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Meeting of the Conference of Governors of the Federal Reserve Banks, New Willard Hotel, Washington, D. C., December 11, 1914.

(Prior to the arrival of all of the members of the conference a general discussion was indulged in relative to the scope of the meeting and as to whether or not the session should be commenced before the arrival of all of the members.)

Mr. McChord: I want to make a little remark as a southern democrat. It may be almost necessary to have the twelve banks to meet the demands of their constituents, but at the same time they have so interwoven the proposition that it is a central bank. Now some of the senators have admitted that to me. By this system of having one clearing house it makes them all one unit.

Mr. Seay: The acceptance of any idea involves only an adjustment of the mind - a certain adjustment of the difference until we perceive the ideas. By accepting that objection, and I believe that that is the course which this will very probably take, what is most effective will be brought into play, and that recognizing that idea, that it will be generally accepted therefore if the central idea is the most practical that they will be contented to have a form of division into regions with the essence of central control. All of which is respectfully submitted.

By the arrangement each individual ^{bank} ~~MEMBER~~ is relieved of personal responsibility for the accumulation of balances in another bank, as it can be relieved, I believe, by the central board of control. Then I should think there would be removed from it whatever there is of apprehension of having balances somewhat out of our control in another part of the country.

Mr. Chairman: Possibly I take a very radical view of the experiment - if we may call it an experiment - than some of the others, because from the standard of the New York Bank I think we would be quite willing to say that on balances for which we were debtor to the other

Federal Reserve Banks we would ship at any time on request the balance for which we were creditor with other Federal Reserve Banks. We would be quite willing to let them accumulate until they amount to ten or fifteen million dollars.

It is not going to affect our cash position one particle so long as we treat the due from and due to each Federal Reserve Bank the same as cash. The only two questions involved from our point of view are: first, how the cost of these shipments shall be borne, by the debtor or by the creditor bank, or shall they be divided; second, are we safe in permitting the accumulation of items in the mail which would count as reserves at both ends of the line for a short time.

Any method of safeguard on the drafts on Federal Reserve Banks would be entirely acceptable to us. In case of any agreement that is made here as to a fair method of dividing the cost of shipment, which I don't think is going to be as heavy as some of us fear, will be entirely satisfactory to us.

The shipments if they were simply for the net balances as between one bank and all the others would amount to a great deal less than if each bank took care of each other bank, and be a very economical way of handling the problem. It would be a saving to all the Federal Reserve Banks. If you are going to settle debits and credits of each bank individually you are going to have a great many transactions, whereas if there is a clearing proposition put in effect some place, some how, then the only settlements required will be the net balances between one and all the others. Thus it will greatly reduce the amount of settlements.

Personally I believe that if we try this out, no money will be shipped except possibly between Boston and New York, Boston and Philadelphia, or New York and Philadelphia.

Mr. Rhoades: In two days I could accumulate as due Philadelphia seven millions of dollars from other Federal Reserve Banks, and I would be whip-sawed.

Mr. Seay: (Interposing) How about in five days?

Mr. Rhoades: It does just the same.

Mr. Seay: It could not possibly do so for a period long enough to -

Mr. Rhoades: (Interposing) But I wouldn't have anything left.

Mr. Seay: But you get something for which you can demand settlement.

Mr. Bardwell: You are due from one bank.

Mr. McKay: Mr. Rhoades' idea is that he runs long on cash and short on exchange and has to be converting cash into exchange continuously. Isn't that the idea?

Mr. Rhoades: I am whipsawed both ways.

Mr. Chairman: When he gets the settlements of his collection items he gets exchange on Philadelphia which will be settled through the clearing house in cash, and the ultimate end is that the amount of your net outstanding due from the other Federal Reserve Banks I believe cannot exceed the amount which you have in the mail. The question is how high will it run.

Mr. Rhoades: Very high. It will most likely run very high.

Mr. McChord: As to the shipment of currency under the old system, which we are merging out of into the new, the converting of currency into credits. The new system which we are opening up will we realize prevent such a large shipment of currency from these centers. And coming back will be the banks own credit against its reduction of its loan. There will be a large amount of credits which will be covered by exchanges of produce and not by shipments of currency.

Mr. Aiken: It seems to me that we are making a mountain out of this expense matter. I cannot conceive of this expense running up to any such great amount - an amount that is a serious question. Shipments at best wont be very frequent; and in connection with that you have to take into consideration the expense of telegraphing, which might amount to ten or twenty thousand dollars a year.

Mr. McChord: Thirty, I figure.

Mr. Aiken: It seems to me that the expense is not so great as to be a deterrent at all.

Mr. Chairman: The motion as prevailing provided for the appointment of a committee of three to consider the whole subject of the settlement of balances between Federal Reserve Banks. That motion did not specifically state that the Chairman was to appoint such a committee, and I would like to be quite clear. Mr. Fancher you made the motion, was that the intention?

Mr. Fancher: That was my thought.

Mr. Chairman: If that is the thought, before making the appointment I want to suggest one or two things in connection with the work of the committee: one, that if it is decided to appoint a settlement agent for the Federal Reserve Bank balances it will undoubtedly require the shipment of an initial amount of reserve money by each Federal Reserve Bank in order to create a balance for the purpose in the hands of a settling agent. Rather for each of the Federal Reserve Banks to make such a shipment. The suggestion was made the other day that the Secretary of the Treasury has under consideration now a plan for making a deposit in the Federal Reserve Banks and it might be desirable to have a large deposit made by the Department in the banks which is to act as the circulation for all twelve of the banks and thereby create a fund which would in fact be a reserve fund for each bank that would be in the hands of the settling ~~agent~~ bank. I think we ought to be thinking about this matter and how it should be considered.

Another of the subjects that I did not bring up yesterday. Whichever one of the banks is constituted the settling agent will thereby be relieved of all expense of shipment of reserves for its own account, and, furthermore, in affecting settlements of exchange between its own account and that of its member banks and that of its customers there may arise there profit or loss by reason of the purchase of exchange, and it seems to me we ought to have more clearly in mind the limitations which are to surround the ability of that bank to make profits or possibly to incur expenses - how they should be distributed and so on.

Furthermore, some allowance for clerical expenses ought to be taken into consideration in connection with the saving of shipments for its own account.

We have given a great deal of consideration to the question of which would be in fact the most economical point of settlement balances, if that plan is adopted. In point of time it is either Chicago or Cleveland, possibly on account of its locality things point most favorably to Cleveland. On the other hand, I think the moment this question is submitted to the Federal Reserve Board I think it would be found that they have their own ideas of how this matter should be settled, and some members of the Board may lean very strongly in favor of establishing a clearing fund in Washington, which would avoid the necessity of any shipment whatever.

Mr. Fancher: One thing to take into consideration going out of Washington and that is to find a city that has adequate vault facilities. We have not got it. We could not provide places there for the repository of any considerable amount of money, unless it was in very large bills and could be kept in a very small space. We could not handle it because our facilities are limited. We have no sub-treasury, and of course Chicago would have much better facilities than we have in caring for the physical end of it.

Mr. Chairman: Our program now calls for a decision in regard to the method to be pursued in handling federal reserve checks and settling resulting balances during the interval before the report of the committee is submitted and acted upon. I suggest that to aid in the deliberation of that matter that we decide when and where we meet the next time, while any period for which this temporary plan is to operate -

Mr. Fancher: Might it not be well, taking the matter under consideration, for us to meet in some central point next time - good railroad facilities for reaching there?

Mr. Seay: At the risk of having my innocence misinterpreted by reason of my being in such close proximity to Washington, I should like to have the members consider in that connection that whatever

we may do at any time is subject to final determination by the Board at this point, and in our deliberations we might even have to consult them before we reach a decision in many cases. If we were to meet at one of the more centrally located cities and then have to send a committee perhaps to Washington to report the results of our deliberations, possibly after all there would be more delay in that manner than by the one which is apparently adopted, that of meeting in Washington.

Mr. Chairman: We can at least possibly decide separately by separate motion when we will meet again.

Mr. McDougal: Do you think we would require more than a two day session? If not, I would suggest that we make it either Friday the 22nd or Friday the 29th if that comes within the limit of our resolution - whatever that may have been - Friday the 22nd or Friday the 29th of January.

Mr. Chairman: The question of date is still open, we can fix any date.

Mr. Seay: I believe a later day would be preferable.

Mr. McDougall: How late can we effect it in accordance with the resolution?

Mr. Seay: That has not been formulated. The 29th of January I should think would be a very favorable date.

Mr. McDougall: I would offer as a motion that our meeting for the purpose outlined be held on the 29th and 30th of January. That will be Friday and Saturday, if that is satisfactory.

Mr. Chairman: Is that motion seconded?

Mr. Aiken: Seconded.

Mr. Wells: Is the first of February on Monday; our board meets on the first Tuesday?

Mr. McDougall: You can readily set that back to some other date.

(Then followed a general discussion as to whether or not the members of the conference would be able to attend on the dates proposed or whether some other dates would better suit the majority.)

Mr. McDougall: Mr. Chairman, it seems that a week earlier would suit some of the gentlemen better. It would suit me just as well; let's make it the 22nd and 23rd. Therefore I change my motion to indicate the 22nd and 23rd, for the next meeting.

Mr. Aiken: Seconded.

Mr. Sawyer: That is the time of our directors' meeting; I missed one this week. I prefer a later date.

Mr. Seay: Can't you postpone it?

Mr. McDougall: Mr. Sawyer, this meeting ran into our directors' meeting and I sat it ahead two or three days.

Mr. Seay: It ran into ours and we sat it ahead.

Mr. Aiken: I missed a directors' meeting yesterday.

(Then followed a further general discussion as to whether or not the members of the conference would be able to attend on the dates proposed or whether some other dates would better suit the majority.)

Mr. Chairman: The motion as made by Governor McDougall, and seconded, is to hold our next meeting on the 22nd and 23rd of January. Is there any further debate of that motion? If not, I will ask those in favor to signify by saying "Aye". ("Ayes" responded.) Carried.

Mr. Chairman: Now let's discuss the place of meeting.

Mr. McChord: I move that the place be Washington.

Mr. Rhodes: I second that.

Mr. Chairman: Any debate?

Mr. Seay: I think that you will have to establish an office and a representative in Washington.

Mr. McChord: I think it is almost necessary to have the next meeting here because of the unsettled relations with the Board.

Mr. Chairman: Is there any further debate on the motion? If not, I will put the question. All in favor of holding the next meeting in Washington please say "aye". ("Ayes" responded.) Carried.

Mr. Chairman: Before we take up the rest of the business of this meeting should not we have a little better understanding of our organization? Shall we continue? Shall we assemble the records of this proceeding at New York and send the necessary advice for the members, and until the next meeting have Mr. Curtis act as the inter-

Part 1
Morning Session

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L. G. KELLY PRINTING CO., 615 F STREET N. W., WASHINGTON, D. C.

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By the arrangement each individual bank is relieved of personal responsibility for the accumulation of balances in another bank, as it can be relieved, I believe, by the central board of control. Then I should think there would be removed from it whatever there is of apprehension of having balances somewhat out of our control in another part of the country.

Mr. Chairman: Possibly I take a more radical view regarding the experiment - if we may call it an experiment - than some of the others, because from the standpoint of the New York Bank I think we would be quite willing to say that on balances for which we were debtor to the other Federal Reserve Banks we would ship at any time on

request the amount of balance for which we were debtor to any other Federal Reserve Banks. We would be quite willing also to let balances owing us to accumulate until they amount to ten or fifteen million dollars.

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Any method of settling balances resulting from handling drafts on Federal Reserve Banks would be entirely acceptable to us. Any agreement that is made here as a fair method of dividing the cost of shipment, (which I don't think is going to be as heavy as some of us fear,) will be entirely satisfactory to us.

The shipments, if they were simply for the net balances as between one bank and all the others, would amount to a great deal less than if each bank settled with every other bank, and that would be a very economical way of handling the problem. It would be a saving to all the Federal Reserve Banks. If you are going to settle debits and credits of each bank individually you are going to have a great many transactions, whereas if there is a clearing plan put into effect at some place, then the only settlements required will be the net balances between one and all the others. Thus it will greatly reduce the amount of settlements.

Personally I believe that if we try the present plan out, no money will be shipped except possibly between Boston and New York, Boston and Philadelphia, or New York and Philadelphia.

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