, we ought to define what "par" means,

immediate credit or otherwise. What does "par" mean? Mr. McKay's plan, as I understand it, does not contemplate treating these checks as real par, that is, convertible into lawful money on presentation, at the counter of the bank which is real par I suppose. In other words, every check is to be timed to the date of its arrival and a telegraphic advice sent back to the settling bank.

Mr. McKay: The federal reserve bank intends that the check shall be par as far as exchange charges are concerned and the cost referred to there, is the cost of handling the items, if there are any, and if they are in the district; and if outside the district the cost of handling them in the bank, clerk hire, etc., and in any case that may be incurred in the settlement for exchange. The very things that we refer to here, or to whatever cost the federal reserve bank is put to to make these settlements between federal reserve banks and between federal reserve districts. It contemplates that this cost may be charged to the member bank for which the cost was incurred by the federal reserve bank, and further than that the member bank is supposed to have ^{the} right to put that cost back on the drawer of the check. Now, theoretically, that is perfect, but practically it wont work at all. As far as charging it to the depositors of the member bank is concerned-- unless all banks are members-- and I believe by limiting the clearings of federal reserve banks to their own districts, and in addition to that, items drawn on another reserve bank, that the cost can be borne by the federal reserve banks, and that no charge will be necessary to the other banks. If the time comes-- if it ever comes--when the federal reserve banks are able to pay their full dividends, ^{that the member banks receive} then this cost will simply put the full dividend with the member banks; and I think it will not be so great but that it can be handled by the other banks. It will largely.

The first dividend or part dividend will be delayed a little longer, but instead of getting 10% to start with, they will be getting 6 from the beginning. First the cost of handling these items will have to be earned before the dividends begin.

Mr. Chairman: It seems to me under the statute there could be no question about depriving the government of its share of the emoluments of this system because this statute specifically provides that these checks shall be received on deposit at par, and the act contemplates that the federal reserve banks shall absorb some of the expense, which, however, will naturally defer the date when the government will begin to get an income, but we perhaps will not be concerned about that at this meeting.

Now, gentlemen, it is quite in your hands to consider how long this matter shall be discussed before we attempt to reach conclusions.

Mr. Fancher: Mr. McKay, in the matter of collecting checks, this will apply only in certain districts. For instance, in the matter of carrying part of these reserve accounts in the smaller districts and part outside, or taking outside collection---that will continue this, wont it?

Mr. McKay: They will have to continue some arrangement with the correspondents as to handling them with the member banks anyhow.

Mr. Fancher: Then your thought is to keep them coupled up with the member banks outside of the district.

Mr. McKay: In most cases the reserve within the district will take care of most items within the district. In ~~Bank~~ the Minneapolis bank they carry as much as they will need. The federal reserve bank in each district will accumulate all the

checks drawn on the members in that district.

Mr. Wells: Mr. McKay contemplates that there will be none of that, and that the small man in the small town will come to his bank and get a check on the federal reserve bank of that district.

Mr. McKay: If he does not do that, then of course, his check is not handled at all. We cannot stop that, but we can discourage him. Another point that occurs to me is if a bank in Peoria carries an account with the bank in Cleveland - - Cleveland is in a different district - - and the bank in Peoria wants to get a check in payment of its balance, why, you can give the bank in Peoria a check on Cleveland that is drawn on the federal reserve bank and they can deposit that check in Chicago, so you will still be able to make exchanges between the districts outside in that way.

Mr. Chairman: It will be a purchase of drafts all the time.

Mr. McKay: In one case it might be. If we are going to take checks on all items outside of the district, then the bank at Peoria will deposit with the Chicago bank where it carried its account. If we are going to take checks on that bank, which we don't anticipate at present, we can simply get the Union National Bank at Cleveland to give the bank in Peoria the check on Cleveland, and that is available in Chicago or in any other city, or it is available in any bank in any other part of the country.

Mr. Fancher: Of course, there is going to be a leveling-up process, and just what form it is going to take and who it is going to hurt, we are not certain, but I think it will hurt somebody. With a large volume of checks on Ohio from eastern banks, there is a strong demand for New York exchange. We have been on a currency shipping basis for the greater part of this year. Now, if this scheme should be put in operation the bank in Cleveland could deposit

checks drawn on the members in that district.

Mr. McKay Wells: Mr. McKay contemplates that there will be none of that, and that the small man in the small town will come to his bank and get a check on the federal reserve bank of that district.

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Mr. Fancher: Of course, this is going to be a leveling-up process, and just what form it is going to take and who it is going to hurt, we are not certain, but I think it will hurt somebody. But in the case of a large volume of checks from Ohio to eastern banks, from a bank in Cleveland or Cincinnati that is making a demand for New York exchange, the matter will not be so difficult. We have been a shipping basis for the greater part of this year. Now, if this scheme should be put in operation

its currency and remit its draft on its reserve bank in Cleveland, and the federal reserve bank would level it all up. I don't know who is going to pay the expense. I can see at the outset that we are very certain that excessbalances carried between certain cities in our districts can be checked out. That surplus is going to be dumped into the reserve bank at Cleveland, and we are going to convert these excesses into New York finds. How much they will be, I do not know. We will play the part of the shipping bank.

Mr. McKay: Now that is the point exactly. After this plan comes in there won't be such demand for New York exchange, and I would like to say that the bankers at Dallas for instance, will reduce their rates and a great many others will do so and you will be driving everything back into its natural channel.

Mr. Chairman: Would not the banks within these other reserve districts be constantly seeking Chicago exchange?

Mr. McKay: They would if they were debtors to Chicago.

Mr. Wells: Well, we would be debtor to you.

Mr. McKay: If we could take customers' checks on eastern points. But under this new system there would be 12 different points of exchange all equally available and it would be just as good to you if presented, as New York exchange.

Mr. McChord: May I ask if he can arrange in his plan there an outline of the cases of national bank notes offered for redemption.

the bank in Cleveland could remit its draft on its reserve bank in Cleveland, and the federal reserve bank would level it all up. I don't know who is going to pay the expense. I cannot see at the outset that we are very certain that balances carried between certain cities in districts where an excess is carried can be gotten out. You have more money than you want to carry in certain places but you ~~waxixix~~^{cannot} get it out. I don't know how the Union National Bank has paid at Columbus but our currency has been there the greater part of this year, and that surplus there is going to be dumped into the reserve bank at Cleveland, and we are going to divide those excesses into New York funds. How much they will be, I do not know, ~~braxxxx~~ We will pay the shipping agent. Columbus will then decrease their currency and we will pay the shipping of the reserve.

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Mr. McChord: May I ask if he can arrange in his plan there an outline of the cases of national bank notes offered for redemption.

Mr. McKay: If it is to come to Washington, as now, the currency notes would have to come to the federal reserve bank.

Mr. McChord: That is right, but is it possible to collect credit through the clearing houses of the bank?

McKay: If the government carries a deposit the same as any other deposit, some arrangement may be made.

Mr. Chairman: Most of their checks are now payable at a federal depository and they can be included in the proposition.

I do not like to interrupt this discussion but we ought to be making progress on a policy which may be important. There are two matters which should be considered in connection with this whole subject of making new exchange rates. One is what effect it is going to have on the country bank, that now profits by the business of making exchange charges, and the other is the possible effect--and this I regard as a very important question--possibly the effect of devising a system of settlements by which national banks are going to get a distinct advantage in matters of exchange over state banks, prior to some method being adopted by the federal reserve board for the admission of state banks so that they in turn, will be forced to adopt some plan of their own, and ultimately have the two systems mated against each other in an unprofitable and unsound competition. The state banks throughout the country are watching the development of plans for producing checks at reduced cost of collecting debts with a greater rate of interest, and, in some cases I believe, with a great deal of concern. We are at a point where the sentiment from these two systems is going to develop from what is said here, I believe, very largely; and I do not believe the managers of the banks will disagree in this statement that the system will be most effective after all the state banks are entitled to membership.

We want to observe a certain degree of care in going so fast in developing new things, for members of this system. We do not want to force the state banks to take measures that will be inimical for the system. Whether we are going too fast or not will have to develop by experience.

Mr. McChord: May I say that the state banks in Georgia have already formed an association for the handling of checks. There are four hundred state banks in the State of Georgia. They have already consented to join in such an association. There are 114 nationals. And now that system is already underweigh, that you speak of, in our State.

Mr. Chairman: Yes, and coincident with the development for facilities for member banks considerable facilities should be developed for the state banks.

Mr. Wold: In this connection you may be interested in the article in a paper of North Dakota as follows:

"Fargo, North Dakota, December 8th. The regional banking system under the new federal currency measure may result in practically all the leading national banks of North Dakota abandoning their charters and changing to state banks.

"The cause of this proposed change is the dissatisfaction with the system of handling reserves and the lack of information regarding what the regional banks will do on the securities of the North Dakota nationals. Should the time arise when money was badly needed in this State and it would be necessary to put up these securities.

"It is reported that before taking any radical action leading North Dakota representatives of National banks have gone to the regional banks of Minneapolis, Chicago, and elsewhere with large bundles of their paper, not that they want immediate loans, but to learn how the securities would be passed upon if conditions arose in this State which would require that

they be put up as collateral. The future of the North Dakota banks depends upon the results of these investigations.

"Under the regional system the reserve funds of each national must be deposited with the regional bank of its district. This necessitates a withdrawal of the reserves from corresponding banks in big financial centers. As a result the North Dakota national banks can no longer expect courtesies from the banks with which they were formerly affiliated, and if they require money they must necessarily look to the regional banks.

"It is a foregone conclusion that if a dozen of the leading nationals of this state abandon their charters and take state charters there will be a stampede for state charters in North Dakota. Similar action in many states would practically nullify the regional banking system as the reserves would all be withdrawn. For this reason it is anticipated the officials of the regional bank will have a liberal policy for the smaller nationals of the country.

"North Dakota financiers are greatly interested in the developments and the result of the investigations now being made by representatives of the nationals of this state."

Mr. Sawyer: You don't take that seriously do you?

Mr. Chairman: We are getting away from our subject.

Mr. McKay: Let me observe that the country banker will be deprived of the exchange charges that he has been making,

~~Exknow~~

and the small country banker is not the only one that is going to lose exchange. The New York rules will be modified so that all items that are accepted for immediate credit will be taken at par by the New York Clearing House payments. Now, the New York banks are still going to charge the regular rates on the items on the non member banks, - The banks that are not in the system. The result will be that non member bank checks will be at a discount, and member bank checks will go at par and non member banks will be compelled to provide a place for their checks at par or else join the Federal system. That is one side of the proposition. Here is the other side. One large non member bank in Chicago said they had a check on ~~the~~ a certain bank and the manager said what am I going to do with this check? I said we were not prepared to take outside of our district, but if we were I might take it at par unless he joined the system. He said "what shall I do with it," and I said "Send it down there" and so he sent it down to a bank in Atlanta that is not a member of the Federal Reserve Board. He got his returns at a dollar a thousand because he had sent it to Atlanta to a non member bank. Now then, if this bank had the same trouble with its other items, it would be a strong leverage on getting them to join the system.

Mr. Chairman: That would be true if the other objections to the admission -- that the State banks have to the admission to the system were removed.

Mr. McKay: Yes, we are supposing that.

Mr. Chairman: We are always supposing that better things in the system will induce the State banks to come in, and on that point you have illustrated it exactly as it should be on that point. I personally am afraid of developing the collection system now to a point where those advantages will begin to develop in the minds of the state banks, although their objections have been overcome by the regulations of the Federal Reserve Board now. Therefore I think we should be careful not to erect barriers now for the admission of state systems or force them to erect barriers that would compete with this system, and then possibly never get them in.

Mr. McKay: As regards the fairness of charging up to a member bank's account at par in any district there is this: They are all members of a clearing house system, one has its checks charged up to it at par. In return for the privilege it can get credit at par for any number of banks of that system on the same basis, and all checks should be at par within any district. There is no question in my mind about that, within each district. That is the only way we are going to handle checks on any of the banks. Now then, as regards the interest handled by the country banks/ I am not speaking of the country bank as small banks, but in all country banks, as a rule, they have arrangements with correspondents so that they do not have to pay any exchange, and they are getting the best of the deal all the time. Any bank in the State of Massachusetts is willing to remit at par to the Boston clearing house without a single exception, and that has been going on for fifteen years. I believe it is the best system we have except this Federal Reserve Bank system. The system extends all over the country, and should be just as good in the New England states as in San Francisco. I think it is the correct policy.

Mr. McChord: In direct answer to that, you take a little bank in the interior who has no means of creating an exchange, except at certain seasons of the year. These people have to remit in currency to make their balances and they get their checks cleared at par, as you say, and they get a balance credit there on which they get interest. To force them into the system where they get no interest and where they ~~get~~ have to pay for the checks, I state to you right now you will lose a great many members of that force.

Mr. McKay: I believe every bank should provide a place for redemption at par for checks on it within a certain district. I believe that is the correct policy, and all the members of this system should be on the same basis.

Mr. Seay: That develops a very interesting proposition. You will find a bank right next door to another bank

and 200 miles from a Federal Reserve Bank, and it nevertheless would send its check on the 25-mile district to the Federal Reserve Bank.

Mr. McKay: That is another point that will have to be threshed out later. I think those cases will have to be taken care of as they come up, and it will be suggested to these two banks that they exchange checks with each other and settle with the check on the Federal Reserve Bank.

Mr. Seay: Mr. Chairman, we immediately approach our subject and then withdraw by considering something else.

Mr. McKay: This all came from Mr. McChord!

Mr. Chairman: We seem to be in a frame of mind to reach a conclusion, if possible, and I have no suggestion to make about it whatever, beyond expressing what little opinion I have, not having the experience of some of you. But I believe this absolutely: that we have got to act mighty slow about revolutionary things, and whatever you decide to recommend is your decision; but I cannot help but feel that we ought to go pretty slow in beginning to develop a sharp line of demarkation between the business of national and state banks. We ought to be breaking it down rather than erecting a barrier for awhile.

Mr. Wold: In this connection, you had a telegram, no doubt, and we had one, asking if we were prepared to clear country checks. I have several in my pocket of the same tenor which I have not read! Is there any disposition requiring us to do that? I think we have got to be very frank with each other about the attitude of the Federal Reserve Board in this matter. Frankly, the opinion of the Board in regard to the currency of the country checks, in my opinion, has been very largely formed from a preliminary committee that was appointed, and I have read through some of that com-

mittee's report. It is a very pretty thing in theory, to consider, but expressing simply my own view I think it is as dangerous an experiment as could be introduced in a banking system of 2500 banks, if they all come in. We are leaving out of consideration any question of the goodness of the checks we are going to handle: whether they are real checks, or "floaters, kitters" and every other kind.

Mr. McKay: Of course checks will come for redemption very much quicker under this system.

Mr. Chairman: Yes; but under this arrangement we have a piece of machinery where a check is treated as simply a bundle of paper or cordwood; whereas as I understand it now every fellow in the bank is watching his checks to see if his customer is able to take care of his endorsement, and when an account has reached a dangerous position, it is checked up.

Mr. McKay: The checks will get back a good deal quicker under this new system.

Mr. Fancher: If you facilitate the matter of getting a check around to a paying bank, so much the better for present conditions. No one can estimate the amount of floating instruments to-day.

Mr. McDougall: We have had ~~that~~ experience of an interesting sort in Chicago. One of the Indianapolis banks opened up with us with \$320,000 from reserve payment. After we began taking the items on reserve cities of our district the account went down to \$125,000 by charging up to their account the items deposited with us on that bank, and that represented \$100,000 a day which was being sent to Minneapolis. The vice-president of this bank came in to see me and he said, "If you send us \$200,000, then we will be overdrawn with the Federal Reserve Bank in Chicago." We have the required amount in reserve at all times. I can carry a little more than what you are going to send." I said the thing for him to do was to carry enough excess reserve on his books so that he

would have the minimum required on our books, and that he had been conducting his business on more or less of a float, and drawing on them, and while they showed a pretty good balance, the actual loanable funds might not be more than \$120,000 or even less than that.

Mr. Chairman: Is there anything in this law which permits a Federal Reserve Bank to charge to member banks accounts checks drawn on the member bank?

Mr. McKay: I don't know whether there is or not.

Mr. Chairman: Is there any license other than the committee's report here?

Mr. McKay: The committee hearing on October 20th recommended that. It is in the report.

Mr. McChord: If we don't charge up to each member bank their checks how are you going to handle them in your system of accounting? Do you carry them as a collection item?

Mr. McDougall: It is charged against the outside bank.

Mr. McChord: If you credit it into the member bank and charge the difference to the clearing what country credit have you got to figure for your reserve against the other two credits?

Mr. Bardwell: While the item is out it is "due from banks" and you deduct it from "due to banks" before you make your reserve calculations.

Mr. McChord: You simply deduct it and it don't permit you to carry the reserve clearing that you take from the total.

Mr. Seay: There is another aspect of that Indianapolis case. You receive these checks for \$125,000 on the Indianapolis bank and reduce the reserve of that bank. It seems to me that it will add to the depositing bank an equal amount.

Mr. McKay: It increases the funds of the bank which deposits them on which they could check accounts. If the other banks are going to maintain the reserve deposit with your items, they can draw out the other items which show a deficiency in that account.

would have the minimum required on our books, and that he had been conducting his business on more or less of a float, and drawing on them, and while they showed a pretty good balance, the actual loanable funds might not be more than \$120,000 or even less than that.

Mr. Chairman: Is there anything in this law which permits one of the members to draw a check on one of their members with you?

Mr/ McKay: I don't know whether there is or not.

Mr. Chairman: Is there any license other than the committee ~~formation~~ formed here?

Mr. McKay: The committee hearing on October 20th recommended that. It is in the report.

Mr. McDougall: Mr. Ripley, who is vice-president of the second national bank, was out to lunch with me the other day, and this very question of charging on checks was brought up. This man represents four of the largest banks in New England, and they represent a third of our capital and a fourth of the best bankers in New England. And he said everyone of them told him they did not believe ~~they~~^{we} were justified under any circumstances in charging up items against the balances of member banks against us until those items had reached the bank and been paid. Now, all through our country the clearing of those items practically occupies four days: two for transit down, ~~one for transit~~ and the other for remittance back. That is, in our country clearing system. So that I am quite sure that no system which contemplated a shorter transit time would be tolerated by our member banks throughout the country, after it has taken ten years to get our banks up to the point of doing that, and by a great deal of diplomatic work. And it has resulted in what Mr. McKay has recognized as one of the most admirable systems of handling such items in the whole

~~that~~ country. I know the country banks very well, and I am very sure that we should have a state of open rebellion on our hands at once if we contemplate charging these balances on our books. Now at the present time they take credit for reserve purposes I know. They then send these checks to the Boston correspondent, for instance, and they do not make a check against these balances for a day or two days.

Mr. Bardwell: They are creating a fictitious reserve and we ought to break it down.

Mr. McChord: If we don't charge up to each member bank their checks how are you going to handle them in your system of accounting? Do you carry them as a collection item?

Mr. McDougall: It is charged against the outside bank.

Mr. McChord: If you credit it into the member bank and charge the difference to the clearing what country credit have you got to figure for your reserve against the other two credits. Mr. Bardwell:

Mr. Bardwell: While the item is out it is due from the banks before you deduct the reserve.

Mr. McChord: You simply deduct it and it don't permit you to carry the reserve clearing that you take from the total.

Mr. Seay: There is another aspect of that Indianapolis case. You receive these checks for \$125,000 on the Indianapolis bank and reduce the reserve of that bank. It seems to me that it will give an amount proportionate to the deposit of those checks for \$125,000 on those funds.

Mr. McKay: It increases the funds of the bank which deposits them on which they could check accounts. If the other banks are going to maintain the reserve deposit with your items, they can draw out the other items which show a deficiency in that account.

Mr. Wells: You might hold the other banks up in the air on that theory.

Mr. Seay: It takes the compensation away from you on that theory, of handling the checks.

Mr. Wells: My thought was not handling the checks---

Mr. Rhodes: You take the items on a number of the banks and tell them that they might withhold what they will agree to send and it will delay a volume of items upon other member banks and national banks in that district. To offset the items, we might point out that it would be better to make a clearing house arrangement of it only upon that basis. Should we do so, we would have the checks and carry them as in transit only. We will get the returns, give credit to the depositing bank, immediately upon receipt. Where we cannot get the deposit, to take this action would be to work on a floating basis. If Indianapolis and Duluth could give us credits in that way, it would help to absorb all the deposits.

Mr. Rhodes: I have had a discussion with all the banks in our district at Cincinnati, and Cleveland and Pittsburg, and to a man they seemed to have in mind the matter of not permitting their reserve incoming items until they have been received.

Mr. McKay: Are they willing to do it then?--

Mr. Fancher: Absolutely.

Mr. McKay: Here is the point that comes up. We have just gotten to this point in our present bank organization. If we are going to send out these statements to 97 or a hundred different banks, and where only these items are charged up, we will have to keep a night force on hand every night in order to get the statements off, and we will have to wait until the transit department is through, because they make these charges. The solution of the whole thing which should solve the matter is

rather to the matter between the 12 banks ----

Mr. McChord: I think you might just as well make up your mind that the bankers of those districts are going to get the matter of collecting checks arranged just as soon as possible, and as soon as you have gotten this matter settled, the sooner you will lose the question all over the entire country.

Mr. Pancher: Mr. Wells of St. Louis is all right I take it.

Mr. Wells: That is all right. I do not believe that should come up now.

Mr. Seay: They have been compensated twofold by the rediscounting benefits and the assurance to the country of the lowering of the discount rate generally. I think they have received the benefits which they all ought to appreciate at least.

Mr. Weld: The trouble is that too many of the banks are up in the air about the fee proposition, and they want to know how they are going to get by with the same old charge.

Mr. McDeugall: I had a conference with a representative of a number of banks in the reserve cities, and in the beginning of the meeting I think they were just as positive perhaps, as the representative that Mr. Aiken invited to lunch with him, and they agreed with the representatives from Pittsburg and Cleveland that it would not be well for them to

this: To charge the transit total to the account that night and give it to the bookkeepers the next morning, and let the bookkeepers charge it up when he has time to do it. We can reach the banks in our district in one or two or three or four days. That might remove the objection. It would save a lot of time if we did that and got our statements out early, and when the statement comes in, we are going to credit these items, one day later in our district.

Mr. McChord: Now, Mr. Chairman, we have discussed this matter very thoroughly. I make a motion---I do not mean to be understood as wishing to in any way, enter into service on the committee for the motion I am going to make. I move that the Chairman of this Board of Governors appoint a committee of three of these Governors, or five, as you see fit, to present to the body as suggested, a plan such as we have been discussing and let us then vote on it, yea or nay. We will then be ready to consider the proposition definitely and be ready to take it up with the reserve board. I believe that is the best way to bring the matter to a solution, because we may discuss here and keep on discussing for the next week, and each of us will have his views to present on the matter, and at that rate we want know when we will be able to get away. Have I got a second to that motion? We may make it to a committee of three or five but I do not want to serve on the committee.

Mr. Seay: But are we not taking up the same points in our discussion here that will be covered in the report of that committee?

Mr. McChord: That committee may consider it and better present their conclusions to us.

Mr. Rhoades: Referring to ~~our~~ respective districts, or

Mr. Chairman: Here is something offered by Mr. McChord:

"A resolution adopted by the Mississippi Bankers Association, Jackson, Mississippi, November 27, 1914. BE IT RESOLVED, That the secretary of this association is hereby directed to transmit the following address to the Honorable Federal Reserve Board in Washington:

We filicitate with the nation in the great achievement accomplished in the Federal Reserve Act and look earnestly and hopefully to its being ^{so} administered as to invite and attract all classes of banks to membership.

As it is a vital necessity that the Mississippi banks be permitted to earn exchange on customers' checks as heretofore and as any infringement upon this right by Federal Reserve Banks will be prejudicial to the best interests of the banks of Mississippi, which, with only a few exceptions, derive a large percentage of their net earnings from this source--the said earnings being only normal--the Mississippi bankers in meeting assembled, looking to the best interest of the Federal Reserve System, as we believe, do hereby petition your honorable body not to invoke that provision of the Federal Reserve Act which authorizes your honorable body to cause the Federal Reserve Banks to act as clearing houses.

~~We believe that this view of the question~~

If this is undertaken by the Federal Reserve Banks and member banks are forced to par their customers' checks and, in addition thereto, to bear the burden of expense thereby incurred by the Federal Reserve Banks, the loss of revenue and increased expenses would so severely penalize Mississippi banks as to make the system a positive menace to their welfare.

rather to the matter between the 12 banks--

Mr. McChord: I think you might just as well make up your mind that the bankers of those districts are going to get the matter of collecting checks arranged just as soon as possible, and as soon as you have gotten this matter settled, the sooner you will close the question all over the entire country.

Mr. Fancher: I do not believe that because the member banks are going to pay you with a part of their bed reserves, and you are going to continue to debate the matter for the next twelve months without much change. I do not think the fact that they have made that preliminary transfer of reserves will in any way bring the matter to a definite conclusion, so far as concerns the clearing of these country banks.

Mr. ~~Wells~~ Fancher: Mr. Wells of St. Louis is all right I take it.

Mr. Wells: That is all right. I do not believe that should come up now.

Mr. Seay: They have been compensated twofold by the rediscounting benefits and the assurance to the country of the lowering of the discount rate generally. I think they have received the benefits which they all ought to appreciate at least.

Mr. Wold: The trouble is that too many of the banks are up in the air about the fee proposition, and they want to know how they are going to get by with the same old charge.

Mr. McDougall: I had a conference with a representative of a number of ~~xxxxxx~~ banks in the reserve cities, and in the beginning of the meeting I think they were just as positive perhaps, as the representative that Mr. Aiken invited to lunch with him, and they agreed with the representatives from Pittsburg and Cleveland that it would not be well for them to

charge a rediscount in their account, but before we left the discussion that afternoon, I believe they were very much more in sympathy with it when they realized that they were going to get more for the same number of items from their districts. In other words, as a practical matter, the proposition has made an appeal to them, and they have conceded the justness of charging items which they had not heretofore conceded, but as a practical matter they are willing to allow these charges to go into their account and they were of the opinion that it would result in their carrying sufficient excess balance towards the federal reserve bank in handling the general clearings of items individually. I believe that our member banks, if I may take them as a fair guidance, have come quite to the conclusion that the offsetting advantages of this act will warrant their losing their exchange charges, and unless the members in Mr. McChord's district start something, I believe the members in the 11th district are going to accept the offsetting advantages against the profits they have been getting. But I do not believe there will be any converts.

Mr. Chairman: That is certainly a different view point than those we have heard mentioned here before.

Mr. Wells: I have discussed it with the people who are contemplating a general change and who have been kept alive during the period of the formation of this law by the possibility that it will work for a better all around administration in banking methods, and they are willing to get away from the condition of affairs which has been surrounding them, and when the time comes for us to have borrowing facilities, we will find ourselves more or less ~~loathe~~ loathe to do this. I am talking about the

expression from individual members. I may be wrong about my conclusions in that respect but I believe they are reconciled to the view that it is coming, and that they are willing to accept it.

Mr. Wells: The other day I happened to be in Cleveland and we had about 360 of our members in Cleveland at a conference which we attended. Most of the things we discussed, and in that general discussion they seemed to have got it into their minds that this proposition of exchange charges is going to be broken down. They said here we have been putting some of our reserve with you without interest; what are you going to do for us? But they have got that in their minds so that I believe so far as the district is concerned, and any bank becoming disgruntled over losing any exchange --- I do not think you will experience it.

Mr. Seay: Don't you believe that is based on the suggestion that the federal reserve board is to be ---

Mr. Wells: I think it is on the assumption that we are handling everything on a par basis as far as that district is concerned.

Mr. Seay: I do not think it is so closely confined.

Mr. McChord: I have a four page communication from one of your banks which I have in my pocket and which I have not read, but the contents of which I already know, having received a number of other letters of the same tenor, making very many suggestions, and in detail, as to the manner in which the federal reserve board of appeals can handle matters on points where State banks are concerned. I will offer this for inclusion in the record.

We believe that this view of the question applies generally to all country banks in the South; to banks generally in the smaller cities of the South; and, to a substantial degree, in the larger cities of the South.

We are likewise led to believe that the earning of exchange on customers' checks is a source of substantial revenue to banks in the country and smaller cities throughout the United States, the practice even obtaining to some extent in New England.

We especially petition your honorable body that in the event you give serious consideration to clearing customer's checks by the Federal Reserve Banks, that before permitting same to be undertaken by them you first make inquiry of the state and national banks of the entire country and ascertain their feelings and practices in this regard; and particularly the proportion of their net earnings acquired by exchange charges.

We would further respectfully pray that before issuing such an order to the Federal Reserve Banks that would seriously afflict, we believe, a vast majority of the banks, that your honorable body give the country banks a hearing, with sufficient notice to enable them to properly prepare and present for your consideration the fact supporting their position."

here.

Mr. Chairman: Mr. Weld, it would require going over all the ground we have discussed today to bring it to a point where they would have our understanding of it, and I can assure you that after discussing it among the 12 men in this room, we should be able to agree on it unanimously so that we can present it to the Federal Reserve Board, and if we did that I think they would heave a general sigh of relief.

Mr. McDougal: I suggest that we leave this for two or twelve months hence.

Mr. Aiken: The question is the question of settlement of balances offered for acceptance and of convenience to them, and after further considering this plan I think it is very essential that we should arrive at some affirmative decision, something which will satisfy the members of our banks as a result of the two and a half days we will have spend here, if we shall have settled that one thing and nothing else.

Mr. McDougal: I am willing to stick to that because I think we would not make any progress unless we decide to take immediate action. The conditions prevailing are not satisfactory in our district, and we cannot go along with this unless we make up our minds on something definite.

Mr. Chairman: I think in New York we will be willing to go ahead on the basis of these so-called reciprocal accounts, between the Federal Reserve banks for a period until somebody desired to stop it, but I think my preference would be to adopt something which may be suggested that we have not yet thought of, but which we may agree upon as a mutual arrangement between the banks as a method by which Federal reserve checks shall be handled, with an agreed basis in advance of the period when balances may be settled by shipment of currency or the amount of balances

Mr. Seay: Do I understand that this is simply a copy of the resolution that the secretary of the board sent to us?

Mr. McChord: A copy of the resolution was sent to me with the urgent request that I present it to the board and also to the government, yes sir. I have, supporting that contention, letters and telegrams from Tennessee, Florida and Alabama, making up the district of New Orleans.

Mr. Chairman: Are those from the associations of those States?

Mr. McChord: No, they are from the individual bankers and federal reserve banks of Atlanta, urging that the resolution be given due consideration and that the interest be protected and I am simply acting as representing my constituents.

Mr. Rhodes: I would suggest that these exchange charges have broken in on the whole question.

Mr. McDougall: If they had been broken down years ago, you would have less than that to show for it, but they have about reached the point where they are willing to take all the benefits the system confers upon them.

Mr. McChord: In presenting the resolution, I wish to say that I have quite a number of telegrams and letters, I am presenting for your consideration, and possibly you will want to arrive at something which is equitable and just to be considered in line with my thoughts a little while ago.

Mr. Chairman: It is now ten minutes to seven. Will anybody offer a resolution? I believe Mr. McChord's resolution has not been seconded, but I believe under the parliamentary rules it is proper to discuss a resolution without ruling on it.

Mr. Wold: Isn't it possible that the federal reserve board may have some thought that may be of interest to us on this subject which might help to solve it, and I suggest that we should broach the matter to them after a further discussion

which would give the creditor bank the right to call for a shipment of currency, or possibly by an agreement on the whole subject of shipments, it could be left in abeyance for adjustment individually between the Federal reserve banks and the cost of shipment apportioned between them some way. We should get a little more experience before adopting something more radical, as to how these accounts will work out. For instance, if Governor Aiken states he has accumulated too much balance in New York --

Mr. McNeugal: Let him carry on part of our balance.

Mr. Chairman: We could very readily exchange telegrams with him by which we could make immediate shipment if he had any demand for currency.

Mr. Fancher: You have a balance in New York. How have you been working that, Mr. Aiken,

Mr. Aiken: There was deposited with me yesterday \$600,000. It is entirely conceivable in our relations with New York that we might run two or three million dollars in a day. The exchanges at times are very heavy.

Mr. Fancher: I think the situation there is probably the largest.

Mr. McKay: Probably a million dollars would go through our bank at a time.

Mr. Seay: This is a time where the funds of the banks are little needed, and we are now in a position to make experiments, so that I believe before we adopt a plan, however wise and well thought of it may be, it would be well to try this thing experimentally and see where

here.

Mr. Chairman: Mr. Wold, it would require going over all the ground we have discussed today to bring it where we would have a point where there would be an understanding on it, and I can assure you that after discussing it among the 12 men in this room, we should be able to agree on it unanimously so that we can present it to the federal reserve board, and if we did that I think they would heave a general sigh of relief. I

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Mr. McDougall: I am willing to stick to that because I think we would not make any progress unless we decide to take immediate action. The conditions prevailing are not satisfactory in our district, and we cannot go along with this unless we make up our minds on something definite.

Mr. Chairman: I think in New York we will be willing to go ahead on the basis of these so-called reciprocal accounts, between the federal reserve banks for a period when somebody would be sure to stop it, but I think my preference would be that something may be suggested that we have not thought of, but which we may agree upon which will be a mutual arrangement between the banks for accounts in which federal checks shall be handled with an agreed basis in advance of the period when balances may be settled by shipment of currency or the amount of balances

we brought up. There is not a single bank that would object to accumulating a comfortable balance of one or two or three million dollars due by another bank. Let us see if there is a method of effecting a clearance between the Federal reserve banks for a while, and let us try it and then get together and we can in the light of practical experience be able to devise a plan the result of which we can better foresee than we can now.

Mr. McDougal: Except that you do not offer the means --

Mr. Chairman: I have not much experience in the matter and do not know how it would work out in New York in the spring. I can imagine it would run very much against us and that we would lose a good deal of reserve owing to the shipments of currency. It would all be debited to us and if we did tie up ten or fifteen millions that way, I cannot see that it is going to hurt us so very much.

Mr. Weld: In our district we have a technical situation which I do not suppose exists in any other, as we have two reserve cities, Minneapolis and S t. Paul, and Minneapolis creates a great deal of S t. Paul exchange which Minneapolis does not want, and has difficulty in releasing on it. S he would be forced into the necessity of depositing these checks on S t. Paul and in turn draw her check against the Federal reserve bank and send it to New York, and we would be furnishing them to the New York exchange without any profit or ultimate prospects of a quick return, and there is the prospect of a loss that we are running on these checks.

which would give the creditor bank the right to call for a shipment of currency, or possibly by an agreement on the whole subject of shipments, it could be left in abeyance individually between the federal reserve banks and the cost of shipment apportioned between them some way. To get a little more experience before taking something more radical as to how these accounts will work out. For instance, if Governor Aiken states he has accumulated too much trouble in New York---

Mr. McDougall: Let him carry on part of our balance.

Mr. Chairman: we could very readily exchange telegrams with him by which we could make immediate shipment if he had any demand for the exchange.

Mr. Fancher: You have a balance in New York. How have you been working that, Mr. Aiken?

Mr. Aiken: From floater checks in New York we have about \$10,000,000 excess of Boston clearing house bank notes, and they have been declaring an emergency currency there, and we have been on currency from Albany and New York, and there was deposited with me yesterday \$800,000. It is entirely conceivable in our relations with New York that we might run two or three million dollars in a day. The exchanges at times are very heavy.

Mr. Fancher: I think the situation there is probably the largest.

Mr. McKay: Probably a million dollars would go through our bank at a time.

Mr. Seay: This is a time where the funds of the banks are a little low but where we have a little on hand and we are not in a position to make experiments, so that I believe before we adopt a plan, however wise and well thought off it may be, it would be well to try this thing experimentally and see where

Mr. Chairman: You would get currency.

Mr. Wold: Yes sir.

Mr. Chairman: That might make you a dumping ground of exchange but we would be the ultimate dumping ground and would have to ship it to you to recover. It would not affect your reserve position materially.

Mr. Wold: No, not necessarily.

Mr. McDougal: That is just what we are doing with a member bank in New York.

Mr. Wells: That is a matter of a few hundred thousand dollars. For instance, in the case of a recent advance to Waco, Galveston and San Francisco, I will get something back on the proposition from perhaps Waco and Galveston and San Francisco, but certain others of the coast cities we are not so sure of for immediate return. In other words, where it absorbs a considerable amount of exchange in the mail owing to delays, it is a question whether the transaction is a profitable one or which might be better arranged in some other manner such as contemplated by the act.

Mr. McDougal: I do not see any other way and that is why I voted negatively upon making checks drawn on our people at New York at par, because it is going to mean that we will have to ship the currency which they finally have to send to us as a result of this plan.

Mr. Chairman: It would not be altered at all if you are going to make the Federal reserve banks pay.

Mr. Fancher: If you are going to go outside of your district and permit members to draw a check on you through New York, it seems to me that it is going to unnecessarily complicate matters.

we brought up. There is not a single bank that would object to accumulating a comfortable balance of one or two or three million dollars due by another bank. Let us see if there is a method of effecting a clearance between the federal reserve banks for a while, and let us try it and then get together and we can in the light of practical experience be able to devise a plan the result of which we can better foresee than we can now.

Mr. McDougall: Except that you do not offer the means--

Mr. Chairman: I have not any experience in the matter and do not know how it would work out in New York in the spring. I can imagine it would run very much against us and that we would lose a good deal of reserve owing to the shipments of cotton. It would all be debited to us and if you did tie ten or fifteen millions that way, I cannot see that it is going to hurt us so very much if we can get our accounts through on your market and take the checks of the creditor when they have been accepted ^{after} ~~for~~ the necessary length of time to get them to destination.

Mr. Fancher: In our district we have a technical situation which I do not suppose exists in any other, as we have two reserve cities, Minneapolis and St. Paul, and Minneapolis creates a great deal of St. Paul exchange which Minneapolis does not want, and has difficulty in releasing on it. She would be forced into the necessity of depositing those checks on St. Paul and in turn draw her check against the federal reserve bank and send it to New York, and we would be furnishing them to the New York exchange without any profit or ultimate prospects of a quick return, and there is the prospect of a loss that we are running on those checks.

Mr. McDougal: I do not agree with Mr. Fancher because I realize that we are carrying on a limited fund with the eastern exchange.

Mr. Chairman: I want particularly to find out which of three possible views you have in mind; one, the expense of our calling on you for currency shipments; two, the fear of your bank having suffered a transfer of too much of its reserves to New York; or, three, whether your lending power would be impaired. They are all involved. This may involve the loss of two or three or five hundred thousand dollars or more of your reserve to New York. I do not think that this is a serious matter unless you regard us as an enemy. As far as losing your reserves is concerned, that cannot get beyond a certain point where you have cut your reserves into items which are being collected through the mails, and when you have reached the point of danger, we could take the matter up and change your system or policy.

Mr. McDougal: That is the point.

Mr. Rhodes: That is the very question.

Mr. Chairman: When you have begun to discount and these discounts were for the purpose of taking up loans made by New York banks located at points between New York and Chicago, then you would have a demand on you for exchange on New York and then you would lose again.

Mr. McDougal: Yes.

Mr. Chairman: Isn't it further true that that would continue until it reached a maximum and then change to the other side of the account; in other words, considering that the movement must in time turn the other way.

Mr. McDougal: Oh yes, if you wait until next year.

Mr. Chairman: Personally, I do not see why we should not attempt to do that. I cannot conceive that the amount of exchange

Mr. Chairman: You would get currency.

Mr. Fancher: Yes sir.

Mr. Chairman: Nothing that might drop over that might make you a dumping ground but we would be the dumping ground and would have to ship it to you to recover. It would not affect your reserve position materially.

Mr. Fancher: No, not necessarily.

Mr. McDougall: That is just what we are doing with a member bank in New York.

Mr. Chairman: That is a matter of a few hundred thousand dollars. For instance, in the case of a recent advance to Waco, Galveston and San Francisco, I will get something back on the proposition from perhaps Waco and Galveston and San Francisco, but certain others of the coast cities we are not so sure of for immediate return. In other words, where it absorbs a considerable amount of exchange in the mail owing to delays, it is a question whether the transaction is a profitable one or which might be better arranged in some other manner such as contemplated by the act.

Mr. McDougall: I do not see any other way and that is why I voted negatively upon making checks drawn on our people at New York at par, because it is going to mean that we will have to ship the currency which they finally have to send to us as a result of this plan.

Mr. Chairman: It would not be altered at all if you are going to make the federal reserve banks pay.

Mr. Fancher: If you are going to go outside of your district and permit them to draw a check on you through New York and N. and M. and the bank in San Francisco at an excess of \$2500 with your bank in Pittsburg, checked to the National Bank of Commerce, \$40,000, and do the same thing in several other cases, it seems to me that it is going to unnecessarily complicate matters.

Mr. McDougall: I do not agree with Mr. Fancher because I realize that we are carrying on a limited fund with the eastern exchange.

Mr. Chairman: I want particularly to find out which of two views you have in mind; one, the expense of our calling on you for emergency; two, or of your reserve bank transfer to New York; or, three, whether your lending power would be impaired. They are all involved but taking each one you see this may involve the loss of two or three or five hundred thousand dollars of your reserve to New York. I do not think that this is a serious matter unless you regard us as an enemy. So far as losing your reserves is concerned, that cannot get beyond a certain point where you have put the reserves into items which are being covered through the mails, and when you have gotten to the point of danger, we would take them up and change your system or policy.

Mr. McDougall: That is the point.

Mr. Rhodes: That is the very question.

Mr. Chairman: When you have begun to discount and these discounts are for the purpose of taking up all the points between New York and Chicago, then you would have a demand on you for exchange between New York and then you would lose again.

Mr. McDougall: Yes

Mr. Chairman: Isn't it further true that that would continue until it reached a maximum and then change to the other side of the account; in other words, considering that the movement turns the other way.

Mr. McDougall: Oh yes, if you wait until next year.

Mr. Chairman: Personally I do not see why we should not attempt to do that. I cannot conceive that the rate of exchange

would be so large that it would not be safe to experiment
with it.

Mr. Aiken: Mr. Chairman, may I ask the Chairman whether
the commissary department is busy? It is quarter past seven.

(Meeting then adjourned to reconvene at 9:15 p.m.)

Thursday, December 10, 1914.

The Board reconvened at 9:15 p.m.

Mr. McDougall: As I understand it we are all ready now individually to take or receive at par items drawn on any other federal reserve bank in the country provided we can agree on some method of settling balances accruing therefrom, and it seems to me we ought to be able after this discussion to decide upon some temporary plan by which we can go ahead. We cannot go back. We must take these items and there are going to be balances accumulating and it seems to me if we cannot agree on a permanent plan we can agree perhaps on a temporary one. I am just stating that so that we can get to work on this question and do something with it.

Mr. Wells: It would satisfy the Dallas bank to adopt the plan suggested by you and see where the balances fall. When we come back together we will have some conception of what our needs may be. I suggest that against any permanent plan like Mr. McKay has ~~suggested~~ suggested. That would contemplate leniency on the part of the bank accumulating credit. Perhaps two or three of the smallest districts are perhaps the districts that will be constantly debiting. I may be over estimating the extent of that; after this thing starts, we may be getting more into this than I can see now. We will make every effort in our bank in trying to get in as much liquidation as we can, but I think we will have to resort to considerable shipping to keep covering the checks that will come to you as I outlined in the transaction suggested. After a short time after it has become known that their checks on us, that is, checks of some of the smaller banks, will be taken at par in New York, there will be considerable drafts on the federal reserve bank at Dallas and more rapidly than we can keep covering except by shipping currency.

Mr. Chairman: So far as New York is concerned, we are not worried about the reserves being scattered. We are loaded with them.

Mr. Wells: I guess you can stand it for sometime.

Mr. Chairman: If that difficulty is the only one particularly in your mind, unless our friends of the federal reserve board direct us to delay, I think our policy in New York would be to test it even if it resulted in a considerable scattering of our reserves. I cannot help feeling that the time will come possible forced upon us by experience of a month or two, when some central point of settlement of exchanges will be quite a necessity, and with that in view I thought it would be well, to prepare that table to ascertain what was the mean distance between the federal reserve banks, and the time between them. There is Cleveland and Chicago, and possibly Cleveland is a shade nearer to all the other federal reserve banks than Chicago. And whether we adopt that plan or some other, our disposition is to do whatever is thought to be wise by all the banks.

Mr. Wells: Could we draw against a debit balance on the bank in Chicago?

Mr. Chairman: I don't know about that.

Mr. McKay: Could we draw on New York and dispose of that exchange anywhere we chose by selling it.

Mr. Chairman: As a matter of fact that is what is being done today.

Mr. McDougall: Against balances with you.

Mr. Fancher: It seems to me that it is fundamental that in an exchange between the 12 banks we should work out a plan now, although it may not be the one for permanent adoption. But we have got to try some plan. I think it is vital to adopt some plan. It may work against Mr. Wells in Dallas or it may work against some one else. I don't think he need worry. It can all

all be arranged.

Mr. Wells: I think we will get most of the city exchange.

Mr. Fancher: There will be a process of accumulation of balances that will become available. There are excess balances in Pittsburg but they cannot sell the exchange and those balances will reduce the point consistent with the service rendered.

It may be a million and a half in our district but after ~~the~~ they are cleaned up I will get something to fill in the vacuum. We are a manufacturing district. We are not selling our commodities outside and that is why New York, the one exchange we desire, we don't get.

Mr. Wells: But you do get some Chicago?

Mr. Fancher: Yes and some St. Louis.

Mr. Wells: I might agree with Mr. Strong to try this plan for a short time and see where I come out. If we find after 30 or 60 days that it don't work we can have something else. I am against trying to adjust the balances with the individual banks. I think we should have a plan to clear the balances at the outset.

Mr. Fancher: I suggest a modification of the currency to make it lawful money, that the covering of balances be by lawful money.

Mr. Wells: If you draw on national bank notes it would have to be done in gold certificates.

Mr. Fancher: You could redeem the national bank notes.

Mr. Wells: The ingenuity of the board has been brought into play to bring into the banks the gold and gold certificates and we violate that plan if we should do this. We can force the federal reserve note on the situation. We can keep some float-
ing.

Mr. McKay: You could put that in the bank for redemption.

Mr. McDougall: I do not see how we can hold on to all the gold reserve we have. I am willing to meet the banking situation

as it arises but I cannot hold the \$13,500,000 gold I have.

Mr. Wells: So far as our district is concerned, we can float considerable federal reserve notes and there are practically no national bank notes there now.

Mr. Mc Chord: There is a good deal of your other notes in process of redemption.

Mr. Wells: I am not acquainted with the status of that now but up to six six weeks ago very little was redeemed.

Mr. Fancher: Over \$170,000,000 has been retired.

Mr. McKay: We have put out a million and a half a day in gold lately. If you think we could hold this gold I would like to know how that could be done, but some banks want it for clearing house purposes.

Mr. Chairman: When you apply force to that process you destroy the credit system.

Mr. Fancher: I think you have the same trouble.

Mr. Chairman: You have taken in this reserve money from the member banks and if they want it back they are entitled to it. The currency laws are such that if you are forced to protect your gold reserve by redeeming the obligations of the United States government, you can turn that legal tender money in and redeem it, that is your right and there is the obligation of the United States to give you gold for it.

Mr. Fancher: You are speaking about your notes--

Mr. Chairman: No, they are a different matter. I am speaking about your reserves and if we are going to continue on a gold basis in this country, our banks must pay gold and cannot afford to refuse to pay gold. When your gold is depleted and converted into silver certificates and legal tender notes, you have to ask the United States to make good their obligation to you on those notes. That is the basis of our currency system in the United States.

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Mr. Chairman: You have taken in the reserve money from the member banks and if they want it back they are entitled to it. The currency laws are such that if you are forced to protect your gold reserve by the use of the obligation of the United States government, you have to turn that legal money in and redeem it, that is your obligation, and there is the obligation of the United States to give you gold for it.

Mr. Fancher: You are speaking about your notes --

Mr. Chairman: No, they are a different matter. I am speaking about your reserves and if we are going to continue on a gold basis in this country, our banks have to pay gold and cannot afford to refuse to pay gold. When your gold is depleted and converted into silver certificates and legal tender, you have to ask the United States to make good their obligation to you on those notes. That is the fundamental basis of our currency system in

Mr. Wells: Until there is a demand for gold don't you think we should hold on to our gold?

Mr. Chairman: We do if we can.

Mr. Wells: We are holding to it as long as possible.

Mr. Wold: Supposing January first they undertake to collect taxes on member banks in our District and four or five banks in Minneapolis bring in half a million checks for two or three days and deposit them on member banks, can they draw checks the next day against those balances and we have to give gold to them.

Mr. Chairman: If they are satisfied with anything else you would not give it. If they ask for gold you should give it to them. The money that circulates in this country is not all gold. I mean what we are permitted to hold as bank reserves is not all actual gold. You hold gold certificates which are the same as gold, and United States notes which are about 44% gold and silver certifications. But these reserve banks are holding reserves in gold for the purpose of redeeming their notes in gold and they hold reserves in gold and lawful money for the purpose of meeting the demands of their depositors in gold or lawful money and if you only have lawful money you must rely on the obligation to the United States Government to redeem it in gold, in order to meet your depositors' demand for gold.

Mr. Wold: I pay my obligation in lawful money but I am not obliged to make good the promises of the United States.

Mr. Chairman: In your discounting process you are going to lose reserves if you are discounting for the members in your district. Are you doing a discount business. (To Mr. Aiken.)

Mr. Aiken: Yes Sir. Are you, Mr. Strong?

The Chairman: Yes, but we are holding our gold, and settling our debit balances in clearing house depository certificates for legals and silver certificates but if we exhausted those we would use gold.

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Mr. Wold: I pay my obligation in lawful money but I am not obligated to make good the promises of the United States.

Mr. Chairman: In your discounting you are going to lose something if you are discounting for members in your district. Are you doing a discount business (To Mr. Aiken).

Mr. Aiken: Yes sir. Are you, Mr. Strong?

The Chairman: No, but we are giving up gold, and we are settling in clearing house depository certificates for legals and silver certificates and if we exhausted those we would use gold.

Aiken
Mr. Aiken: You are using federal reserve notes?

Mr. Chairman: No sir.

Mr. Aiken: You are paying notes where you can?

Mr. Chairman: Yes sir, but not through the clearinghouses

They will not accept those as they can't count as reserves. The Aldrich-Vreeland currency act made it necessary and profitable for the national banks who are members of the clearing houses to settle their balances in those notes. It relieves them of taking out clearing house loan certificates which cost 6% interest. The result was for a while a constant effort to get loan certificates into possession and not bank notes. A large number of banks were settling their clearinghouses balances with those notes. Recently they have been sending in the Aldrich-Vreeland notes, not for redemption, but for the purpose of retiring their own notes and getting back their collateral. I think now, we had better get back to our problem.

Mr. Sawyer: In connection with Mr. McKay's plan I should like to ask for a little information as to the settlement of balances. Are they to be settled weekly in any way the creditor federal reserve banks demand that the settlement be made?

Mr. McKay: You are suggesting that we do not know how often these balances are going to accumulate there.

Mr. Fancher: I thought we were to treat these on the weekly basis. It is all simple in a way.

Mr. Bardwell: What will happen if some bank find its balance "going to the bad" and needs the money?

Mr. McDougall: What did you do in your own clearing house before you went into this system?

Mr. Aiken: You are using federal reserve notes?

Mr. Chairman: No sir, not much.

Mr. Aiken: You are paying notes where you can?

Mr. Chairman: Yes sir, but not through the clearing houses. They will not accept those as they don't count as reserves. The Aldrich-Vreeland currency act made it necessary and profitable for the national banks who are members of the clearing houses to settle their balances in those notes. They relieve them of taking up clearing house certificates which cost 6% interest. The result was for a while a constant effort to get loan certificates into your possession and not bank notes. A large number of banks were settling their clearing house balances with those notes. Recently they have been sending those Aldrich-Vreeland notes in for redemption but for the purpose of retiring their own notes and getting back their collateral. I think now, we had better get back to our problem.

Mr. Sawyer: Possibly in connection with Mr. McKay's plan I am going to ask for a little more information as to the balances we are to adopt on the weekly basis, that may be settled any way the federal reserve banks think it ought to be settled.

Mr. McKay: You are suggesting that we do not know how often these balances are going to accumulate there.

Mr. Fancher: I thought we were to treat these on the weekly basis. It is all simple in a way.

Mr. Bardwell: What will happen if some bank finds its balances are going to the bad part of the country and has not the money.

Mr. McDougall: What did you do in your own clearing house before you went into this system?

Mr. Aiken: I am in the opposite end of the dilemma from Mr. Wells. We are large creditors of the Federal reserve bank in New York and we may carry in a day the full sum of \$20,000,000. As I told you this morning, we have had large amounts deducted in a year and may want a remittance, say tomorrow, of a half a million dollars at short notice, and may want it promptly, because of the exchanges working very solidly against us, but I don't want to accumulate a half a million dollars as a loan in two days. The stock exchange in Boston opens say today, and the stock exchange in New York opens on Saturday, and it is quite possible that there will be in each transaction a billion dollars obtained between them so that there will be a demand that does not exist at another time when the exchanges are open. But at the present time I want to be in a position where I can get lawful money on New York on a telephone communication from you and do not want to wait over night.

Mr. Chairman: It has occurred to me that if Mr. McKay's plan is adopted in connection with a scheme for a weekly settlement, we will be doing the very thing we want to avoid so far as the frequency of shipment is concerned and the expense of shipping money is concerned, as it will then be necessary to have a weekly settlement. In isolated cases, however, say between New York and Boston, it might be necessary to settle every three or four days or once a week.

Mr. Seay: That would not give actual clearance processes time to adjust themselves in one week; it would take several weeks and should involve less frequent a settlement which would certainly reduce the expense.

Mr. Aiken: It does not make very much difference whether

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Mr. Wells: Well, we still exchange and the rate of interest depends somewhat upon the state of your credit.

Mr. McKay: I am in the opposite end of the dilemma from Mr. Wells. We are large creditors of the federal reserve bank in New York and we may carry in a day the full sum of \$20,000,000. As I told you this morning, we have had large amounts deducted in a year and may want a remittance, say to-morrow, of a half a million dollars at short notice, and may want it promptly, because of the exchange working very solidly against us, but I don't want to accumulate a half-a-million dollars as a loan in two days. The stock exchange in Boston opens say to-day, and the stock exchange in New York opens on Saturday, and it is quite possible that there will be in each transaction a billion dollars obtained between them so that there will be a demand that does not exist at another time when the exchanges are open. But at the present time I want to be in a position where I can get lawful money on New York on a telephone communication from you and do not want to wait over night.

Mr. Chairman: It has occurred to me that if the plan is adopted in an exchange with a scheme for a weekly settlement with regard to doing the very thing we ought to be doing so far as the frequency of loans are concerned and the expense of shipping money is concerned, it will be necessary to have a weekly settlement so far as our resources go. So that in isolated cases between New York and Boston, it might be necessary to sit on four days of the week.

Mr. Seay: That would not give actual clearance processes time to adjust themselves in one week, but would involve several weeks which would involve frequently a settlement which would certainly reduce the expense.

Mr. Aiken: It does not make very much difference whether

we make it twice or once a day.

Mr. McKay: Do you no longer have any items in Kansas City? I do not mean in New York especially, I mean also in every Federal reserve city.

Mr. Wells: No sir.

Mr. Aiken: I would like to inquire whether the Federal Reserve Bank of New York is going to make the shipment referred to in gold or not, and in case we are called on tomorrow to make a shipment to Boston, who is to pay the charges?

Mr. Chairman: That we ought to decide here before we leave tonight.

Mr. McDougall: What do Mr. Aiken and Mr. Strong think about it?

Mr. Chairman: Mr. Aiken did not seem quite certain.

Mr. Aiken: Mr. Strong and I a week ago Saturday felt it was up to the bank who had to get the money home to pay, and I talked to him a little this morning and he seemed to think that there was something to be said on both sides of the question, as I understand. My original feeling was, and I am naturally afraid yet, that we had to take a check payable in New York. And if we had to get that money in Boston we would get it ---

Mr. Rhoads: From your commercial bank?

Mr. Chairman: No, we have a different relationship with that bank.

Mr. McDougall: If we could rotate these governors around over the districts how would that do? In that case I would like to go to Dallas first.

Mr. Aiken: I think it might help the situation, but we would like to know how we are going to get our money when the

we make it twice or once a day.

Mr. Wells: I do not want to make daily telegraphic settlement.

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Mr. Wells: No, sir.

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time comes. I did not take exception at all to Mr. McDougall's inquiry. I think it entirely proper under the circumstances. The Shawmut bank told me that they were liable to draw \$200,000. on Chicago before I left. Well, I told the cashier before I left, that I wished he would send it out there for our credit and asked Boston if he could find enough exchange to remit.

Mr. Mc Kay: One of the Chicago banks has told me and I told him that we did not want that transaction. If we do get it we will go over and ask you to remit on Boston. He hesitated a while and said, "Well, That will be all right. If it comes to a showdown we will do that."

Mr. Chairman: That is the point on which we have got to arrive at a decision: The question is, must we adopt a plan of settlement now. I have some little doubt about it, if it involves frequent transfers by the banks, more so than we might find to have been necessary at the end of a month or six weeks experience. And I am prepared to answer Governor McDougall's question about our relations with Boston. When Governor Aiken and I first discussed this matter it seemed to me that if he remitted us a check drawn on our bank for his credit that we were entitled to consider that the check being payable at our office, it was up to him to collect it and get the proceeds back to Boston. Now, I am sure that ground is sound, that the argument is sound. It is a fact that this is a mutual convenience between the members of the Boston district and the members of the New York district, and if we can find a ground to justify it, and are going to try some general scheme of relationship between the Federal reserve banks in this matter, such as a central clearing arrangement, I would like to find an argument to justify dividing those charges. I want to make sure that you understand that I don't know how this account is going to result so far as New York is concerned. I have no idea as to whether

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Mr. Chairman: That is the point at which we have got to arrive. The question is, do we need stock in there, and frankly, I have some little doubt about it, if it involves a frequent transfer by the banks more so than we might find to be necessary at the end of a month or six weeks. And I am prepared to answer Governor McDougall's question about our relations with Boston. When Governor Aiken and I first discussed this matter, it seemed to me that if he remitted your checks drawn on our banks for his credit, that we were entitled to use that check as payable at our office, and if you want to send over here and get it, it is up to you to get it and get it back to Boston. Now, I am not sure that that ground is sound, that the argument is sound. It is a fact that this is a mutual convenience between the members of the Boston district and the members of the New York district, and if we can find a ground to justify it, and are going to try some scheme of relationship between the federal reserve banks, which is individual rather than general, by our central clearing arrangement, I would like to find an argument for some basis of dividing those charges, and I want to make sure that you understand that I don't know how this account is going to be reached so far as New York is concerned. I have no idea as to whether

we will generally be a creditor or debtor to the other banks of the system.

Mr. McDougal: I should think it would be up to the Boston Bank to get that money themselves. Those checks are payable in New York.

Mr. McKay: That is, in the system of clearing between Boston alone.

Mr. Chairman: I think Governor Aiken is unduly alarmed as to the extent of the credit of Boston on our books.

Mr. McKay: New York will be getting items on Boston now.

Mr. Aiken: One bank has given me eight hundred thousand on New York in three days.

Mr. Chairman: And yet when I left New York your balance on our books was only about half a million dollars.

Mr. Aiken: Yes.

Mr. Seay: The whole situation is so intricate that I would rather stand committed to making such settlements as are called upon our bank by the shipment of currency and cannot bring my mind to acquiesce in the plan suggested for adoption at this time. I do not know how our relations with the other banks will work out, whether a debtor or creditor relationship. It would not make me uncomfortable if we were to run up the credit relation to one million or one and one-half million dollars, and I cannot bring my mind to acquiesce at the present in such a definite fixed plan, as has been proposed. I more than agree with you Mr. Chairman, in the opinion you have expressed, and I am convinced that the frequency of such settlements would be far too great and that the natural order would probably effect settlement in a month, where it could not possibly effect it in a week.

Mr. Aiken: Mr. McDougal stated that we might possibly take a step backward from what we have already done but I do not

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Mr. Chairman: And yet when I left New York your balance on our books was about half a million dollars.

Mr. Aiken: Yes.

Mr. Seay: The whole situation is so intricate that I would rather stand committed to making such settlements as are called upon our bank by the shipment of currency and cannot bring my mind to acquiesce in the plan suggested for adoption at this time. I do not know how our relations with the other banks will work out, whether a debtor or creditor relationship. It would not make me uncomfortable if we were to run up the credit relation to one million or a half a million dollars, and I can not bring my mind to acquiesce in the present on such a definite fixed plan, as has been proposed. I more than agree with you in the opinion you have expressed, and I am convinced that the frequency of such settlements would be far too great and that the natural order would affect the settlement proposition in two months, where it could not possibly affect it in a week.

Mr. Aiken: Mr. McDougall stated that we might possibly take a step backward from what we have already done, but I do not

quite agree with him in that, and I think we have made one mistake and it is a very fundamental one, and that is the failure to recognize the matter of time in these exchanges. I think that is a very serious one that is going to create a great deal of trouble for us before we get through. I think it is unsound banking practice to treat as gold clearing funds a check on San Francisco. I think it promulgates an idea that is unsound and indefensible as a banking proposition, and I do not know whether it is possible or practical to take a step back now, but I am quite sure that it is making trouble for us in the future if we are going to accept for immediate credit checks on all points in the United States.

Mr. McKay: I agree with Governor Aiken. It is a mistake to credit immediately items that take several days to reach their destination. The clearing plan, however, does not clear them until they do reach their destination, but I do not see why the New York banks should be willing to credit items as far away as San Francisco. I do not see why they should reach a big float there against which the member banks can draw for immediate credit. A number of banks can draw that out before the New York bank can get settlement of clearings, and that float may run into a very large amount.

Mr. Chairman: It may be desirable to put a credit on every one of these checks.

Mr. Seay: It is only on the beautiful theory that two errors neutralize each other.

Mr. Aiken: If the changes were all offsetting that would be ---

Mr. Seay: That is a theory that is finding entertainment here.

Mr. Aiken: It seems to me, Mr. Chairman, it is peculiarly incumbent on the federal reserve banks to call up operations that are fundamentally sound as banking propositions. There isn't a transaction that isn't based on the current rate of interest. You cannot get away from that matter of time. It does not make any difference at all where one cause creates the case and the other the footnote. I think we would lay ourselves open to a very well grounded criticism from those who are interested in the banking proposition. When one is away from home he looks to Boston or San Francisco as a clearing house for his checks and funds, and he would not like to find that you or I consider the principle on which they have been working in the past is wrong and a great mistake. To start with a premise that is enforceable from an economic point of view ---

Mr. Chairman: Possibly this is the time to ask Mr. McDougall to answer that second question.

Mr. McDougall: I do not believe I can answer it.

Mr. Aiken: I feel pretty strong on it and I know that the best bankers in New England are of my point of view.

Mr. Chairman: The discussion seems to have taken the turn of analyzing this question of time. If there is a strong sentiment that we should put time on federal reserve banks, why not start on that.

Mr. McKay: But that does not interfere with the general proposition.

Mr. Chairman: No, that is a part of the plan whichever way the conference decides. Will you put your thought in the form of a motion, Governor Aiken?

Mr. Aiken: I do not know just what sort of a motion to

out, Mr. Chairman. But to bring it before the meeting, I move
That the banks adopt the practice of deferring the credit
of checks on other Federal reserve banks in accordance with
this schedule which we shall agree on as to time in transit.
I simply make that motion to bring it before the meeting, not to
urge it against your better judgment or that of the other members
of this conference. If there is any objection to the language
of the motion I withdraw it, Mr. Chairman.

Mr. Chairman: I would not like to have you withdraw that
at this time, if it is the judgment of this meeting that the
immediate credit of such checks is a mistake. We have fortified
our position in New York in such a way that it would be an easy
matter for us to withdraw and take time on every such check we
receive. Let us repeat that we did not adopt this plan without
first deciding among ourselves that we were following the fair
interpretation of the Federal Reserve Act, or without the advice
of a number of the best transit men in our district, and they
agreed unanimously with the report of the special committee of
the clearing house, when we made our recommendation to the clear-
ing house for special treatment of these items. We made it in
such a way that at any time we could modify it and it was thor-
oughly understood in New York that it could be modified at any
time.

Mr. Wells: We are not so much doing violence to the order of
time as to the order of valuation. For instance, Mr. Allen's
statement cannot be substantiated when it comes to paying premiums
on New York or Dallas because we have weighed the question of time
there are still considering it.

Mr. Allen: Of course, no defect enters into it.

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Mr. Chairman: I would not like to have you withdraw that at this time, if it is the judgment of this meeting that the immediate/~~bank~~^{credit} of each check is at stake. We have fortified our position in New York in such a way that it would be an easy matter for us to withdraw and to take advantage of every check we receive. Let me repeat that we did not adopt this plan without first deciding among ourselves that we were following the fair interpretation of the federal reserve act, or without the advice of a number of the best transit men in our district, and they agreed unanimously with the report of the special committee of the House, when we made our recommendation to the clearing house for special treatment of these items. We made it in such a way that at any time we could modify it and that was thoroughly understood in New York that it could be modified at any time.

Mr. Wells: We are not so much doing violence to the order of time as to the order of valuations. For instance, Mr. Aiken's statement cannot be substantiated when it comes to paying premium on New York or Dallas because we have weighed the question of time there and are still considering it.

Mr. Aiken: Of course, no defect enters into it.

Mr. Wells: Suppose it is insufficient time in making these checks cash current, we are doing violence to the laws of supply and demand.

Mr. McDougall: Is it your idea to put the limit on checks also?

Mr. Aiken: I am not prepared to take up the matter of federal bank checks.

Mr. Wells: You are sticking right to the discussion of 11 o'clock this morning.

Mr. Chairman: If you are willing to let your motion stand in a general way, I think it will be seconded.

Mr. Wells: Let's discuss the practical operation of it. I think if the federal reserve bank at New York sees a number of banks which are willing to give you credit on Richmond or San Francisco four days late, they will accept them in the same way they accept them now.

Mr. Chairman: I think that as the question stands it is whether they are acceptable as a vehicle ----

Mr. Wells: It is not a question whether they are acceptable but is acceptable.

Mr. Seay: I believe it is a violation of the fundamental conception of this system to consider the question of time. It is a flagrant violation of the fundamental conception of this system.

Mr. Wells: I would like to get back to that question of interest by making transfers. Instead of having checks pass current, we can try it better by having the banks require that the transfer be made by telegraph, mail or in any way without charge that seems to be the concensus of opinion.

Mr. Seay: If we adopt the conception that we are a

a co-ordinated system that one overruling head and 12 more or less independent units, as I believe we are, I feel convinced that it would be a violation absolutely and vitally to that principle to adopt such a plan between the Federal reserve banks governing the time allowance.

Mr. Chairman: I am afraid I concur with you in that, I think the act meant that checks of the member banks on the Federal reserve banks would pass at par all over the country.

Mr. Seay: I believe that it would be working a disappointment as to the intention of the law to the country.

Mr. Wells: Can we detect the intention of the law in all our operations?

Mr. Seay: I believe we can in all our operations if we view ourselves as members of one head.

Mr. Wells: It will be an advantage to the eleventh district for it will give us a chance to create our balance into something, and that will give us a chance to carry the float which will be upon us when we undertake to finance things.

Mr. Chairman: Well, we have reached the point where we do not seem to be able to get a motion seconded. No two minds in this room seem to be agreed on the same subject.

Mr. Rhodes: Have you talked with Mr. Warburg on the subject?

Mr. Chairman: Yes I did, and so far as his opinion was expressed, although I do not like to express another man's views for him, yet I gathered that he thought the settlement of exchange between Federal reserve banks should be effected by a clearing arrangement, but he was not clear as to what that arrangement should be. I am sorry to say that he believes, I think, that ultimately every Federal reserve bank should receive on deposit from its members any check drawn on any

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other member bank in the United States at par.

Mr. Wells: You say, ultimately?

Mr. Chairman: I did not say "ultimately," if you mean cash before the draft arrives at the place of payment. I mean that ultimately we will approach that point. I do not agree with that point of view. I do not think it is a sound course or that it is taking a step in the right direction to take checks as cash and charge them to the member banks on which they are drawn. I would adopt possibly the same theory in regard to those checks, which are certainly not as good as the checks drawn on Federal reserve banks, carrying the obligation of both drawer and endorser, and I would time these checks in such a way that every member bank had the opportunity to see whether it was a good or bad check before his account was charged with it. I would do that at the start.

Mr. Wells: Let us pursue that idea a little further. Would you have two reserve banks on your accounts?

Mr. Chairman: Unfortunately, that is just what it would necessitate.

Mr. McCord: Well, now you have the check on the endorsement of your customer, we will say the Commercial Bank and you realize on the endorsement, and that bank is sending that check from Atlanta to California, we will say. That whole system has been going on for years, and will continue and they will continue to use their discretion.

Mr. Wells: As time has gone on for recent years, we have been following that practice originally, but we have

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from its members any check drawn on another member bank in the United States.

Mr. Wells: You say, ultimately?

Mr. Chairman: I did not say, "ultimately," if you mean cash after the draft arrives. I mean that ultimately we will get to that point. I do not agree with that point of view. I believe that we are as sound banks as there are in this country and we have 2500 banks in this country which may be members of this system. And I do not think it is a sound course or that it is taking a step in the right direction by taking checks as cash and charging them to the member banks in our district. I would adopt possibly the same theory in regard to those checks which are certainly not as good checks as drawn on federal reserve banks, comparing the obligation maker and endorser, and I would time those checks in such a way that every member bank had the opportunity to see whether it was a good or bad check before his account was charged with it. I would do that at the start.

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deviated from it during the last few years. The reserve city banks are charging their correspondencé banks as originally.

Mr. McKay: Yes, they do in some cases now.

Mr. Wells: However, they stopped it in New York.

Mr. Chairman: Yes, they have gradually stopped it.

Mr. Wells: Competition did it. It does not make any difference so far as the Federal reserve banks is concerned whether you charge in their accounts and bill them in some manner by which they can anticipate the call by charging excess deposits or giving them credit in their accounts later. After you have had a chance to get the proceeds, it is a question of attributing the burden of the loan.

Mr. Chairman: This matter is quite in your hands if some gentleman here can find a colleague who will second the motion and we can get a vote on it.

Mr. McKay: You all know that New York exchange is a commodity in this country and can be bought and sold and that such is not the case in all other Federal reserve cities, and there would be some reason for a bank taking New York exchange for immediate credit because it can sell that New York exchange and realize on it immediately. If we wanted to do so in the case of New York exchange, as at present it is a commodity in the case of exchange of a good many of the other reserve cities. It is not a commodity in New York and it is not a commodity a certain distance away from home. but, New York exchange is a commodity anywhere in this country and can be used. It is like

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Mr. Chairman: Yes, they have gradually stopped it, and they are effecting the terms of it so far as the theory of it is concerned. It was objectionable only because it reduced the earning power of the members' account.

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sterling exchange in that way.

Mr. Seay: Project yourself into three years hence.

Mr. McKay: At that time we will have a condition of exchange which will make it possible. There may be twelve kinds of exchanges.

Mr. McDougal: I have a motion to make:

That it is the sence of this meeting that outstanding time shall be recognized except in cases of bank balances between the member banks of Federal Reserve Banks in each district.

We are now accepting drafts drawn by member banks on member banks in our own districts on reserve cities. Let us leave that out for the sake of argument. The object of going as far as we did go was for the reason of transferring reserves in our own districts, and we all admit that the outstanding time can be reserved for consideration on the question of transferring reserves that come in on reserve banks of other districts.

Mr. Chairman: How about this case where a member bank in New York City draws \$475,000 on one of its reserve accounts in Albany, and remits those checks to us for the credit of its reserve accounts, and then on the same day we have \$475,000 of drafts presented against them through the clearing house?

Mr. Seay: And in similar cases where one of the South Carolina Banks draws on Charleston or Richmond on one of the member banks there.

Mr. Chairman: It happens that in our district the only reserve city which is not in the New York clearing house district is Albany. We are more fortunately situated than any other district in that respect, and yet in our district it would be quite possible on this very basis of transfers, for a member bank to carry its whole reserve in the "mud wheel" that Mr. Wells refers to.

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Mr. Chairman: It happens in our district that one of the members of the reserve district which is in the New York clearing house, is at Albany. We are more fortunately situated than any other district in that respect and in this district it would be quite possible on this very basis of transfer, for

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a member bank to carry its whole reserve in the "aud wheel" that Mr. Wells refers to.

Mr. Seay: We have just four.

Mr. Wells: We have six in our district. Another thing happened with us. That is one reason why I was in favor of transferring of balances rather than drawing checks. We had \$37,000 against the Federal reserve bank of Dallas. \$25,000 of that is the proceeds of a loan made to the bank on November 30th. The discount was mailed to us on December 3rd.

Mr. Chairman: How was that permitted to occur?

Mr. Wells: It was brought up for presentation on November 30th and came to us December 3rd. There is no way by which I can check that except in this instance where there were no other transactions.

Mr. Seay: May I ask whether you charged him with malfeasance in office? (Laughter)

Mr. McKay: So long as the reserve had an excess with you!

Mr. Wells: It did not have any excess with us on November 30th. Mr. McKay, have you undertaken to adopt requirements regarding excess in your district. I mean as between reserve cities.

Mr. McKay: If that problem can be answered our difficulty would be solved. In the same towns in different districts it might be different.

Mr. Bordwell: I have a case in mind. The Central National Bank of Oakland sends about \$50,000 a day of customers' checks to Los Angeles, maybe it's every two days. They get credit from Los Angeles at par. They then draw a \$50,000 check on the bank in Los Angeles, (Farmers & Merchants National), depositing it in a San Francisco bank, (The Anglo and London Paris National), which in turn deposits it with Federal Reserve Bank of San Francisco. We forward the check to Farmers & Merchants National Bank of Los Angeles, reducing their balance. That would reduce our total deposits were it not that the bank in San Francisco at present, leaves an excess balance with us for a day or two.

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Mr. Chairman: Was that ^{committed} ~~permitted~~ to break through by trust? But I got it!

Mr. Wells: It was brought up for presentation on November 30th and came to us December 3rd. There is no way by which I can check that except in this instance where there were no other transactions.

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Mr. McKay: If that problem can be answered our difficulty would be solved. In the same towns in different districts it might be different.

Mr. Bardwell: I have a case in mind. The Central National Bank of Galen (?) sends about \$50,000 a day to Los Angeles customs house. They give credit for that at par. They then draw a \$50,000 check on us, the bank of Los Angeles. That would create a panic in San Francisco!q But they deposit the excess

The Farmers and Merchants National Bank of Los Angeles make good their depleted balances by sending a check for \$50,000 on the Wells Fargo, which we collect through the clearing after the checks have been travelling for several days, and everybody is satisfied. We thought it was a kite, at first, but investigated further because the Anglo and the Wells Fargo are rival banks and we could not see how they could be in the same kite.

(Laughter)

Mr. Geay: I believe there will have to be a system of fines developed for improper practices!

Mr. Chairman: We have got to put a stopwatch on this meeting

Mr. McChord: Why not permit the withdrawal of funds until ample time has been given for the notes.

Mr. Wells: How many banks will use it?

Mr. McChord: It don't care whether they use it at all.

Mr. Wold: I submitted this problem to Mr. Warburg in November and he suggested that it would resolve itself when it became burdensome. It seems to me that this is all new to every one of us and we might try it for a while and see where the balances do lie, and see which way the exchanges flow, at this time, and in the course of a year it ought to show it several times or half a dozen different times anyway. This question of shipping funds back and forth is causing some trouble and some uncertainty as to who is going to pay the transfer.

Mr. Rhodes: I would suspend payment in a very short time.

Mr. Chairman: No, you would accumulate balances which you would be entitled to have shipped to you and that would settle it. What you would have lost in your shipments to Chicago for instance, you would gain through the exchanges. It is simply a matter of shipping the reserve money.

in San Francisco and they leave it for a balance for a day or two. The excess charges they give to the Farmers and Merchants Bank of Los Angeles and they make that good by sending a check for \$50,000 on the Wells Fargo, on which we get a clearing after it has travelled for several days, and everybody is satisfied. We thought that was a kite at first, but we could not see how they could be in the same kite with Los Angeles. (Laughter)

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Mr. Wells: You would have our gold. It would still be in the system.

Mr. Chairman: If you discount and do not issue federal reserve notes, you are going to lose your reserves, that's all. As to the question of who shall have the custody of the reserve money, I am not a bit afraid of trying what has been suggested here.

Mr. Weld: I think once a month would be often enough because it would be quite likely to adjust itself.

Mr. Aiken: I think we cannot agree to a question of once a month.

Mr. Wells: I cannot agree to much less than that.

Mr. Fancher: The bank ought to have the privilege of calling for it when it becomes burdensome.

Mr. Aiken: If the federal reserve bank holds the deposit of \$500,000, it is up to the federal reserve bank to pay you that money when you want it, and if you want that, and are going to present a check on us and walk into the bank and said you wanted your money, why, we are bound to pay it.

Mr. Chairman: I am very reluctantly going to make a motion. I suggest that we try this plan with the understanding that settlement be effected at the end of the month, with the privilege however, on the part of any creditor bank of calling for a shipment whenever its balance exceeds a certain amount with any bank---

Mr. Seay: I second that motion.

Mr. Chairman: ----and that we agree as a part of this tentative plan that we will have another meeting of this body one or two weeks after settlement is effected, and take stock of the situation.

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Mr. Chairman: --- and we agree as a part of this tentative plan that we will have another meeting of this board one or two weeks after that settlement is effected, and take stock of the situation.

Mr. McKay: A shipment of currency?

Mr. Chairman: Yes, a shipment of currency.

Mr. McKay: That is, if any one bank has a settlement. That is a separate adjustment from the clearing?

Mr. Chairman: Yes. What I have in mind is this. Personally, I believe we are ultimately coming to a plan of clearance or settlement. If we use the word "clearance" we are going to puzzle everybody. It is a system of settlement between the Federal reserve banks, and when that system of settlement is ultimately developed, it will avoid both loss of time and expense, so, whatever may be determined in the meantime, we can well afford to try this plus temporary plan and agree that at the end of the month a general settlement will be effected in favor of any creditor bank which desires one. In the meantime, any creditor bank may ask the privilege of a settlement of the balance against it in case it exceeds agreed amount. As to the determination of when the intermediate settlement should occur, it is entirely agreeable to me to abide by any plan suggested here. I believe we should feel our way carefully so that we shall not later have to retract from our position, and probably at the end of a month, we will have gained some useful experience.

Mr. Wells: Could we have that meeting before settlement. If no, I would like to hit some gentleman in the eye!

Mr. Seay: Do you make that as a motion.

Mr. Wells: I merely put the suggestion.

Mr. Seay: I find myself very much in accord with that, sir.

Mr. Fancher: This is a matter of each dealing with the other. There will be no question of clearing up at all.

Mr. Wells: You have a general clearing up unless we

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Mr. Chairman: Yes. What I have in mind is this. Personally, I believe we are coming to a question of no clearance. If we use the word "clearance" we are going to puzzle everybody. It is a system of balances between the federal reserve banks, and when that system of settlement will be ultimately developed as a scheme of settlement, it involves loss of time and expense, so whatever may be determined in the meantime, we can well afford to try this plan and agree that at the end of the month that a general settlement will be effected in favor of any creditor bank. In the meantime any creditor bank may ask the privilege of a settlement of the balance against it in case it exceeds the amount. As to the determination of when the intermediate settlement should occur, it is entirely agreeable to me as suggested here. I do not care whether we leave this question for ten or twenty minutes to determine this in committee. I believe we should feel our way carefully so that we shall not later have to detract from our position at the end of the month, and probably at the end of the month we will have gained some useful experience.

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Mr. Fancher: That is a matter of each dealing with the other. There will be no question of cleaning up at all.

Mr. Wells: You have a general clearing up unless we

we provide for a means of doing it. That is, supposing that the bank will recognize the call which you make upon it. Let us leave the settlement open until after the meeting.

Mr. Chairman: With regard to any one bank that might accumulate balances, I do not believe that any member bank should have the right to protect its position by calling for a shipment, it seems to me, and when the balance exceeded a reasonable amount. Then the question arises, who should pay the cost of the shipment.

Mr. Wells: Let us leave the right to call but not that of the general settlement until we have had an exchange of ideas after the experience has been gained. That would suit me better because if we go away from here when we have got to prepare for settlement, then we will have to discuss with each other what the clearance has been.

Mr. McKay: Does this mean that the settlement shall be made in a month from now?

Mr. Chairman: Now, my idea is that the --

Mr. Wells: It shall have the right to call for adjustment before the end of the month.

Mr. Fancher: Are you going to all sit tight now without going out of your district for shipment?

Mr. Aiken: I would like to have the motion reduced to writing.

Mr. Seay: Suppose you express your ideas.

Mr. Curtis: The substance of it is that it is moved

That the reciprocal accounts between the separate federal reserve banks be allowed to continue and that the federal reserve banks be allowed to have the shipment when the amount of it exceeds a certain sum.

Mr. McKay: A certain sum?

Mr. Curtis: That is merely informally worded and may be changed at the discretion of the members.

Mr. McKay: Why not leave out ---

Mr. Wells: I hope you will phrase it in polite language. I suppose you put an amendment.

Mr. McChord: I do not think a man wants to be troubled about small amounts, say about \$25,000 or \$50,000 balances.

Mr. Chairman: I think we would be glad to get rid of the custody of some of the money filling our vaults just now.

Mr. Fancher: Let us leave it to the creditor bank.

Mr. Wells: That is what has just been suggested.

Mr. McKay: Under this plan we would require settlements more frequently than under the clearing arrangement.

Mr. McDougall: To get a line on the course of the exchanges.

Mr. Wells: I am perfectly willing to leave it that way until after a meeting and then incorporate that plan as a permanent one. I do not see how we can do anything else.

Mr. Seny: So that the amount to be settled would appear in any bank's statement as a net credit or debit, that is, the amount due to us between the federal reserve banks. A net debit of a million dollars when settled might have the unfortunate effect of pumping Mr. Wells out entirely.

Mr. Chairman: That is, if the business of his district should be in a slack condition.

Mr. Wells: That is true except that these proceeds of all my loans will be in a debit balance at eastern points, and the proceeds of the "aud wheel" that I will sustain in the clearing function.

Mr. Chairman: Mr. Wells, the proceeds of all your loans are going out anyway.

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Mr. Wells: That is true except that I have a change to get my federal reserve notes out.

Mr. Chairman: If you issue federal reserve notes against your rediscounts you are not going to issue a check to your customer that will come to you for payment through the exchanges.

Mr. McKay: If you send the federal reserve notes to New York.

Mr. Chairman: Those federal reserve notes will not go to New York to make New York exchange and your operation of discounting is going to result in one of three things. You are either going to increase the credit balance of the member bank, possibly only temporary or you are going to give him a check for the discount and the check may go to New York for the New York exchange which you can draw against as a balance or have shipped to you in currency, or you will issue federal reserve notes and they will stay in circulation just as long as the market needs currency. The fact is you cannot do a discounting business and keep your reserves too. Except by issuing notes. I cannot agree however that your fears will be realized in a month or six weeks.

Mr. Seay: The law certainly contemplates that the federal reserve banks shall be indebted to one another, and it seems to me that we should try it and that no bank will be willing to resign its privilege of calling on a central bank to make settlement to it, and that we ought not to expect. I therefore make a motion that the reserve banks accept at par checks upon each other and that a creditor bank shall have the right to call for settlement of balance due it at any time, but that the experiment be tried for one month.

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Mr. Chairman: Those federal reserve notes will not go to New York to make New York exchange and your operation of discounting is going to result in one or two or three things. You are going to increase the balance of the credit bank, that is only temporary; you are going to give him a check on your note. The check may go to New York for New York exchange which can be drawn against as balance. It will come to New York for exchange and then possibly you have your gold if the time comes when you would call for it. If you issue federal reserve notes, they will stay in circulation just as long as the market is open. The fact is you cannot do business and keep your reserves too. You have got to go into business or lose. I cannot agree that your fears will be realized in a month or six weeks.

Mr. Seay: The law certainly contemplates that the federal reserve banks shall be indebted to one another for the loan amounts and it seems to me that we should try it and that no bank will be willing to resign its privilege of calling on a central bank to make settlement to it, and that we ought not to expect it. I therefore make a motion that the reserve banks accept at par checks upon each other and that no creditor bank shall have the right to call for settlement of balance due it at any time, but that the experiment be tried for one month.

Mr. McKay: The debtor bank to pay the cost.

Mr. Seay: I think it ought to be the creditor bank, the debtor bank is helpless under the conditions which surround us now.

Mr. Aiken: Suppose the creditor bank did not want the money?

Mr. Seay: It is no benefit to us now. What value is the money to us now? We are not going to pay for money we don't want.

Mr. Chairman: Why not divide the cost.

Mr. Seay: I would be perfectly willing.

Mr. Wells: That is only a detail. We can change that afterwards.

Mr. Chairman: It would be very trifling amount.

Mr. Reader: I don't think that is economically sound.

Mr. Seay: It is doing no more than the law contemplated and says that we shall do, and we are voluntarily making ourselves creditors of other banks by shipping for exchange purposes, it is true, but it is for exchange purposes.

Mr. Wells: Can't we credit against that cash in some way or another?

Mr. Seay: There is a certain proportion of that in this whole system, and I believe it is absolutely impossible to do it without timing everything and I have so contemplated it.

Mr. McChard: Suppose you suggest that as a notion.

Mr. Seay: I don't quite know how to express it but anyway I move.

That the reserve banks accept for immediate credit at par checks upon each other and that the other banks

Mr. McKay: The debtor bank to pay the cost.

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Mr. Seay: There is a certain proportion of that in this whole system, and I believe it is absolutely impossible to do it without timing everything and I have so contemplated it, the government being the residuary legatee.

Mr. McChord: Suppose you suggest that as a motion.

Mr. Seay: I don't quite know how to express it but anyhow I move

That the reserve banks accept for immediate credit at par checks upon each other and that the other banks

shall have the right to call for balances at any time; but that is the sense of this meeting that the experiment be tried for one month before agreeing on any definite method of settlement.

And I am perfectly willing to agree on that, for my part.

Mr. McChord: Second the motion, and call for the question.

Mr. Chairman: The question is on Governor Seay's motion which has been seconded by Governor McChord. Is there any further discussion of the matter on the motion in the form submitted?

Mr. Alken: For immediate credit at par?

Mr. Seay: Yes sir. I lay emphasis on that, feeling the most profound conviction that that is the most vital principle of the federal reserve act, and that it is expected of us by the whole country, and I believe, not only expected of us by the board of control.

Mr. Chairman: I am not much practised in parliamentary matters, but I believe the question should now be called on this matter, and I ask if you are ready for the question.

Question on the motion. All in favor of the motion say "Aye", contrary "No". Viva voce votes taken. I am not clear how that vote went, whether in favor or opposed to the motion. Will all those who voted in favor of the motion please raise their right hands

Four votes in favor.

Now those who voted against the motion, please raise their right hands.

Seven against the motion.

The motion is lost.

Mr. McChord: Give us something better than.

Mr. Fancher: There is one thing left to do, that is to adopt the motion of rescinding the handling of checks on federal

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Mr. Fancher: There is one thing left to do; that is, to adopt the motion of rescinding the handling of checks on federal

reserve banks.

Mr. Rhoades: That will solve the question. I ask that we adopt Mr. McKay's plan.

Mr. Sawyer: I second the motion.

Mr. Chairman: I wish to make inquiry whether that provided for the settlement of the cost of shipment.

Mr. McKay: That detail was not included in the plan, and was to be settled by the federal banks.

Mr. Fancher: I should think that the debtor banks ought to be the ones to pay the cost of shipping this currency.

Mr. Wold: May I make the suggestion that Mr. McKay read his proposition very carefully in order to clear up each of the different operations stated, and where it is indefinite that he may be able to clear it up in some shape.

Mr. McKay: (Reading) "One of the federal reserve banks shall act as clearing agent for all the federal reserve banks. Each federal reserve bank upon receiving checks and federal reserve notes from the other eleven banks shall telegraph daily to the clearing agent to charge its clearing account and credit each of the other eleven banks the amounts received from them. When these telegrams have been received the clearing agent will make corresponding debit and credit entries to the accounts of all the regional banks on a clearing sheet, and thus ascertain the net debit or credit balances of each regional bank.

"The clearing agent shall then telegraph each of the regional banks its net debit or credit and also the amount of the credits to its clearing account, giving the name of each regional bank from which each credit was received. Each regional bank will then know the result of its clearings.

"Settlements of balances could be made weekly, or when any bank's net credit or debit balance reached a fixed amount - say, \$250,000. To properly illustrate the method of settling balances it is necessary to know which Federal Reserve Bank will act as

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clearing agent, and as payments to credit banks cannot be made until settlements have been received from the debit banks the clearing agent selected should be located at a central point so as to minimize the time taken to receive payments from the farthest distant Regional bank; and, furthermore, this plan provides for payments to be made in Chicago or New York exchange.

"For the purpose of explaining this plan, therefore, we will suppose the Federal Reserve Bank of Chicago to be the clearing agent. On settlement day the clearing agent will telegraph each debtor bank to remit its debit balance in Chicago or New York exchange at the debtor bank's option. The debtor bank can buy the exchange from either the member or non-member banks in its city at the market price; or if both kinds of exchange should be at a premium exceeding the cost of shipping currency, then currency could be shipped - large bills preferably. The cost of shipping them by registered mail, insured, would run from about six cents to eighteen cents per thousand dollars; the latter amount is the cost from San Francisco to Chicago, which is the longest distance of any of the regional banks from Chicago.

"The payments would be received in Chicago approximately as follows, from the debtor banks:

Boston - - - -	two days
New York - - -	two days
Philadelphia -	two days
Richmond - - -	two days
Atlanta- - - -	two days
Cleveland- - -	one day
St. Louis- - -	one day
Minneapolis- -	one day
Kansas City- -	one day
Dallas- - - -	two or three days
San Francisco-	three or four days

Payments from debtor banks would therefore all be received by Chicago in not over four days, and if on some occasions San Francisco and Dallas were both creditor banks the payments would be all received in two days. As soon as the payments were received by the clearing agent the creditor banks would receive payment in Chicago or New York exchange at their option.

vastly larger amount of shipment than would be necessary.

Mr. McKay: That is only for the balance of one bank against the eleven.

Mr. Seay: You require under this arrangement the debtors paying in three ways, Chicago on New York, or shipping lawful money. When you pay the creditor bank, you only pay them New York or Chicago funds. If you pay in currency, we should have the option of being paid in currency.

Mr. Fancher: If we ran steadily debit for a time and had to ship and then turned credit we would be getting exchange only and would not get currency back unless we had an open order for the money we are shipping out.

Mr. Wold: Supposing your bank ran ahead of your credit for \$500,000, you would have a credit for the New York or Chicago bank.

Mr. Chairman: I cannot see why the result of that plan would not be getting lawful money for the settlement of debit balances, you would be sending New York exchange in settlement.

Mr. McKay: We would make it upon Chicago or New York exchange or currency.

Mr. Fancher: As a creditor however, you would have to pay the creditor bank. In other words, if you had seven debtor banks and out of them four paid in exchange on Chicago and New York, and three of them shipped currency, and the currency shipments were comparatively small, you would want that small amount to pro-rate among five creditors and the five would want a considerable amount of currency. You could only pay with what you got. Mr. McKay: You would have to know what the creditor banks wanted settlement in, and then send them---- if they wanted currency---- send them currency.

"The clearing agent would convert Chicago exchange into New York exchange, or vice versa, by buying or selling New York exchange between the Chicago banks and would be able to maintain a closer parity between both kinds of exchange than could be the case in any other city. The clearing agent would of course have the option of shipping currency to creditor banks but would only do so when absolutely necessary.

"Under this plan it would be advisable for the federal reserve bank of Chicago to carry an account with the federal reserve bank of New York so that it could buy and sell New York exchange and thus keep the exchange market as nearly par as possible and could accumulate New York exchange in anticipation of the payments to be made for settlements of clearings.

"It might also be an advantage for the eastern regional banks to carry accounts with the New York regional bank and the western regional banks to carry accounts with the Chicago regional bank, so that all the regional banks could anticipate the settlement of their clearings and perhaps remove the necessity of remitting payments to the clearing agent on settlement day.

"Any cost incurred by the clearing agent in making settlements by buying or selling exchange or shipping currency could be pro-rated among the regional banks on a basis of the volume of their clearings and could be adjusted monthly.

"As regards the accounting system necessary for this plan of clearings, each regional bank would credit the other regional banks' clearing accounts with the checks and federal reserve notes when received and would charge the items sent to the others in transit account until telegraphic advice of clearings was received; then the transit account could be credited and the amounts charged to each regional bank's clearing account, and when settlements were received from the clearing agent the regional bank's clearing account would be credited.

"By this plan of clearing between the federal reserve banks shipments of currency would be reduced to a minimum."

Mr. Seay: How about the expense of the clearing agent?

Mr. McKay: The expense could be pro-rated according to the volume of the clearings and their various methods for doing that in local clearing houses noted and some satisfactory method could easily be arranged for that.

Mr. Wells: With a correspondent in New York you would have a call on the regional bank in New York and the regional bank would offset any delays or disadvantages occurring in the system.

Mr. R. Wells: Have you a regional bank?

Mr. McKay: Supposing you would want to call on New York.

Mr. Wells: Suppose a reserve bank wants to build up their reserve account by drawing a check on New York?

Mr. McKay: A clearing house bank of New York?

Mr. Wells: Yes. I think to carry this plan to the limit, it would be necessary to permit the bank to take checks on New York and Chicago, inasmuch as the market has been created for both kinds of exchange. I would be willing to go as far as to say that we could take checks on all banks located in the 12 reserve cities where there are 12 banks; then that would give a direct market for exchange.

Mr. Seay: Why don't you call for a settlement of balances, then the reserve banks would begin to establish balances with each other.

Mr. McKay: They would not have to carry balances with each other at all separately.

Mr. Chairman: Do I understand that the 11 federal reserve banks would be called on to ship to Chicago to settle their balances ~~when~~ as they arose?

Mr. McKay: Yes, if we were reserve banks.

Mr. Chairman: I do not see that that contemplates a

vastly larger amount of shipment than would be necessary.

Mr. McKay: That is only for the balance of one bank against the eleven.

Mr. Seay: You require under this arrangement the debtors paying three ways, Chicago or New York, or shipping lawful money. When you pay the creditor bank, you only pay them New York or Chicago funds. If we pay in currency, we should have the option of returning to them half.

Mr. Fancher: If we ran steadily for a time and had to ship, we would be getting exchange and would not be getting it back unless we had an open offer for the money we are shipping out.

Mr. Wold: Supposing your bank ran ahead of your credit for \$500,000, you would have a credit for the New York or Chicago bank.

Mr. Chairman: I cannot see that the result of that plan would be getting lawful money for the settlement of lawful debts due, and you would be sending New York exchange in settlement.

Mr. McKay: We could make it upon Chicago or New York exchange or currency.

Mr. Fancher: As a creditor however, you would have to pay the creditor bank. In other words, if you had seven debtor banks and out of them four paid in exchange on Chicago and New York, and three of them shipped currency, and the currency shipments were comparatively small, you would ^{want} that small amount to pre-rate among five creditors and the five would want an awful lot of money. You could only pay with what you got.

Mr. McKay: You would have to know what the creditor banks wanted settlement in, and then send them---if they wanted currency---send them currency.

Mr. Aiken: Such an arrangement is subject to the approval of the federal reserve banks.

Mr. McKay: Yes.

Mr. Chairman: I regard this matter as of such ^{great} importance that I do not want to bind ourselves without submitting it to our directors.

Mr. Rhoades: We will have to submit it to our directors.

Mr. Aiken: I have suffered a slight change of heart on Mr. Seay's proposition.

Mr. Seay: To reconsider that matter would still leave the question of taking up at par undetermined.

Mr. Wells: On Mr. Seay's motion was it contemplated that we take items of member banks on New York or Chicago?

Mr. Chairman: No, that was not contemplated as I understood it.

Mr. Wells: Could we take that and send it to you? Suppose they offered to us for settlement checks at par as depleted reserves?

Mr. Chairman: You could under this plan.

Mr. Wells: Will you now?

Mr. Chairman: I think we will. Possibly in sending out our circular to our member banks, we exceeded the scope of our authority.

Mr. Wells: In the motion made by Mr. Seay, of trying this out for a month, would it be practicable for us to accept New York and Chicago and Kansas City exchange, which is more or less current in our territory, from our member banks, thereby keeping down this net debit?

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Mr. Seay: It would not curtail your liberty of action.

Mr. Wells: We take that action on federal reserve bank

notes, but we do not let it become generally known but simply do it.

Mr. Seay: What would you do if you were not a federal reserve bank? Wouldn't you do it?

Mr. Wells: We have discussed here a good many things which, if I were a commercial bank, I would not do.

Mr. McChord: Mr. Wells of Dallas, suppose I owed you a balance and I have a balance in St. Louis, and I telegraph to St. Louis to send by registered mail the money down to you, to clear up, what is the difficulty and trouble there?

Mr. Wells: The only trouble is that I might be shipping that money to St. Louis and that I might duplicate the cost of shipment---the actual physical transaction of shipment. We will finally get to the point, I believe, of conferring with one another as to what our assets are.

Mr. McChord: As a matter of fact, I now have a balance in St. Louis and Kansas City.

Mr. Wells: I only have one in St. Louis, just a trifle, \$40,000.

Mr. ^{Wells:} ~~Seay:~~ I fully agree with the proposition of Mr. McKay's suggestion. I do not think his plan is worked out to a conclusion, however, which we could wisely adopt at this time, and thirty days from now the matter will resolve itself.

Mr. Chairman: Gentlemen, we have a motion before the house, made, I believe, by Mr. Seay, and seconded, which was, in effect, to call for the adoption of the plan of settlement proposed by Mr. McKay.

Mr. Seay: In that connection I feel that while if it should pass by a majority of the sentiment here, I would not be called upon to commit our bank to the adoption of it without first submitting it to them.

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Mr. Chairman: It would be subject to review of the federal reserve board anyway.

Mr. McDougall: Do I understand that the motion is submitted by the Governor Seay? And that the plan should go before the federal reserve board also for approval?

Mr. Seay: It was so informally worded that I have no objection to any alteration being made to it so far as the sense is not changed, but I think in the main, the plan suggested in it, would allow our doing what we are doing at the present time with regard to settlements, and would leave any one bank free to call for payment whenever it felt disposed to do so.

Mr. McKay: The settlement largely grew out of the fact that it was largely an interest question.

Mr. : No. I ~~think~~ think it is a question of having a reserve of paper which is really a fundamental thing, and in this case it seems to me a matter in general practice bearing on handling collection items. The more items we are going to have the more collection charges we will have, and in fixing a rate of charge in our country we do not want to fall afoul of the so-called anti-trust law.

Mr. Aiken: What is the motion before the house, Mr. Chairman?

Mr. Chairman: The motion, as I understand it, is for the adoption of a plan proposed by Mr. McKay as read and the motion is seconded.

Mr. McChord: May I qualify my vote by making it subject to the approval of my directors?

Mr. Aiken: This would be subject to the approval of the federal reserve board, would it not?

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Mr. Aiken: This would be subject to the approval of the federal reserve board, would it not?

Mr. Fancher: Of course, This should have been in a little more general form than it is now and it can be put in a little more definite shape later. I would suggest that about the 15th of January, we would know a little more about the matter.

Mr. Chairman: We still have the motion and, as I understand it, seconded. Are we ready to vote?

Mr. McChord: I move an amendment,

That our vote be subject to the approval of the board of directors; if I can get a second to that amendment.

Mr. Aiken: Mr. Chairman, I do not understand that motion.

Mr. Chairman: The motion is to amend the original motion by making it subject to the approval of the directors of our banks. Is that motion seconded? (No second) Is there any discussion on Governor McChord's motion to amend the motion originally offered by adding that it is subject to approval by the directors of the various federal reserve banks.

Mr. Sawyer: I second the motion.

Mr. Chairman: If there is no discussion on that motion, all in favor of Governor McChord's amendment will please say, "Aye"; those opposed "No." (The viva voce vote left some doubt as to the result.) I will call for the Ayes to raise the right hand.

Mr. Seay: I would like to explain that in voting I do not think I will not have the authority to commit our bank to it, but I would like to see the motion acted upon upon its merit as it stands.

Mr. Chairman: I believe as a matter of strict parliamentary practise we should vote on the amendment before voting on the motion. Is not that so, Mr. Curtis?

Mr. Curtis: Yes, in voting on an amendment to a motion, the vote on the amendment is taken first.

Mr. Chairman: I will call for a vote on the amendment.
All those in favor please raise their right hand.

Three favoring the amendment.

Those opposed please raise their right hand.

Six opposed to the amendment. The amendment is lost.

We will now take a vote on the motion to recommend as I understand, the adoption of the plan proposed by Mr. McKay. All in favor of that motion will please say "Aye", those opposed "No". The vote seems to be a tie and I will have to call for a vote by raising the right hand. Those in favor please raise their right hands.

Four votes in favor of the motion.

Those opposed please raise their right hand.

Seven opposed to the motion. The motion is lost. My conclusion is that we don't know what we want.

Mr. Fancher: I am in thorough sympathy with the principle of Mr. McKay's plan, but it is not definite enough in its provisions.

Mr. Rhoades: I want to go on record as recommending a thing more complete.

Mr. Chairman: It is a rather difficult thing to get any one to agree with any other just now.

Mr. Fancher: Mr. Chairman, I hesitate to make a motion, but I would like to make a motion that a committee of three be appointed to whip into more definite form this plan of Mr. McKay, and have it ready for the morning session.

Mr. McDougall: I second the motion.

Mr. Chairman: It is moved and seconded that a committee of three be appointed to give considerable to the plan offered by Mr. McKay and to put it into more definite shape as to any points on which the committee thinks it should be elaborated

Mr. Chairman: I will call for a vote on the amendment.

All those in favor please raise their right hand.

Three favoring the amendment.

Those opposed please raise their right hand.

Six opposed to the amendment. The amendment is lost.

We will now take a vote on the motion to recommend as I understand, the adoption of the plan proposed by Mr. McKay. All in favor of that motion will please say "A ye", those opposed "No." The vote seems to be a tie and I will have to call for a vote by raising the right hand. Those in favor please raise their right hands.

Four votes in favor of the motion.

Those opposed please raise their right hand.

Seven opposed to the motion. The motion is lost. My conclusion is that we don't know what we want.

Mr. Fancher: I am in thorough sympathy with the principle there but it is not definite enough.

Mr. Rhoades: I want to go on record as recommending a thing more complete.

Mr. Chairman: It is a thing rather difficult to get any one to agree with the other just now.

Mr. Fancher: Mr. Chairman, I hesitate to make a motion, but I would like to make a motion that a committee of three be appointed to whip into more definite plan this plan of Mr. McKay, and have it ready for the morning session.

Mr. McDougall: I second the motion.

Mr. Chairman: It is moved and seconded that a committee of three be appointed to give consideration to the plan offered by Mr. McKay and to put it into more definite shape as to any points on which the committee thinks it should be elaborated.

And resubmit the plan in more definite shape to- morrow. Is there any debate on this motion?

Mr. Rhoades: I offer an amendment to the effect that the committee report at the next meeting of the governors. That will give us a chance to consider it.

Mr. Chairman: Please don't raise that question.

Mr. Chairman: The amendment and motion is for postponing the consideration of the report of this committee until the next meeting of the governors, Is that amendment seconded?

Mr. Wold: Do I understand that this is postponing the action on the report of the committee to be appointed?

Mr. Aiken: We will have to decide what we are to do in the meantime, won't we, Mr. Chairman?

Mr. Chairman: Certainly. If this motion prevails, we will have to take that up at once, and we ought to settle it at this meeting.

Mr. Wells: We should not decide on a plan of that kind without making some test beforehand, that we may determine the workings of the plan in actual operation. I voted against the motion of Mr. Seay a little while ago and I would like to reconsider it now, as I believe others would who voted negatively, Mr. Chairman, if it is not out of order---

Mr. Chairman: It is out of order just now, as the motion has been seconded.

Mr. McChord: Mr. Chairman, why not let us take a vote on that motion to form a committee of three and let that report be brought in. That doesn't mean that we are going to adopt it, and

And resubmit the plan in more definite shape to-morrow. Is there any debate on this motion?

Mr. Rhoades: I offer an amendment to the effect that the committee report at the next meeting of the governors. That will give us a chance to consider it.

Mr. Chairman: Please don't raise that question.

Mr. Rhoades: New York is the only one that holds back.

Mr. Chairman: The amendment and motion is for postponing the consideration of the work of this committee until the next meeting of the governors, not the consideration but the report at least. Is that amendment seconded?

Mr. Wold: Do I understand that this is postponing the action on the report of the committee to be appointed?

Mr. Aiken: We will have to decide what we are to do in the meantime, won't we, Mr. Chairman?

Mr. Chairman: Certainly. If this motion prevails, we will have to take that up at once, and we ought to settle it at this meeting.

Mr. Wells: We ought not to decide on a plan of that sort without making some test of what the operation of it is going to be. I voted against the motion of Mr. Seay a little while ago and I would like to reconsider it now, and I think others would also, and, if it is not out of order---

Mr. Chairman: It is out of order just now, as the motion has been seconded.

Mr. McChord: Mr. Chairman, why not let us take a vote on that motion to form a committee of three and let that report be brought in. That doesn't mean that we are going to adopt it, and

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At the same time we will have a chance to submit our views tomorrow before we vote on it. We will then get in touch with them and get to some point where we can get to some kind of an agreement before we go home.

Mr. Chairman: The question is on the motion to appoint a committee of three to consider the plan and report before we go home, tomorrow morning. Is there any further discussion of the motion?

Mr. Gray: I would like to amend that to this effect, that that committee be appointed to consider this or any other question and not to confine it to this particular subject.

Mr. Chairman: Your motion has been seconded, I believe, Mr. Fancher, if your second is willing, we will put it to a vote, that is if he is willing to accept the amendment.

Mr. Gray: Since there appears to be some hesitancy about adopting a plan of the comprehensiveness of this kind that is submitted to us, I think it might also consider any other plan.

Mr. Aiken: The amendment to the motion has not been seconded I believe.

Mr. Chairman: The amendment of the original motion offered by you I believe, Governor Gray, was for the addition to Mr. Fancher's motion that the committee should not confine its deliberations to the considerations of this one report. Is that motion seconded? That motion apparently fails for want of a second.

Mr. McCherdt: I second it for the sake of getting a vote, for the sake of doing something.

Mr. Chairman: The motion and amendment to the motion have been seconded. The question now stands on the amendment - that the scope of the committee's work shall not be confined to the plan submitted by Mr. McKay. Are you ready for the question on the

at the same time we will have a chance to submit our views to-morrow before we vote on it. We will then get in touch with them ~~XXXX~~ and get to some point where we can get to some kind of an agreement before we go home.

Mr. Chairman: The question is on the motion to appoint a committee of three to reconsider the report, before we go home, to-morrow morning. Is there any further discussion of the motion?

Mr. Seay: I would like to amend that to this effect, that that committee be appointed to consider this or any other question and not to confine it to this particular subject.

Mr. Chairman: Your motion has been seconded, I believe, Mr. Fancher, and if your second is willing, we will put it to a vote, that is if he is willing to accept the amendment.

Mr. Seay: Since there appears to be some hesitancy about adopting a plan of the comprehensiveness of this kind that is submitted to us, I think it might also consider any other plan.

Mr. Aiken: The amendment to the motion has not been seconded I believe.

Mr. Chairman: The amendment of the original motion offered by you I believe, Governor Seay, was for the addition to Mr. Fancher's motion that the committee should not confine its deliberations to the consideration of this one report. Is that motion seconded? That motion apparently fails for want of a second.

Mr. McChord: I second it for the sake of getting a vote, for the sake of doing something.

Mr. Chairman: The motion and the amendment to the motion have been seconded. The question now stands on the amendment that the scope of the committee's work shall be within the plan submitted in the plan by Mr. McKay. Are you ready for the

amendment? Question. All those in favor of the amendment will please say "Aye".

Mr. McDougall: Just what is the motion?

Mr. Chairman: Governor Fancher's motion was to submit the plan to a committee of three. Governor Seay offers an amendment that their consideration should not be confined to that plan. I call again for the vote on the amendment. All those in favor say "Aye", opposed "No" The "Ayes" have it.

We will now call for the question on the original motion as amended. All in favor of Governor Fancher's motion please say "Aye". (No answer)

Mr. Wold: What is the question now?

Mr. Chairman: We have reached a point where we will vote to appoint a committee of three to consider Mr. McKay's plan and report on it to-morrow morning. All those in favor of that motion say "Aye"; opposed "No".

The motion is carried; and as this committee has a matter of much importance to consider, I don't know but what we ought to call for volunteers.

Mr. Aiken: By what process would it be possible to get a reconsideration of that motion. I didn't understand exactly what it was. We are most of us very tired and it is after 11 o'clock. I understand that the committee was to report to this board within three or four days. It seems to me that it is impossible for any committee to give intelligent consideration to this whole question and report to-morrow morning. It is now 11:30. I would like to ask if it is not still possible to consider another motion.

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We will now call for the question on the original motion as amended. All in favor of Governor Fancher's motion please say "Aye". (No answer)

Mr. Wold: What is the question now?

Mr. Chairman: We are about to reach a point where we will vote to appoint a committee ^{of} three to consider Mr. McKay's plan and report on it to-morrow morning. All those in favor of that motion say "Aye"; opposed "No".

The motion is carried; and as this committee has a matter of some importance to consider, I don't know but what we ought to call for volunteers.

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Mr. Chairman: Anybody who voted "Aye" may move to reconsider.

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Mr. Sawyer: I move to reconsider that motion.

Mr. Aiken: I second the motion to reconsider.

Mr. Chairman: Debate, I may say, ought to be excluded on this motion as we have voted on it. The vote is now to reconsider the motion. All in favor say "Aye"; opposed say "No".

The motion to reconsider is now carried, and I believe I am correct in saying we have to vote on the original motion as amended. All those in favor of that motion please say "Aye"; those opposed, "No". If this vote is carried it means that the committee must make a report at to-morrow's meeting, on this subject. If it is lost it is still open, and we have to reconsider entirely the whole subject of what we will do. I now ask for the vote on the original appointment of a committee of three. Those in favor say "Aye", opposed, "No". The motion is lost, gentlemen. The subject is now right where we began before.

Mr. Aiken: I move that the matter be referred to a committee of three which shall report at the next general meeting of governors. Is that motion seconded?

Mr. Wold: I second the motion.

Mr. Chairman: The motion is made and seconded that a committee of three be appointed to consider the whole question of settlements between federal reserve banks and make their report at the next general meeting of the governors of the banks. The motion is seconded and I will ask those in favor of it to say "Aye", those opposed, "No."

The motion is unanimously carried this time.

If the Chair is permitted to offer a motion, it would be that we defer considering until to-morrow, what we shall do to-morrow.

Mr. Wells: I would like to move that we pursue the policy

Mr. Sawyer: I move to reconsider that motion.

Mr. Aiken: I second the motion to reconsider.

Mr. Chairman: The debate, I may say, ought to be excluded from this question as we have voted on it. The vote is now to reconsider the motion. All in favor say "Aye"; opposed say "No."

The motion to reconsider is now carried, and I believe I am correct in saying we have to vote on the original motion as amended. All those in favor of that motion please say "Aye"; those opposed, "No." If this vote is carried it means that the committee must make a report at to-morrow's meeting, on this subject. If it ^{is} lost it is still open, and we have to reconsider entirely the whole subject of what we will do. I now ask for the vote on the original appointment of a committee of three. Those in favor say "Aye", opposed, "No". The motion is lost, gentlemen. The subject is now right where we began before.

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Mr. Wold: I second the motion.

Mr. Chairman: The motion is made and seconded that a committee of three be appointed to consider the whole question of settlements between federal reserve banks and make their report at the next general meeting of the governors of the banks. That motion is seconded and I will ask those in favor of it to say "Aye"; those opposed, "No."

The motion is unanimously carried this time.

If the Chair is permitted to offer a motion, it would be that we defer considering until to-morrow, what we shall do to-morrow.

Mr. Wells: I would like to move that we pursue the policy

outlined by Mr. Seay, if I can get a second to that.

Mr. Chairman: Since it is after 11:30 o'clock, I may suggest that as a matter of exact parliamentary proceedings, anybody in this room can make a motion to adjourn on their own account.

Mr. Aiken: I move that we adjourn.

Mr. Seay: I second the motion.

Mr. Chairman: It is moved and seconded that we adjourn---

Mr. Wells: Until what hour?

Mr. Chairman: ---say 10 o'clock to-morrow morning, to the hour of ten.

A motion to adjourn until 9:30 the following morning was carried and the meeting then adjourned.

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