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CONFERENCE BOARD OF GOVERNORS
FEDERAL RESERVE BANKS.

January 22, 1915.

EVENING SESSION.

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New Willard Hotel,

Washington, D. C.,

Friday, January 22, 1915.

The Conference reconvened, pursuant to the taking of recess, at 8:45 o'clock p. m.

The Chairman: I would like to suggest that before we take up the regular program I be authorized to have inserted in the record that it was decided at dinner that the next meeting of the Governors should be held in Washington on March 11, subject, however, to that course being found satisfactory to the Federal Reserve Board after being reported to the Board.

One other matter that we should consider this evening in order that we make good our obligation to the representatives of the press: We have stated that whatever information we propose to give to the press in regard to the proceedings of this meeting will be furnished in writing. I suggest that we authorize Secretary Curtis to prepare a draft of a statement to the press, and that he be excused from attendance at the early part of the evening session in order that he may dictate such a statement, and that he be given such instructions as to the character of the statement as the meeting may consider wise.

Mr. Kains: I so move.

(The motion was second by Mr. Wold and Mr. Fancher.)

(The motion was thereupon put and carried.)

The Chairman: I take the liberty of suggesting that Mr. Curtis follow generally the program of the meeting in preparing that statement, following also the policy adopted at the last meeting, of giving the press a general idea of the subjects discussed, and as to those matters that have been discussed in response to suggestions of the Federal Reserve Board that are made the subject of recommendations to the Federal Reserve Board, that the character of our discussion and recommendation and action be not disclosed; and otherwise the secretary use his entire discretion in the terms of the statement and that it should include.

Mr. Seay: I think that is very wise, Mr. Chairman.

Mr. Wold: You do mean that the statement shall be submitted to the press without having first come before the Governors ?

The Chairman: Oh, no. Mr. Curtis will first prepare the draft, if it is your wish, and we will discuss that later.

For the purpose of clearing our calendar, we have an item, No. 23, in relation to the appointment of examiners and federal reserve agents. I take the liberty of suggesting that that number be allowed to go over until the next meeting. Is there any objection to that course?

(No response)

The Chairman: There being no objection, the item will

be added to the calendar for the next meeting.

Mr. Fancher: How about No. 20? Have we given that consideration, Mr. Chairman?

The Chairman: No. 20, it seems to me, should be discussed, if possible.

Mr. Fancher: Can we not give that consideration right now?

The Chairman: No. 20 is the question of discount rates and the action of the Federal Reserve Board in regard to them.

Mr. Aiken: Preliminary, Mr. Chairman, to that discussion, I would like to call the Governors' attention to the exact wording of that paragraph (d) under Section 14, which seems to me to be the essence of the whole thing.

The Chairman: Will you read the reference that you refer to into the record, Governor Aiken?

Mr. Aiken: (Reading:)

"ESTABLISHED RATES OF DISCOUNT.

"91(d). To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal Reserve bank for each class of paper which shall be fixed with a view of accomodating commerce and business."

What I had in mind was the phrase, "establish from time to time."

The Chairman: The discussion of this matter has been undertaken at different times, informally, and I believe that all of the Governors have decided views as to what our attitude should be in this matter, which is very important

one of policy; and if someone would make a motion expressing their personal views of what action should be taken by this meeting, it would give us an opportunity to discuss it with some chance for a conclusion.

Mr. O. Wells: Mr. Chairman, I undertake to move that during our meeting ^{tomorrow} ~~tomorrow~~ we express to the Federal Reserve Board in session the probably effect that will ensue if the practice of fixing the rate by the Board by suggestion as to what the rate should be, should be followed without the same having been initiated by the Federal Reserve banks, as seems to be clearly intended by the language of the Act, those effects being, minimizing the scope of authority and policy of not only the executive officers of the Federal Reserve Banks, but the directors as well; and that in doing so we naturally give them an opportunity to discuss with us that matter, in order that there may be some understanding between ourselves as representatives of the Federal Reserve banks and ^{the} members of the Federal Reserve Board.

The Chairman: Governor Wells has suggested that our policy should be to make an expression to the Federal Reserve Board tomorrow of the view of this conference. Personally, I am heartily in accord with that policy. It occurs to me that it would be very effectively made to the Federal Reserve Board if we were able to submit to them a resolution which would carefully, conservatively and unanimously express the sense of this meeting; that resolution having due regard to the fact that each of these Federal Reserve banks is really managed by, and the executive officers are subject to,

direction of directors in our respective districts who are men of importance with local experience, and in some cases, very positive views; and that while we may be able personally to arrange these matters in a friendly way with the Federal Reserve Board, we have got to regard the fact that we have directors at home who are entitled to consider that they represent not our own personal views, but a composite of the views of the directors of the Federal Reserve banks who have great responsibilities themselves which we want to discharge.

Mr. Wold: Mr. Chairman, the directors of the Minneapolis bank have carefully considered this paragraph in reference to rates and are unanimous in their opinion that the initiation of the rate falls upon the bank, and it was such an important matter that we do not believe we want to delegate that power to the Executive Committee and provided in their by-laws that the change of rate can only be effected by a majority of the Board of Directors. And now, to have the Federal Reserve Board initiate rates here and then make it necessary for us to telephone around ~~and~~ to secure the consent or approval of the majority of the board, makes it very embarrassing not only to the management but to the directors themselves. They feel that it is a duty of their own.

I second Mr. Well's motion.

Mr. Seay: I would like to say, Mr. Chairman, that I feel that there is no one particular which would deliver the management of the reserve banks more over to the Federal Board than this one of fixing the rate. It is something which takes

the control of the resources out of the hands of the executives of the Federal Reserve banks. It is one of the most vital things, I think, to our own autonomy that we have to consider.

Mr. Fancher: May we have the motion read, as stated by Mr. Wells?

The Chairman: Might I be permitted the suggestion that this is such an important matter that I am going to take the liberty of asking each of those present to express his views, based upon a statement that I made, that we are not expressing our individual views only, but in this matter we are really speaking for a bank in each instance which is managed by a Board of nine directors.

With your permission I will ask each of the Governors to state his position in the matter, with the fact in mind that you are speaking in a representative capacity; and at the conclusion I will ask the stenographer to read Governor Wells' motion.

Governor McDougal?

Mr. McDougal: The matter of fixing discount rates is one that has been discussed by our board a number of times, and they have been individually and collectively opposed to the initiation of the rates coming from Washington, feeling that they were entitled under the act to indicate the rate that they thought should prevail. I feel quite sure that they would like to have an opportunity of availing themselves of that privilege without interference from the Board; knowing, of course, that they have the right to refuse if they

see fit.

Mr. O. Wells: I should like to correct that, if I may: That they must review; not if they see fit. They must determine before our action becomes operative.

The Chairman: Governor Wells, I would not like to have that statement appear on the record as accepted by the Governors present, because I am advised by counsel that that is not the case.

Mr. O. Wells: I am only trying to use the language of the Act.

The Chairman: I will state what our understanding is in this matter of the rate. The Federal Reserve Act provides that the Federal Reserve Banks shall establish rates of discount, subject to review and determination by the Federal Reserve Board. That does not mean, as we construe the language, that the rate once established by the bank does not become effective until it has been reviewed, but the minute that the Federal Reserve bank establishes that rate it can commence doing business at that rate, and that the power of the Federal Reserve Board is limited to requiring, if you please, a suspension of the operation of the rate until they review it and determine it.

My personal opinion about this matter, which I believe is shared by the directors of our bank --- certainly by Mr. Curtis, who has advised us in the matter --- is that we are really entitled to establish a rate, and within five minutes to discount paper at that rate; that our duty is certainly to report it by the promptest possible means to

the Federal Reserve Board, and that their duty is undoubtedly to review it and determine the rate, finally; that the establishment of the rate is a matter that rests within the power of the directors of the Federal Reserve bank.

As a matter of fact, this custom which is developing of suggesting a rate, I believe is fraught with danger; that it may result in each Federal Reserve bank gradually getting into the position where it must respond to a suggestion because some bank has established a rate which influences the Federal Reserve Board to force uniformity. I do not believe that that is going to be a sound development of this system; that if any Federal Reserve bank succeeds in establishing a rate that is out of line with local conditions, or with conditions that necessitate rates in other districts, it may be their misfortune to be loaded up with discounts that they have taken at very low rates, and in order to protect themselves they may be obliged to take some losses to relieve themselves of the load. Certainly any other policy applied to the making of rates is a very unnatural banking policy, because it makes a rate regardless of what the local condition may be.

Governor McCord, may I ask you to express your views in regard to this matter?

Mr. McCord: Mr. Chairman, I think that the rate should be initiated at the reserve bank, and not at the Board. It should not be published until the Reserve bank has determined absolutely on the rate, and due regard should be given to their local conditions, regardless of those of the entire country.

The Chairman: Governor Aiken?

M.r.Aiken: Mr. Chairman, I feel that the rates should be established by the banks in each district, and that the initiative should lie in the bank and not in the Federal Reserve Board.

The Chairman: Governor Fancher?

Mr. Fancher: For our board, we ^{have} rather ~~resented~~ resented these suggestion coming from the Federal Reserve Board, mentioning the lwoering of rates in some of the other districts. They feel that they were given the right under the law to establish rates, and that they were best qualified to change conditions in the district and determine what should be the prevailing rate, That is their privilege, and should continue to be their privilege under the Act.

Mr. Kains: Mr. Chairman, the directors of our board who do not directly owe their appointments to the Government, I think are unanimous in their feeling of surprise and resentment at having suggestions made to them. However, I do not think that that applies to the Government directors. That is just my opinion. We have taken no action on the matter at all except that personally I am a believer in the autonomy of the Federal Reserve banks, and I heartily agree with your statement that we should establish these rates. We know more about them; we know more about our local conditions than anybody else does, and we feel competent to establish these rates. We should be very glad to act. We do not desire at all to act in any way contrary to the desire of the Federal Reserve Board, but we feel that we have that right, and that we know more about thing within our boundaries

than they.

The Chairman: Governor Wold?

Mr. Wold: Mr. Chairman, the directors of our bank are thoroughly in accord with the statement made by Governor Strong. They feel quite strongly that the law clearly intended that the rate should be initiated by the various Federal Reserve Banks, and they resented the suggestions of the Federal Reserve Board as to rates, and disapprove of the announcement of rates from Washington before they are announced at the headquarters of our bank. The announcement should be made by the banks themselves, and the rates should be initiated or the change should be initiated at that bank subject to confirmation by the Federal Reserve Board. Our opinion is that when the rate is initiated it should go into effect and remain in effect until the board have either confirmed or refused to confirm.

The Chairman: Governor Wells, your statement is ~~xxxxxx~~ already on the record on the formal motion which was seconded by Governor Wold.

Mr. O. Wells: I should like to add, inasmuch as the expressions have taken the turn of representing the opinions of the various boards, which my motion did not include, perhaps, that we have never had a formal expression of the attitude of our board on this subject. We have it expressed without any form, but I think I reflect their expression when I say that they do not regret the action of announcing a willingness to make a rate before it has been discussed by the Board of Directors of the Federal Reserve Bank of Dallas.

At our initial meeting the Board were of the opinion that this was a matter of sufficient importance not to be delegated to an executive committee, but that we should follow the suggestions of the by-laws submitted at the conference in October, that the making of the rate should be vested in the Board of Directors of the Bank.

I frankly confess that we have been proceeding upon that theory, and that it was essential to submit the rate, having made it, for review and determination, and that the whole operation was necessary before the rate became fixed, and we had no other thought in mind.

The Chairman: The expression of the Governors present apparently are almost identical in terms, and the scope of our resolution or recommendation in this matter can be considerably enlarged for submission to the Federal Reserve Board over what was contained in Governor Wells' motion of he and the seconder, Governor Wold, are willing for the moment to withdraw.

Mr. O. Wells: I am quite willing to withdraw the motion, with the understanding that it will be covered in the form of a resolution of sufficient breadth to include the expressions to which we have listened around the board.

The Chairman: Gentlemen, what is your pleasure as to the method that we should employ in expressing the consensus of opinion of those present with regard to this matter of the method by which rates are made?

Mr. Kains: I move that the Chairman most respectfully ~~be~~ bring the matter up to the board at the earliest opportunity, say tomorrow.

Mr. McDougal: I second the motion.

Mr. O. Wells: That does not broaden it.

Mr. Seay: Mr. Chairman, I was convinced, and I am sure that all were convinced, when, without warning, the subject was brought up at the Federal Reserve Board this afternoon, you stated in a very bold and penetrating way, and very briefly, the attitude of this body. I am convinced that the Chairman has the fullest grasp of the situation, and he has that faculty which retains in the mind the expressions of opinions which we have ourselves delivered, and I do not believe it could be more ^{forcefully} ~~fully~~ presented than if he will consent to use the language he used this afternoon and express the opinions he has expressed to us, and incorporate it in that portion of our own opinion that we have expressed as to the feeling of our boards of directors on this subject. I believe that would be the most effective way of presenting the matter to the board, if the Chairman is willing to consent to do so.

The Chairman: Gentlemen, I understand the difficulty or possible danger, or, at any rate, the possible embarrassment, of endeavoring to make a record that expresses the composite views of a number of different people, and then ^{years} later, a year or two hence, being required to refer to it as a record. It seems to me undesirable that in a matter of this character we should make a record which would appear to be a commitment of the directors of the various Federal Reserve Banks. If you feel like acting upon the motion that Reserve Banks. If you feel like acting upon the motion that has been made, I will endeavor to express what has been

discussed here tonight to the Federal Reserve Board tomorrow in a verbal report, and have the Board understand that that simply is a verbal expression in general terms of the result of the discussion; that we pass no resolution now that might appear to be a permanent record of policy adopted by the directors of all of these banks.

On the whole, I think that is a wise way in which to handle it, if you agree to entrust me the duty of making that statement, which I will gladly do.

Is there any further discussion on the motion?

Mr. McDougal: Mr. Chairman, I did not make my statement in just the way that I should like to have it appear on the record. In my statement I spoke of the directors, "individually and collectively." I may have done some of them an injustice, because I am not clear as to just how the so-called government directors did stand in the matter. So I should like to have my statement changed so that all the directors will not be implicated in my statement. I may be doing them an injustice. The matter had been discussed, and I know our directors as a body were very much disturbed because of the fact that they were not permitted to establish rates subject to the later approval of the Board. There may have been two or three of the directors who had no voice in that discussion.

The Chairman: I do not suppose any of us would feel that we were acting here under a resolution of authority from our respective boards of directors. We are simply expressing our own individual opinions of the way our banks, as

the banks managed by boards of directors, should be represented at this meeting.

Certainly the same condition prevails in every bank, that there are three directors appointed by the Federal Reserve Board who may feel, as a matter of loyalty and duty to their appointing body, that they ought to follow every suggestion that they get from that body. However, I have no hesitation in stating on behalf of our bank that there is a feeling that a mistake is being made, and I regard it as a duty to convey that impression to the Federal Reserve Board. If you are willing to act on the motion that has been made, I will endeavor to make a moderate statement of the matter as forcefully as I can that will represent a composite of the views expressed here; and if any Governor present, hearing what I say, feels that it should be modified or enlarged or changed in any way to meet the situation in his own district, why, I will take the liberty of inviting such a statement after I have concluded tomorrow.

Mr. Seay: To fortify you in your position, Mr. Chairman, I will state in conjunction with my previous remarks, that our board of directors, in framing their official by-laws, which were afterwards changed gave the power to the executive committee to change the rate for extraordinary reasons. They thereby showed where they expect the control of the rates to lie, and from what source they expected a rate to emanate.

I am sure that I am representing the controlling ~~senti-~~ sentiment of our board. No dissent has ever been expressed when utterance has been given to it. They expect the rates to

initiate with them, and they have been very careful in their language, when they have made a rate, and it has been reported that they have fixed the rate themselves. It is something which brings us intimately in contact with our member banks, and when we fix the rate it affects the entire banking business of our district.

I just want to fortify you in your position, sir, as far as speaking for our own bank goes. I do not think you would make any error in stating that.

Mr. Wold: Mr. Chairman, I do not care to qualify the statement I have made. I think they fairly reflect, not a majority vote, but I think they fairly reflect the entire vote, including the Class C directors. In fact our Federal Reserve Agent has, by communication to the Federal Reserve Board, suggested that the rate should initiate with the bank and should be announced from our bank and from the Federal Reserve Board in Washington. He has a vertebrae.

Mr. Seay: It seems to me, Mr. Chairman, if I am not taking too much time, that my judgment as a banker is that something unsound is being attempted in the effort to equalize rates where conditions vary.

The Chairman: Gentlemen, I am going to ask you whether you will authorize me, in stating this matter to the Federal Reserve Board tomorrow, to refer to one matter which is in my mind as conjecture. I am distinctly under the impression, although I admit that the grounds for it are very slight, that the apparent effort that is being made by the Federal Reserve Board to reduce rates is originated

by pressure that is brought upon the Board from outside sources. I do not know what the character of that pressure is, but I just sense the feeling that there is pressure, and that if there is pressure of any kind, the statement should be made before the Federal Reserve Board that if it were known to the management of the Federal Reserve banks or any of them that influences of any kind have been brought to bear in connection with the discussion or decision in this matter of rates, it would be very seriously resented by the management of the Federal Reserve banks.

I admit that that is conjecture; I have no ground for making that statement other than an instinct, possibly; but it is the one thing that this system must be guarded against, and I would not be ashamed to read whatever statement is made to the Federal Reserve Board in regard to the demand that they be absolutely free from any influence whatever in considering the rates; that it should come from the Governors of the Federal Reserve banks; that their duty is to sit there as a judicial body to review what we suggest to them. What we have in fact established at the respective banks is for them to pass upon, and nobody is entitled to go to that board and tell them what they ought to do in suggesting rates to the Federal Reserve banks.

Mr. Kains: I am haertily in accord with that, Mr. Chairman.

Mr. Seay: You have carte blanche, sir, from me.

Mr. O. Wells: Would you not rather say the the suggestions of rates should come from the boards of directors of the federal reservebanks rather than from the Governors?

The Chairman: Yes; I spoke in a collective sense there. It is a bad habit that I am guilty of.

Mr. Wold: That is where it comes from, as a matter of fact; it comes from the Governors, does it not?

Mr. O. Wells: No; it comes particularly from the chairman of the board as coming from the board.

Mr. Wold: It does not in our case.

Mr. Seay: I would like to mention something and ask the stenographer not to report it at present.

(An informal discussion thereupon occurred which the stenographer was directed ^{not} to report; after which the following proceedings were had:)

The Chairman: Gentlemen, we have a motion. I do not want to hasten a conclusion in a matter of the great importance that this has, but I cannot help but feel that there is such a unanimous expression here as to what our course should be that if any of you now feel disposed to call for a vote on that motion we can conclude this matter, if you will permit me, after this motion is put and acted upon, by making a short statement on the subject.

(Cries of "Question.")

(The motion under discussion, having been duly seconded, was put and carried.)

The Chairman: The statement I would like to make is this: The next ^{likely development} ~~likely development~~ of real importance in the matter of rates is to my mind of even greater importance than the one we have been discussing. Just now all the Federal Reserve banks are loaded with money and there has arisen so far and may not arise for some time, no question

in regard to a rate of discount to be established for discussion between the Federal Reserve banks.

Having participated in the discussion of this bill prior to its adoption, before the Senate Committee, I can assure you that there was no subject that caused greater concern in New York than the possible delegation to an independent body of the right to take some/assets of the banks of New York and lend them in some other part of the United States without the banks of New York having any right to say whether that loan should be made or not. That matter has not been active in our minds, or in the minds of the member banks, because they are all now laboring under the impression that no situation of that character can arise, at any rate in the near future; but the action that has been taken by the Federal Reserve Board in permitting or suggesting, or at any rate authorizing, a rate of discount in some sections of the country that is lower than the rate which has been authorized by the Federal Reserve bank in New York and in other districts may result in the accumulation of discounts resulting from the retiring of the Aldrich-Vreeland currency or the spring demand for money in connection with preparation for crop planting, and so on, or would cause this very situation to arise, that possibly some of the banks in the south or west will get a very large line of discount even at such a point where they may find it desirable to ask for one of two methods of assistance. One is Government deposits; the other, rediscounts.

We have had two meetings of Governors, and I want to tell you that my concern which was an honest one a year or

more ago on this subject is just about dispelled. The only remnant of it that is left is this: That I would dislike very much to feel that any federal reserve bank felt under the necessity of making application to the Federal Reserve Board for a rediscount with the Federal Reserve Bank in New York.

If any of the Federal Reserve Banks in the South or West reach a point where their resources are getting low, in the interest of the management of all of the system, I believe it will be highly desirable for that bank to make direct application, either on New York or Chicago, or wherever they may feel it desirable to apply, for a rediscount. I do not mean by that that one of the Federal Reserve banks which may be discounting at four per cent is entitled to come to New York and rediscount at 4-1-2 per cent and take the loss. The provisions of the Act are broad^{enough} so that the Federal Reserve Bank of New York can establish a rate of discount which will recognize the value of the endorsement of the bank that applies for the rediscount. In other words, with conditions as they are, I would be disposed to recommend in New York that we maintain our present rates for the time being, and that we invite any other Federal Reserve Bank that feels it desirable to rediscount any paper to make direct application to us and to permit us to establish a rate for that transaction, which will enable them to rediscount the amount that they apply for at a lower rate than they are receiving on their own discounts, and that we in New York will follow whatever procedure we think is desirable in

order to make that rate effective.

The object in making this suggestion is this: I know that in some districts there is a large amount of Aldrich-Vreeland currency outstanding. The rate of tax on that currency is decreasing. The rate of discount at some of the banks is lower than the rate of tax will be in the near future. If the amount of discounts applied for becomes excessive, I hope that there will be no hesitation in sending ~~ka~~ word to New York on any ground that rediscount would be acceptable, and I can assure you that if it can be arranged, with or without the approval of the Federal Reserve Board, we will do it. The question has not been submitted to the Federal Reserve Board, and I do not believe that I would care to have it submitted in anticipation of any such transaction; but I think we would feel badly there if we were not permitted to act directly in a transaction of that sort without it being necessary to ask someone in between to make the suggestion for us.

Mr. O. Wells: What is your construction of the law in that respect?

The Chairman: Governor Wells, I do not believe we need to read the words and letters of the law to determine what we want to do. It may be that some obstacle to a direct procedure of that sort will be found, but I doubt it very much. I do not believe it is the intention of the law to require that there should be a board of seven men acting as a broker between the Federal Reserve Banks, and I make the suggestion seriously to you, because I think that that is the sound basis on which this business ought to be

conducted.

Mr. Aiken: I would like to express my hearty approval of that, and to say we shall be glad to cooperate in the plan as outlined by you.

Mr. O. Wells: I think, Mr. Chairman, representing a section of the country which is more likely, because of conditions existing, to become a borrowing bank than any other sections represented around this board, it would be very pleasing to us to handle the proposition in that manner. We can recognize it in the elements of good sound business procedure, but I believe if this discussion had not arisen at this time, or if I had been making an application, with my impression of the requirements of the Act, that the application would have been made at least in conjunction with some approach to the Federal Reserve Board. Would you not have done so, Governor ~~Skxang~~ Seay?

Mr. Seay: Being in a district, Mr. Chairman, which will probably have full use for its resources, I therefore construe your remarks as being somewhat in the nature of an expression of cordial feeling, and I desire to express an appreciation of them. I should, however, have taken the course which you have outlined, and applied directly to the Federal Reserve Bank of New ~~Yxak~~ York. If there had been any reference to the Board, I think that would come after I had first opened negotiations with you.

(An informal discussion then occurred which the stenographer was directed not to report; after which the following proceedings we had:)

Mr. McCord: Mr. Chairman, I deeply appreciate your offer, and that would have been my attitude. I would have first opened negotiations with you or with Boston or Chicago, probably, or some of the districts, a little before I would have taken it up with the Board; and I will do so now if it becomes necessary. I am going to try to drive clear of that, I hope to be able to do so, but in the event that I am not able to do it, I deeply appreciate it and I will certainly communicate with you.

Mr. Kains: I do not anticipate from San Francisco that we will ever be doing that sort of thing, but I certainly think that that is the business way to have this bank managed.

The Chairman: Plural, please, gentlemen.

Mr. Kains: Yes --- "these banks" managed.

Mr. Seay: And "we think".

Mr. O. Wells: Mr. Chairman, while I realize that we are only conjecturing as to what we would have done, it would not have been for the purpose of obtaining it under the belief that that was the means of obtaining it, but it would have been the question of being authorized to discount and of obtaining the rate under which it would be done, and I think decency would have perhaps impelled carrying on negotiations also with the Federal Reserve Banks as to their wishes or as to their desire in the premises. But I still maintain that my natural course would have been to have handled it as a function to be negotiated through the Federal Reserve Board, because of my impression of the reading of this Act, that being the only place in the Act under which we obtain authority to rediscount.

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The Chairman: We/hardly under the necessity of anticipating the future in this matter to the extent of taking some action here. I did not want this meeting to be concluded without expressing that view of our interpretation of the meaning of the law. We are prepared to act in accordance with the understanding, and I believe firmly that Mr. Curtis will support us in that opinion.

Mr. O. Wells: Now that the matter has arisen, Mr. Chairman, and supplementing the statement about the Aldrich-Vreeland ~~xx~~ circulation remaining outstanding in the South to the extent to which it does exist, and the rates tending toward a point that might be attractive as compared with the tax upon the Aldrich-Vreeland Bill, with the further construction that has recently been placed upon the retirement of the Aldrich-Vreeland currency, which seems to be mandatory by June 30 --- I frankly say to you that in our district the necessity of having between \$15,000,000 and \$20,000,000 of emergency currency by June 30 being that the problem is upon us for immediate consideration, because we will have no natural liquidation with which to take care of it, of any consequence, between now and June 30, and it is rather imperative that we look towards the retiring of it at some early date rather than waiting until nearly the time set for its retirement under the construction as recorded in the paper this morning, that being a statement given out under authority, as I stated, from the Federal Reserve Board.

I am rather of the opinion that it may come up and that it will be discounted only to the extent proper for the retirement of this amount of money, and for taking care of the needs of

the season of producing another crop. If it can be done without having the interview take a turn of pressing the question, from a practical point of view, or from the point of view of an operation, but simply for our information, if there can be brought out at an interview tomorrow some construction of what would be done under this law, it might be very helpful to us.

Mr. McCord: Do you think that is wise?

Mr. O. Wells: I would like to know what we all think.
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Mr. McCord: Do you think the course suggested by Governor Strong is the best, that we know what the law is ultimately, anyhow; and do you not think it would be better rather than to invite a decision in advance, to let us handle it otherwise, and then if it takes their approval, we can say that we have consulted and it is agreed to? I would rather be put in that attitude than to be put in the other attitude. I would hate to have to go to the Board and let it be said that the Atlanta district had forced New York to do so and so.

Mr. O. Wells: I did not mean that, Mr. McCord.

Mr. McCord: But that would be the result if the decision was against us.

The Chairman: I have no authority for making this statement, but I have reason to believe that the Federal Reserve Board would be very glad to have this matter dealt with in such a way that no such situation could arise.

Mr. O. Wells: I can see no objection to asking for an interpretation of the law, whether we do it as a body or not.

The Chairman: I see no objection to asking the Federal Reserve Board to interpret the law on that point, that is, the paragraph I read under Section 11, which was not taken down for the record, if it gave rise to the amount of hesitation and doubt in the minds of the Federal Reserve Board that arose as to a transaction involving the purchase of gold today --- and I brought the matter up not to ask that any action be taken, but simply to make clear on the record and to you gentlemen what our attitude is in New York. Knowing that attitude, of course you will in each instance follow your own best judgment as to what ought to be done.

Mr. Seay: We first, Mr. Chairman, will have to determine the fact as to whether the inherent right is in the Federal Reserve Bank of New York to make a rate ~~ix~~ for that purpose. The Federal Reserve Bank of New York might have to reply that "We are willing to do it, but we will have to see what rate we can make you by reference to the Federal Reserve Board."

The Chairman: I think, Governor Seay, if you send us a telegram about such a matter we could get you back a pretty prompt answer about the rate. I think so. I would not say definitely what our board would do, but I would go so far as to invite you to send the telegram, at any rate.

May we now proceed to the item which appears in letters of fire in the modest language "Collections": bearing in mind that we are here as the "Oligarchy of the Clearing House."

Mr. Wold: I move that we hear from Mr. McKay. He is the man that is chock full and running over with transit mat-

ters.

Mr. McDougal: You all know what Chicago has proposed doing, I suppose?

The Chairman: We would be very glad to hear.

Mr. McDougal: The matter of collecting for all members in the district has been discussed on several occasions by our Board of Directors, and also by the Executive Committee, with the result that a few days ago the Executive Committee formulated a plan for submission to the Federal Reserve Board under which they will have to begin operations with our member banks in the districts.

The plan calls for the immediate credit of items upon receipt, and a two days' deferred charge on items withheld to be carried over in transit account and charged two days after receipt to the respective accounts. This plan also---

Mr. Kains: Excuse me; but does that mean that you send these items and charge them two days later?

Mr. McDougal: Yes.

Mr. O. Wells: Is two days sufficient to meet all the points in your district?

Mr. McDougal: Yes.

Mr. O. Wells: That is the average?

Mr. McDougal: Yes; and I think in most cases it would give ample time to receipt and return. The plan also includes the proposition from the local banks, the Chicago banks, whereby they propose to increase their balances with us beyond the seven points up to nine, or even more points. That is putting a larger amount of their optional reserve in our bank than they have been carrying, thereby providing for

the float. They contend that they will be perfectly willing to exceed their balances, for the reason that they add five points of their reserve that they could keep in their vaults across the street, and it made very little difference to them. That plan has been submitted to the Board, and we are now awaiting their reply as to whether it would meet with their approval.

Mr. O. Wells: May I ask, Mr. McDougal, if the credit upon receipt was intended to go into the reserve account?

Mr. McDougal: That is where it is intended to go, yes. The plan does not include keeping the two accounts, if that is what you mean.

Mr. O. Wells: You do not charge it, into the accounts upon whom they are drawn, until two days?

Mr. McDougal: Not until two days later.

Mr. O. Wells: Do you contemplate obtaining any consent of the member bank upon which it is drawn?

Mr. McDougal: No, we do not. We have reason to believe that it will be satisfactory to them. As a matter of fact, I think it should be highly satisfactory to charge two days later if they could get credit on receipt.

Mr. O. Wells: Would you feel that it would not do any violence to the expression of counsel of the Federal Reserve Board that we did not have a right to charge the member banks?

Mr. McDougal: We have not thought so.

Mr. O. Wells: That is, without their consent?

Mr. McDougal: No.

The Chairman: Do you invite discussion and possibly

criticism of your plan?

Mr. McDougal: I am sure we would be very glad to hear your opinions of the plan.

The Chairman: I would like to state what occurs to me, Governor McDougal, and possibly Mr. Hendricks will listen carefully to what I say and if he thinks I am not sound in my views, he will say so.

The first thing that occurs to me is that the banks of the city of Chicago are voluntarily agreeing to do something that is not contemplated by the act, and some day they will change their minds and think that they are making a voluntary contribution that they did not agree to continue, and they will withdraw that additional two, three, four or even five per cent of excess reserve deposits.

The second thing that occurs to me is this: That the Federal Reserve Act provides that a certain amount of the gold and lawful money reserves of the country should be assembled in the Federal Reserve banks to operate as a reserve against issues of note, and as the basis of rediscount operations, a certain limited open market investment operation; that this plan apparently contemplated taking a great many more dollars of the reserve banks of the city of Chicago, which are bank reserves, and should be in cash or on deposit in the Federal Reserve banks, and investing them in uncollected checks.

The third point that occurs to me is this: That while the Federal Reserve bank of Chicago, being located in a very large city where there are some very large banks, is able, by a mutual and satisfactory agreement undoubtedly with cer-

tain of its members, to establish a basis for handling this transit problem that might work satisfactorily in your district, but when it comes to Richmond, Atlanta or Dallas it might not be found possible to make such a system work. Chicago will be conducting the clearances in its district upon a basis that will not permit ~~the~~ uniformity in the other sections.

You will excuse this critical statement, Governor McDougal. I had not thought of everything possibly, pro and con, but those three things occurred to me at once as possibly sound criticisms of the plan that you have described.

Mr. Hendricks, will you correct me with the utmost freedom if you think what I have stated is not sound?

Mr. Hendricks: Yes sir; I will--- provided I think it is not sound.

The Chairman: I understand you think it is sound, then?

Mr. Hendricks: Yes.

The Chairman: I did not want to drag that out.

(Laughter)

Mr. McDougal: Mr. Chairman, we have realized and we know, I think, full well, that it would be within the discretion of the Chicago banks, if they saw fit, to draw that extra deposit if they wished to do so, and perhaps they might.

We also considered the matter of our ability to act on those lines, whereas other districts might not be able to do so. But the impression that I have personally that there would not be uniformity in the conduct of these operations in the various districts could not be owing to the different conditions prevailing. They had thought of those two

points, I am sure. This plan was submitted to the board after consideration. Of course, so far as the deferred charge is concerned, it would be satisfactory to us, and might not be satisfactory in the California district. We felt that we were particularly fortunate there in being able to reach all of our banks in a very short time, and this was the plan that was thought out and approved after considering all those subjects.

Mr. McCord: May I ask, Governor McDougal, who shall pay the expenses, in your opinion, as to the clearances?

Mr. McDougal: Well, I think the way we are earning money now that the banks ought to pay it.

Mr. McCord: Which banks to you mean?

Mr. McDougal: The member banks ought to pay for the service rendered, and they can collect it.

Mr. Wold: On whom the check is drawn?

Mr. McDougal: They can collect it from the drawers of the checks.

Mr. McCord: Do you think they ought to?

Mr. McDougal: They will not do that, but they can if they like.

Mr. McCord: But you think the bank on which the check is drawn should pay the expenses?

Mr. McDougal: We do, yes.

Mr. O. Wells: Does this plan contemplate a charge, Mr. McDougal?

Mr. McDougal: You mean a charge to the member banks?

Mr. O. Wells: Any charge to reimburse them.

Mr. McDougal: That has not been definitely determined.

Wethought at one time we would be ~~x~~ in a position there to absorb the charge and the expense, but in the present outlook we do not think we will be able to do it.

Mr. Aiken: How much do you have to dredit for the immediate use of your banks?

Mr. McDoygal: We cannot estimate that. We have rather guessed at it. It might be from seven to nine millions; it might be more or less. It would not be any less than that.

Mr. Aiken: On what theory do you give a man credit amd use and defer the charge for two days?

Mr. McDougal: I cannot tell you upon what theory. They expect that.

Mr. Aiken: You understand that this is for information only. You are creating, are you not, a purely fictitious credit that amounts to twice your average daily transit values to the benefit of your member banks. It seems to me that that is an extension created by the Federal Reserve bank, and that thst is ~~k~~ just what the Federal Reserve banks do not want to do.

Mr. Seay: Adn what would that two per cent additional deposit in the bank amount to?

Mr. McDougal: I said two per cent. It might be more than that; but the two per cent would comē to seven or eight millions a day.

Mr. Fancher: That would practically take care of the float?

Mr. McDougal: I cannot determine what that would be. It might be well to have it understood that this is oaly a

temporary plan subject to change, if the results indicate that it will have to be changed. We would expect to do so, of course.

Mr. Seay: Mr. McDougal, do you think we could soundly afford to adopt that plan if the Chicago banks did not put up the extra deposits?

Mr. McDougal: I think that was a factor in considering the plan as we did.

Mr. Seay: Now, Mr. McDougal, I hope you will let me ask this in the spirit of the utmost friendliness?

Mr. McDougal: Certainly.

Mr. Seay: Did it occur to you that having taken that step it might call for some action to start collecting in other districts; that the pressure might be brought to bear on other districts to start collecting because Chicago had started it, without any particular reference to the private arrangements that the Chicago banks had made with you, and that notwithstanding such an arrangement, because you had started that, the demand might arise in another district?

Mr. McDougal: We have, I think, rather assumed there, Mr. Seay, that all of the districts would soon be doing this. We have encouraged our depositors, I think, on the strength of promises that have been made, that probably after this meeting of the Governors this matter would be settled, and that some plan would be devised. It has been supposed that other districts would do the same. We did realize, and I think I said, that your district, for instance, could not undertake to share on the same plan, because you have not the local depositors there who could help you ~~work~~ out in this way.

Mr. Seay: If that practice would impair the balances of the member banks with you, how would you feel about requiring them to maintain those balances?

Mr. McDougal: We would feel that we would have to encourage them to do so, just as we are doing now. We have had a great deal of that to do. We are carrying now something like fifty active accounts of banks in the reserve cities. We have had to do a great deal of that by letters, by telegrams and by telephone. Generally speaking, the banks have responded to the action and they keep their reserve in very much better shape recently than they did to begin with.

Mr. Seay: If, as a matter of practice, you found that the balances could not be maintained under that plan --

Mr. McDougal: Then something would have to be done.

Mr. Seay: Do you think something would have to be changed?

Mr. McDougal: I should think it would be, yes, if there was any material loss in the ~~xxx~~ reserves. It is not intended as a permanent plan. What would happen in three years from now, I do not know. The reserves are all in. Something would have to be done, perhaps sooner.

The Chairman: Is there a demand, Mr. McDougal, in your bailiwick, for this sort of thing??

Mr. McDougal: We have had some complaints from some sources, from member banks not located in reserve cities, stating that it was unfair to them to permit these other banks to have this privilege and not accord it to them.

We have encouraged them to believe that as soon as we could adjust the matter we would do so, and give them all the same chance.

Mr. Kains: You are determined to put this into effect now?

Mr. McDougal: We are not determined to put it in effect now. We have submitted it to the Federal Reserve Board, and we are ready to act when we hear from it?

Mr. Kains: They have no responded yet?

Mr. McDougal: They have not responded to our request for their opinion on the plan at all.

Mr. Seay: Is there real pressure in your district to commence clearing?

Mr. McDougal: I would say there is.

Mr. Wold: Does the pressure, Mr. McDougal, come from member banks, or from customers of member banks?

Mr. McDougal: The pressure I have in mind comes from the member banks.

Mr. Seay: Is it from the larger banks?

Mr. McDougal: From ~~the~~ larger banks principally; not from our Chicago banks.

Mr. Seay: Have you knowledge of any different views on the part of smaller banks by reason of their possibly different ---

Mr. McDougal: The only expression we have had from the smaller banks is that they would like very much to have the district open.

Mr. O. Wells: Would you confine the operation to the

acceptances of checks drawn on the member banks?

Mr. McDougal: We do; yes.

Mr. O. Wells: This plan contemplates that you would so confine it?

Mr. McDougal: Yes.

Mr. O. Wells: What percentage of the reserve carried with the Chicago banks is with you now?

Mr. McDougal: This might answer your question: I think that of the initial deposit, which aggregates \$38,000,000, \$22,000,000 or thereabouts came from Chicago.

Mr. O. Wells: What is the percentage in the Federal reserve cities?

Mr. McKay: Seven-eighteenths.

Mr. O. Wells: Seven-eighteenths at the end of three years?

Mr. McKay: No; that is final.

Mr. McDougal: Seven-eighteenths is the initial deposit and the final deposit, the full amount for Federal reserve banks.

Mr. Wold: Mr. McDougal; did you contemplate taking items from member banks originating from outside of your district, or just those coming from member banks on member banks?

Mr. McDougal: From member banks on member banks.

Mr. Wold: If they came from the east, then, outside of your district ---

Mr. McDougal: It would not come into the plan at all.

Mr. Wold: If the New York correspondent of a member

bank in Chicago, would you accept those items?

Mr. McDougal: We certainly would.

Mr. Wold: That is, practically all items?

Mr. McDougal: We would take from our member banks all items that they had drawn on the member banks in our district?

Mr. Fancher: Would you not put endorsements on them?

Mr. McDougal: We would not notice endorsements at all.

Mr. Wold: St. Louis and Kansas City, in connection with checks bearing endorsements outside of your district ---

Mr. McDougal: (Interrupting) Mr. McKay has made an extensive study of that.

Mr. Wold: The natural result would be that all checks upon member banks in your district would float to and through the Federal Reserve Banks in Chicago?

Mr. McDougal: I do not think they would; no. They would come back through the member banks.

Mr. Wold: A bank in Minneapolis would not send a check upon a national bank in Iowa on which they pay exchange, if they could send it to a Chicago correspondent and have it run through you without exchange?

Mr. McDougal: Any item of the member banks now in our district that would ~~exchange~~ comes from Minneapolis to a Chicago member bank would be received.

Mr. Wold: The natural result would be, as it always is, that they drift to the par point --- and Chicago is the par point -- and all items on member banks in your district would probably be concentrated and handled through Chicago banks or through you.

Mr. McKay: No; I do not anticipate that. I have heard several times about the number of items that the banks may handle, and I have made inquiries among the Chicago banks who handle more transit items than any other banks in the United States, as to how many items they would deposit with us if we opened the district. One of the largest banks has 35,000 items. They would deposit with us not less than a thousand items on member banks in our district, because of the fact that they have direct connections in all the large cities, and most of the smaller ones. Where they do not have accounts they have arrangements whereby banks were permitted 16 cents, which is practically par, and they would keep up those connections with the expectation of getting an account. The largest bank in Chicago has over 100,000 transit items a day, and they told us that they would probably have in the neighborhood of a thousand items to deposit on member banks in our district. We do not anticipate that we are going to have a tremendous volume of items. It is pretty hard to estimate how many we will receive from all the member banks in the entire district, because we have 972 banks which happens to be the largest number of member banks in any one district. But we believe that the member banks, particularly the smaller member banks located outside of the reserve cities, will continue to send their items to the Chicago banks as they have been doing in the past, and that they are not going to separate the items of the member banks from the items of the non-member banks, but are going to send them all to the Chicago correspondent. The Chicago correspondent

in turn, will send them out to its correspondents, and will give us only the items, as stated before, on points where they have no connections.

(At this point an informal discussion took place which the stenographer was directed not to report; after which the following occurred:†)

Mr. Hendricks: May I ask a question, Mr. Chairman?

The Chairman: Certainly.

Mr. Hendricks: Do you know how many banks in your district are in the habit of charging exchange?

Mr. McKay: I cannot say how many in the whole district, but most of the member banks in Illinois do not charge exchange for the Chicago correspondents. Exchange charges are more prevalent in Wisconsin and Michigan than they are in either Illinois, Iowa, or Indiana. A large number of the Iowa banks were admitted prior to the Chicago correspondents with the exception, however, of those located in the reserve cities of Iowa, where they have clearing house rules to charge a rate of \$1 per thousand.

Mr. Hendricks: You have no definite arrangements with your banks to permit the charging of the items on the two days deferred time?

Mr. McKay: The average time in our district for an item to reach its destination is one day, and we have had a meeting of about a dozen representatives of the banks in the reserve cities, and they said it would be satisfactory to them if we charged items up in two days time, which is practically the average time to receive returns, and one of those reserve cities was located in one of the farthest

sections from Chicago, and occasionally it took three days to receive returns from that particular city. The representative from that city stated that it would be satisfactory if we charged the items up in two days' time.

Mr. Hendricks: That is, to reserve cities?

Mr. McKay: Reserve cities only.

Mr. Hendricks: I am speaking more particularly of the small country banks who are in the habit of getting exchange.

Mr. McKay: I think there would be no objection on the part of any of the banks in our entire district if we allowed two days before charging the items up to their accounts.

Mr. Hendricks: Suppose you sent out a letter to one of those out-of-town, so-called, country banks, who have been engaged in the habit of remitting for the items you have been charging to their account, and they should draw a draft less one-tenth of one per cent and send it to you, what would you do?

Mr. McKay: We tell them that the Federal Reserve bank of Chicago pays no exchange charges, and we have already told banks in the reserve cities, and they have become reconciled to the fact that they can no longer charge exchange to us; in fact, they do not expect to charge exchange ultimately to their Chicago correspondents.

As regards the time we would receive returns, I think almost every bank in that district would be within two days, anyway.

Mr. Hendricks: So it would be no hardship to them if you charged all the items to their accounts?

Mr. McKay: Two days after they were sent out; and it

would save us a good deal of time; otherwise we would have to mark off all the remittances. You know they are all of various member banks.

Mr. Wold: You would have to check off the acknowledgment, in any event?

Mr. McKay: Checking off the acknowledgment is a much simpler matter than putting through an advice of payment. There is very little work attached to that.

Mr. Seay: Have you estimated the number of items that you are likely to get under your plan?

Mr. McKay: I do not know just what volume of business we will get, but I would say that under the present receiving facilities we are offering our member banks we are receiving about 4500 items a day. We have seven reserve cities in the district besides Chicago, and we are handling items of about fifty banks. Of course those are the largest cities in the district, and a large number of items are on Minneapolis, Detroit and Milwaukee.

Mr. McCord: How does Detroit feel about that?

Mr. McKay: The Detroit banks have clearing houses where there is a charge of fifty cents per thousand, and at the beginning one of the banks objected to remitting at par, and on their advices they made a memorandum of the amount of exchange that they said they would charge us. We told them, however, that we paid no exchange, and inasmuch as eventually we would take from them items on the other members of our district at par, as it was purely a reciprocal proposition between the member banks, they then came to the conclusion that they had no grounds to charge exchange be-

cause all the member banks thought so.

I do not think we will have any trouble to speak of with regard to exchange charges, because I believe that a great many of the banks have already become reconciled to the fact that exchange charges, so far as the Federal Reserve Banks are concerned, are a thing of the past.

Mr. Wold: Has it occurred to you, Mr. McKay, that in the course of a short time these so-called country banks will be tired of receiving a letter from one of the Chicago banks and one of the Milwaukee banks and requiring remittances to each one, and that they might instruct these banks to return all these items through the Federal Reserve banks? Has it occurred to you where your reserves might be under such circumstances if you had to handle all the items in your district on a two day deferred charge, immediate credit?

Mr. McKay: In regard to this two day deferred charge, which seems to alarm everybody, I would like to point out this fact: The custom has been for a great many years, and is now among reserve banks, for the account of banks all over the country to credit on receipt everything that is sent them; that is, all checks on banks, no matter where they are located, in the United States; and those accounts when sent to a reserve city correspondent are counted as a reserve at once for the bank that sent it. That is nothing new. That has been going on for a great many years, and I believe that when we charge for collecting items through the Federal Reserve banks, we should adopt as closely as possible the

customs that have been in vogue for a great many years. That is, we ought to credit on receipt, and either await returns for the remittance, or charge them up with an average number of days. That is the custom among Chicago banks and the banks of most of the reserve cities, I believe. That is not any new condition at all, as regards float. The float will be much less when the items are put into the Federal Reserve banks and sent home for redemption at once than it has been in the past when items have been passed by circuitous routes through various reserve city banks in order to avoid exchange charges.

I believe that the float on the items which are handled through the reserve banks will be much less in volume than has been the case in the past when handled through correspondent banks.

Mr. Wold: I am not asking questions for the purpose of criticising, but for the purpose of securing information, and you have not answered my last question as to what the volume might be, but in answer to your last statement, the condition will be reversed. It makes no difference whatever how much the float is now that the national banks will be carrying.

Mr. Seay: Is not this true; The effect of that float is now divided up between a larger number of very large banks?

Mr. Wold: All of them larger than yours, or most of them?

Mr. McKay: Yes; that is true, Governor Seay, but it is also true that there are only 7500 member banks so far in the

system.

The Chairman: With a reserve, however, of \$1,200,000,000.

Mr. Wold: \$1,300,000,000.

Mr. McKay: I am coming to that, Governor Strong. About one half the amount of items any day are drawn on the member banks.

Mr. Wold: Is it not true that where one bank in a city is unable to handle a certain item upon a certain point at par and it has a larger point to which all other banks go, that naturally all the items drift into that par bank? Has not that been the experience?

Mr. McKay: I believe that when the Federal Reserve banks can begin taking items on all the other member banks at par, the member banks will also stop drawing exchange to their reserve city correspondents, and also that the reserve city correspondents will continue to send them the items. And, furthermore, they will be able to take from their correspondents a larger volume of items for the same amount of balance, owing to the fact that the exchange has been eliminated on the member banks. Aside from that, the exchange banks will also be eliminated where there on the non-member ~~bank in the town whose checks are par~~ is a member bank in the town whose checks are par. The reserve city correspondents will then be able to handle a much larger volume of items for the same amount of balance than they do now.

Mr. Wold: Yes, but is not the member bank eventually, in a very short time, going to Chicago if the items all come through to all sources? There is no profit in it. It is

a matter of time and bookkeeping and having them all come through the Federal Reserve Bank.

Mr. McKay: The best illustration of that is something that has been in effect for a great many years, and that is the Boston clearing house plan, which is very similar to the collection of the items for the federal reserve banks.

Bankers of Boston do not send all their items through the Boston clearing house, although they can get nearly all of them at par.

The Chairman: May I interrupt you there by saying that the Boston clearing house plan takes two days deferred credit? How can they expect to handle the items in that way?

Whereas, by this plan, we are proposing possibly to introduce a system of clearance whereby the Federal Reserve banks will take these items for immediate credit, and at the end of three years the balances now existing between banks having reciprocal relations must be withdrawn and deposited with the Federal Reserve bank, or else it would be a dead balance, which will not count as reserve.

Mr. McKay: I was coming to that, too, Mr. Chairman, and I was going to say that the reason that the Boston banks do not put the items into the Boston clearing house is because they have correspondents located in the cities where these items are drawn. Thus they do not have the correspondents every day send them through the clearing house.

And furthermore, the competition for business among the Boston ~~exchange~~ banks has caused them to put a slight rate of exchange to the banks in return for the balance, and that same condition will arise when the items are handled by

the federal reserve banks, but the exchange rates will be much less than they were formerly. I think that there is reason to believe that the same condition will work out among the federal reserve banks as has worked out in Boston regarding the Boston bank. We are not going to get all of the items that are in our district drawn on the member banks now or at any other time.

Mr. Hendricks: Have you not left out of your calculation the manner in which the member bank is going to make his account good? Certainly he will not send you Chicago exchange if he has a lot of miscellaneous items all over the country. He will send you those.

Mr. McKay: I think he will send us Chicago exchange, because he does not want to sort out his member bank items from his non-member bank items; and as more state banks join the system it will be more difficult to sort out the items than it is now---and it is difficult enough now. The mere fact that it is a member bank does not necessarily mean it is a member bank of our district. It may be the St. Louis district. It may be true that they will have a list of the member banks, but they will not refer to the list of the member banks, because if they can get the item closed they will not bother about what district it is. The clearing banks, the ones in the reserve cities, they are the ones that will look over the list. They are the only ones that will use par lists now---

Mr. Wold: Are you not speaking on the theory that everybody else is going to clear from their districts all checks of the national banks at par?

Mr. McKay: The member banks in our district will send all their items to Chicago. The Chicago banks will deposit some of them with the Federal Reserve bank at Chicago, where they have no connection. As to items drawn on points in the other districts, they will forward some of them to the St. Louis correspondent, who in turn will deposit whatever items they please with the Federal Reserve bank at St. Louis.

The Chicago banks will send to Philadelphia the items they have in the Philadelphia district. The Philadelphia banks will collect direct where they have correspondents, and will put the receipts into the surplus, into the Federal Reserve Bank of Philadelphia, and so on all over the country. That is the way it will be handled. They will only put in the Federal Reserve Bank of Chicago the items on their own member banks, because we do not propose now or at any other time to have to take items drawn on member banks outside of our own district.

Mr. Wold: I do not make myself clear, or you have misunderstood me. You think that they will not sort their checks. They have got to sort the checks. They have got to take the par list of their Chicago correspondent, unless the Chicago banks are taking everything at par.

Mr. McKay: There are small country banks there taking everything at par, because the exchange does not amount to enough to bother about.

Mr. Wold: That is news to me. I am glad to get the information. They all deny it.

Mr. McCord: May I ask you this question: There is a

system being considered whereby the customer's check will be in the upper left hand corner, the letter and number of the reserve bank to which they belong. Will not that enable even the country banker to sort his checks very readily? For instance, in Jackson, Mississippi, the customer's checks on those banks will have in the upper left hand corner F-6, whereas at Cornith, Mississippi, it will have the number of St. Louis, which is 8-H. The lithographers are doing that now, and it will finally be the custom.

Mr. McKay: Ultimately, a good many years from now, those numbers will appear on the checks, but it will take a long time before those numbers are on all checks. I have reason to know that, because I was connected with the inauguration of the American system of the American Bankers' Association, and we used every influence possible all over the country to get the numbers put on the checks. That was about three years ago, and there are only about 70 per cent now.

Mr. McCord: That was a voluntary proposition.

Mr. Fancher: You cannot compel them to do it.

Mr. McKay: But it will be unnecessary to do this.

Mr. Seay: You gave an instance a while ago of two very large Chicago banks, either one of which would give you more than one per cent of the number of checks they handled during the day. What proportion of the collection business in your district do you suppose you would be likely to handle --- five or ten per cent?

Mr. McKay: You mean, percentage of all the items on

mamber ~~banks~~ banks are drawn on member banks within our district?

Mr. Seay: Yes.

Mr. McKay: I cannot say what ^{the} percentage would be. I do not know.

Mr. Seay: I am trying to get at whether if the reserve banks undertook to do that it would serve any economical purpose or accomplish anything much by doing it??

Mr. McKay: The exchange charge and the methods of handling items all over the United States have been wrong for a good many years, and it is my belief that when this act was drawn it was wished to provide some real method of handling items on the member banks, at least in this country, a better method than we had formerly. Efforts have been made by banks and 'bankers' associations of various kinds of the last ten years to try to improve the methods of handling items to prevent items from going through circuitous routes, going outside of natural channels, and it is impossible for the bankers in reserve cities, particularly in the middle part of the country, to get together and adopt modern, up-to-date principles and methods of handling these items.

In other countries they have scientific methods of handling these items. In this country it is every bank for itself, and the merchants have been strongly opposed to paying exchange charges which were put into effect by clearing house rules, combinations of banks who get together and establish rules. The merchants, have suffered a good deal on that account, and they are very anxious that some better

means of handling that subject be established. I believe that is the reason it is put in the Act. They saw that the banks could not do anything for themselves, and it was put into the act so that some better means would be in vogue for handling these items.

The Chairman: May I interrupt you at this point?

Mr. McKay: Certainly.

The Chairman: I think we all admit that the collection of checks involves expenses, and that outside of the item of clerical expense, and that expense is divided into two principal items. One is the amount of interest involved, and the time that is taken to send the check to its place of payment and get the money back. The other is the expense of shipping the actual money in settlement of the check. Those items of expense have been the subject of every diverse treatment between the banks all over the United States. In some centers efforts have been made to control the matter by strict clearing house regulations. It has developed as a matter of competition how that expense could be handled, distributed or borne. As a matter of fact there seem to be four or five different methods that may be adopted in ~~the~~ whole or in part as to the fixing of the expense. One is that it should be borne by the person who draws the check. Another, that it should be borne by the person to whom the check is payable. The third, that it should be borne by the bank upon whom the check is drawn. The fourth is that it should be borne by the bank that collects the check. The fifth is a new principle, that it shall be borne by the Federal

Reserve bank, and the principle that it should be borne by the Federal Reserve bank is apparently based upon the assumption that the expense of collecting checks is almost as much a matter of public concern to all the people of the United States as it is that it should have a prompt, economical and efficient service in carrying the mails.

Apparently the theory of this Act is that that expense shall ultimately be upon the Federal Reserve Banks, and that it should be absorbed ultimately out of the surplus revenues of the Federal Reserve banks after this present dividend has been paid to the member banks who furnish the capital and the deposits.

That may not be a complete and accurate statement of the problem, but I think instead of discussing in a rather haphazard manner the various phases of this problem, we should begin to arrange it in its natural parts on a program of discussion and take up one thing at a time and dispose of it, and when we have agreed as to that particular item we will reduce it possibly to a comparatively few items concerning which a decided difference of opinion may arise as to the wise thing.

The principle primarily underlying this matter is, in fact, how the expense of collecting checks and settling balances shall be borne.

I have been listening to this discussion and taking continuously part in it ~~for some months past~~ for some months past, and it has become quite apparent to me that the only way in which we may arrive at a solution of this matter is to divide the whole subject up into its natural component parts and discuss it in

that way and decide one thing at a time, and not continue a haphazard discussion of such a complicated matter.

Personally, I would not like to undertake to lay out a skeleton plan as to this collection business, but it seems to me that we could get somebody who is perfectly competent-- a great deal more competent than I am -- to lay it out, and then we could take it up in a more orderly fashion than we have heretofore. I am asking you to make progress and arrive at a decision.

Would it not be possible for Mr. McKay and Mr. Hendricks who have as great as if not greater familiarity than anybody else with this subject to act as a committee, not to decide the matter, but to lay out the simple essential principles of this business that we have met to discuss and decide if possible? When we get that in front of us I believe we are going to cut the time down about 75 per cent in arriving at a decision.

What is your judgment as to following some such course, gentlemen?

Mr. O. WELLS: I think we will all agree that we are at a point where we are willing to try almost any suggestion that may be made, and that seems to be a logical one to me.

The Chairman: I do not want to impose my wishes on the meeting. These are not my wishes, as a matter of fact; but we must be brief in this meeting. We have possibly three quarters of an hour tonight and possibly two hours tomorrow. I do not believe we can get any satisfactory results from the kind of discussion we are now having.

If someone else will suggest a program that will be progressive, where we can take up any part of this subject and have it out and put it down finished, and then take up the next one, I believe we will get somewhere.

Mr. Seay: I believe it would have to be approached in a logical manner by these subdivisions and passed upon just as we have disposed of every other question that has come before us.

The Chairman: If I felt that this preliminary talk that we have been engaging in might perhaps be necessary, I should be in favor of it, but I am persuaded that if this were all we were going to do we will plunge into the thing blindfolded, unless we take it in some fashion that will actually analyze the subject. We have got to decide upon one after the other, or we positively will never be able to reach a conclusion.

I believe I have analyzed it very fairly.

Mr. McDougal: You have called upon Chicago first, and we have taken a great deal of your time. But if it is possible to obtain an expression from the other governors as to their tendency in the matter of opening up their districts in a few years I would like very much to hear it. I do not think it is possible that we are the only ones who have been getting ready to do this. If we are, I would like to know it, of course.

The Chairman: Governor Seay, would you be willing to state what the disposition is towards this matter in your district?

Mr. Seay: Mr. Chairman, I shall admit that I am not by any means a transit expert, and neither is my experience in that particular branch of banking of much value either to myself or to others. We realize that we have got to take an initial step ~~x~~ in the clearingmatter. I think we ought to determine what the scope of that step will be and that we will at this meeting have to determine what we are willing to undertake to do this/^{time,} how limited it shall be, and we must decide whether we will take an initial step. We must decide what that ~~step~~ shall be, and how we can safely and prudently take that step. I cannot contribute anything more to the solution of this question than that statement. I am very glad you suggested what you did, and I hope these two gentlemen will undertake the matter from that point of view and ~~present~~ present to us some expert advice as to what we can undertake at this time and the manner in which we can undertake it, and give us their definite recommendation, and then let us pass upon those things.

Mr. McCord: Governor Strong, my district is very much divided on this subject. I have quite a number of protests from member banks against the enforcement of this part of the law. The situation in our district is probably different from that in any other, on account of the small number of national banks and the greater preponderance of state banks. I have been importuned by the members not to take any immediate action in this matter, but would await further consideration of the subject, going into it cautiously and carefully.

May I give to this meeting of Governors the contents

of a letter that I received this morning? I do not want to delay the proposition, but I think it is vital to the subject.

The Chairman: Certainly.

Mr. McCord: (Reading:)

FOURTH NATIONAL BANK,

Atlanta, Ga.,

Jan. 20-1915.

Hon W. P. G. Harding,

Member Federal Reserve Board,

Washington, D. C.

My dear Sir:

The Atlanta Clearing house Association has for a number of years served the banks of this city in the matter of collecting direct items on the states of Alabama Florida and Georgia.

Since the establishment of the Sixth Federal Reserve District, they have had in mind enlarging the territory covered as outlined above to include the Sixth District, pending the Federal Reserve Bank exercising its collection facilities to handle items of members and non-members.

The Georgia State Bankers have in process or organization a State Clearing House organized by the State Banks and to be operated by State Banks, but to which National Banks are eligible to membership, for the purpose of clearing items on the State of Georgia.

The writer has had several conferences with Mr. A. P. Coles, Vice President of the Central Bank & Trust Corporation

of this city who is the leading spirit of the State Bank Clearing House idea. As a result of these conference the idea has been evolved between us for organizing a clearing house for the Sixth District to be composed of both National and State banks.

The purpose of said organization would be to handle items of National Banks not eligible to be handled through the Federal Reserve Bank, and such items as State Banks desired to handle through this Clearing House. I short to co-operate with the Federal Reserve Bank in caring for business which they at this time do not contemplate handling.

Before going further with the matter Mr. Coles and I agreed that I should present this matter to you in order to get a favorable expression from you or the Board as to the general plan outlined above.

It is the opinion of the writer that such a plan would do several things, viz:

- 1st ~~It would~~ Maintain a close and friendly feeling between the system of state and National banks.
- 2nd It would give State banks a voluntary opportunity of trying out the system of clearing country checks along the line of the Federal Reserve system.
- 3rd If it worked satisfactorily it would have a tendency to unify the two systems.
- 4th It would bring about a unified and scientific manner of handling state bank checks in this District.

Of course the detailed plans would be submitted to you but I would like to have an expression as to the general idea. We would not desire to proceed along the lines not in

harmony with the idea of the Federal Reserve Board.

Should there be any features of the plan which do not make themselves clear to you, I will be glad to go into the matter with you, and should you desire, Mr. Coles and I would come to Washington to confer with you in person.

Awaiting your further favors and with kindest personal regards, I am

Yours very truly,

(Signed) J. K. Ottley.

Carbon copy to
Mr. Jos. A. McCord, Governor

Federal Reserve Board,

Atlanta."

I telegraphed Mr. Coles, also, this morning, to send me a prospectus of the plan by special delivery at 12 o'clock today, and it will be here at six o'clock in the morning.

The Chairman: Governor Aiken, will you make an expression of your views in this matter?

Mr. Aiken: Our firm has conditions that are different from those of any other district. Mr. McCord has spoken of the Boston Clearing House arrangement, the foreign department, with which you are familiar. That department handles both member and non-member bank checks on our district, about 600 banks in all, about 200 of which are non-members. That department of the Boston Clearing House has a check collecting facility that in its completeness and efficiency we cannot compete with at all. The result is that our member banks so far as I have been able to discover has not the slightest interest in our handling

intra-district clearing transactions, and, in fact, most of them want ~~it~~ left alone. But they are solicitous to have us begin as soon as possible handling some items outside of our district in the district items, and as a result I have given some little attention to the matter of out intre-district clearing. I can see no reason at the present time for us to try to make any. Some of our ^{more} ~~authorities~~ enthusiastic friends in Boston have been very anxious that we should step in and do what we could with our New England items, but it seems to me, and I ~~have~~ have represented to the board and several of the representatives of the larger banks with whom I have lunched every week or two to talk things over, that it is a very great mistake for us to greatly impair the efficiency of our New England organization just for the sake of giving the appearance of being busy; that it seems to me to be very unwise. My disposition is to approach the whole clearing proposition from another end from that suggested by the gentleman from Chicago. I should like to begin on very limited inter-district clearings under the plan that we suggested for the settlement of balances, and gradually increase and let our own district --- I recognize the fact that conditions in the other districts are so different it may make a different feeling in the matter --- let our own district stay as it is until we have developed the inter-district organization. It seems to me we can progress by small steps and gradually perfect this machinery. I believe under this plan of settlement we will have an entirely satisfactory basis for cleaning up all the balances created in that way between us.

That, to my mind, is the end on which we should begin.

The Chairman: Governor Rhoades?

Mr. Rhoades: I suppose, Mr. Chairman, that no Governor here is less competent to speak on the subject of check collections than I am.

The Chairman: I disagree about that, Governor Rhoades.

Mr. Rhoades: But I am much impressed with the suggestion that the Chairman has made, that we lay out a definite program to be settled, one item at a time, as the scientific way of approaching the subject.

The Philadelphia district is roughly divided into the Philadelphia institutions and all the rest, and as is well known, the Philadelphia institutions have artificially attracted a great deal of business to Philadelphia from all over the country by the so-called free collections. I think that those institutions are now ^{more than} willing to give that business up if all their competitors will give it up at the same time so that we can have the shrinkage in deposits uniform. The city institutions would be delighted if the federal reserve banks would absorb that expense.

The country banks in my district are most of them reaping a certain amount of profit out of the exchange. I am confident if we can make through our district a statement of the difficulties in a way that they could grasp it, they would be more than content to allow the matter to rest until we can solve it on broad lines.

The Chairman: There is one striking change that appears from the statements so far made, and that is that there are conditions in this matter that are peculiar to each dis-

district. Governor McDougal has explained and Mr. McKay has explained that there is a situation peculiar to the Chicago district, that they have seven reserve cities, for instance, outside of Chicago, and the largest number of member banks in any district, and, recognizing that situation, the Chicago banks are apparently willing to carry the load in order to get the benefit or advantage of having this system put in operation.

Governor McCord calls attention to the fact that conditions in his district are peculiar, because they have there such a tremendous preponderance of non-member banks which are now organizing a collection system of their own.

Governor Aiken calls attention to the peculiarity of his district, that they have a country collection system which affects the operation of the intra-district clearings.

Governor Rhoades calls attention to the peculiarity of Philadelphia, which is that they have an abnormal volume of unnatural exchanges at Philadelphia driven there by the exchange charges imposed in New York. I am frank to say that New York has a great many peculiarities that are found in no other district, and that is going to add to the difficulty of arriving at a solution of this problem.

Governor Fancher, what are the peculiarities of your district?

Mr. Fancher: We have got a different situation than has been expressed here. We have in our district four reserve cities. Three of them are pretty nearly relatively the same size--- Pittsburgh, Cleveland and Cincinnati. We

are not having any great pressure put upon us to undertake this matter of collecting country checks. I called a meeting of the representatives of the reserve city banks in Cleveland about four weeks ago to discuss several items bearing on this, and we had an all day conference, and the result of it was that amongst other resolution passed was one that they approved the conservative course which the officers of the Federal Reserve Banks in District No. 4 were pursuing and advised caution in undertaking the matter of collecting checks in the district, or the general run of country checks.

There has been attracted to Cleveland -- not so much in Cleveland as in Pittsburgh -- a rather abnormal deposit by reason of the very liberal collection facilities and a pretty high rate of interest on balances. In some cases some of the banks would like to have the Federal Reserve bank take on the load and relieve them of some of these items.

I have asked the larger banks in Cleveland, which handles about 35,000 country items a day what items they would probably give us if we undertook to collect the checks on member banks. They have not given me those figures, but rather intimated that a great many of them would still be collected through a regular course as they had certain arrangements which tied up the balances, and that volume would not come to us.

It is not the general habit of banks in District No. 4 to charge exchange on their items, although it does exist in some parts of Ohio and in Kentucky. Some of the remote points have the custom that they charge exchange on items

which they receive from the reserve city correspondents. District No. 4 could not undertake to collect the member checks on the plan which has been outlined in District No. 7, because the float there would amount to a large item and would tie up a great part of our resources, as we would not have the banks in the reserve city to help us carry the load.

I believe that in any operations to be undertaken in District No. 4 we should start in in a very modest way, possibly, trying out on the lines that have been tried out in District No. 7, taking the items from the reserve banks in reserve cities only and making a start along those lines.

The Chairman: What are you doing now?

Mr. Fancher: We are doing practically nothing.

The Chairman: You are an ultra reactionary conservative?

Mr. Fancher: We are adhering very closely to the plan mapped out here in the meeting in October, and sitting very tight.

Mr. O. wells: Do you contemplate taking items on reserve cities?

Mr. Fancher: We do not go that far.

The Chairman: You take everything that was authorized at the conference except items on reserve cities and items on Federal Reserve banks, those being the only two classes mentioned in that meeting. I congratulate you. (Laughter)

Mr. Fancher: We have been taking drafts on the member banks and on the reserve city banks in the district.

Mr. O. Wells: That is all we are doing.

The Chairman: Governor Kains?

Mr. Kains: District No. 12 is a district of magnificent distances, and the Chicago plan would hardly suit us; but I have here a suggestion that we have been thinking of putting into practice.

We are ultra conservatives, like Governor Fancher's district, but we propose a system of deferred credits as being two desirable results. First, it will enable each member bank, if it wishes, to make its customary checks available for credit at par in the Federal Reserve city of its district, and therefore throughout the district. Second, it enables Federal Reserve banks to protect themselves from the depletion of their reserve, which would result from the unrestricted deposit with them of \$15,000,000 worth of transit items per day, and we go on and allow two days deferred credit for Los Angeles, four days for Portland, four days for Salt Lake City, six days for Seattle, six days for Spokane, six days for Tacoma, and give immediate credit to items in San Francisco. (Laughter)

Mr. McKay: I would like to ask why you take out six days on Seattle. Can you not get returns in four days?

Mr. Kains: No, we cannot get returns in four days; it takes six days. Four days from Portland, and it takes two days from Portland to Seattle --- a day each way.

Mr. McKay: What is the train time between San Francisco and Seattle?

Mr. Kains: It is bad between Portland and Seattle. You cannot get a train.

Then we have another limited scale for interdistrict

transactions.

Mr. Fancher: What is your plan as to deferred credits?

Mr. Kains: We will take these items at par and allow this time, and will save our balances. We do not propose to lose our gold.

Mr. Seay: Would you get the items, Mr. Kains---

Mr. Kains: I do not know whether we could or not. I have been getting along like the lawyers in Hell--- by degrees. (Laughter).

The Chairman: That, I understand, is the plan which you are now contemplating carrying on in your own district for intra district clearings between certain points where you establish these rules by agreements with the banks in those districts?

Mr. Kains: Yes. Do you see any objection to that, Governor Strong?

The Chairman: Frankly, Mr. Kains, I do not see any objection in stating a plan that will not be availed of by member banks.

Mr. Kains: That is the way I felt myself. (Laughter)

The Chairman: Of course, the advantage of that plan is that the Federal Reserve bank is protected as to, I suppose, three quarters of all of the objections that are received to the plan of immediate charge and immediate credit, and those banks that agree to conduct their business by methods that would give a better service, but involve investment in float, and so on, would be permitted to continue the same relations they now have with their correspondents, except that at the end of three years, by reason of the shift of

reserves, and no longer being permitted to count balances in the reserve cities in these transit accounts as reserves, they might gradually be driven to a greater use of the system that you now propose to try; and of course at the same time the danger of that is that it does not offer to the member bank anything that is even substantially or approximately equivalent to what he is now getting, and it might drive him out of the system into the state bank system.

Mr. Kains: Possibly. But I know if we do not do that we will have a float of \$14,000,000, and having a float of \$50,000,000 in the whole district, and \$30,000,000 in the member banks, I would lose all my gold.

The Chairman: Of course, Governor Kains, it is necessary for me to here state that if you decide to change your program and undertake to open your district wide I would not like to withdraw my offer about rediscounts until we see what happens. (Laughter)

Mr. Fancher: Do I understand that you have been accepting drafts on these reserve cities and now propose deferred credit?

Mr. Kains: No; we have never been doing anything more than you.

Mr. Aiken: How many reserve cities are in your district?

Mr. Kains: Seven.

Mr. O. Wells: Under the proposed new plans would you accept items on other member banks than those?

Mr. Kains: No; we would not. We would give checks

on those cities.

Mr. O. Wells: But you would take individual's checks on those cities?

Mr. Kains: Yes.

Mr. O. Wells: You would enlarge your handling by the extent of bearing other items, but you would restrict the crediting to a deferred payment instead of to immediate payment as you have been doing in the beginning?

Mr. Kains: Yes.

Mr. O. Wells: Tying up in one respect and liberating in another?

Mr. Kains: Yes. I am going to wait, now, and have Chicago put this plan into force. I am going to play safe all the way along. If they do very well, we might let down the bars; but I certainly am not going to risk any diminution of my gold. I do not think it is required. There is no demand for it. The big bankers, as you know, laugh at me in San Francisco. They have told me very frankly it would be very foolish.

The Chairman: I would like to get your impression, Governor Wold, as well as that of Mr. Wells.

Mr. Wold: Minneapolis has no plan. Her situation is different from any of the others. (Laughter) Boston has her clearing house, and Philadelphia has absorptions, and I learn, much to my surprise, that Chicago is absorbing.

We only have two reserve cities connected by trolley, ten miles apart; so that the collections of items on member banks in federal reserve cities has not proved burdensome.

We have not had any. We have considered this subject at different times with the Twin City banks. They are not urging us. They realize the problems which confront the establishment of any basis. The pressure has come to us, we thought, from Washington, and also from jobbers and manufacturers in the Twin Cities, who think they ought to be relieved from the exchange charge. Personally, I would much rather not commence it; but if Chicago were to start, we would feel disposed, I think, to begin operations along the same lines as the Chicago plan. I hardly think it would be very much with new items from the Twin City banks where they have no correspondents, and the member banks would not be disposed to send items to us, I do not think, but would send them to the regular correspondents, who would send them out if they had direct relations, and where they did not have direct relations, and our figures would indicate that we might possibly get half a million a day.

The suggestion of Governor Aiken of opening up interstate districts would not appeal to us. I can see how the east would like to have that and why they would like to have it. I am not blaming them for that. But our reserve cities are largely east of us, and they are all par. Our people have no difficulty in handling checks upon eastern reserve cities or reserve cities anywhere, for that matter, but I imagine Boston banks have difficulty in collecting items upon reserve cities west. Detroit charges exchange. The Twin Cities charge exchange, so that our problem, you see, is different from Boston's problem. We are rather in a waiting mood, and inasmuch as Kansas City is handling

items and St. Louis is handling items, we would be obliged to commence if Chicago opened up, and we would probably open up on the same basis as Chicago.

The Chairman: Governor Wells?

Mr. O. Wells: I would like to say that there is a distinct pressure in our district for the beginning of the operation of transit functions of the federal reserve banks, but I do not believe that they are confidently expecting that we will do something in the early future. That has grown out of the fact that at a conference in Washington it was recommended that we do certain things at the outset, with the suggestion that it be followed up by other developments shortly thereafter. There was a discussion at the conference in December, trying to solve the inter relations between the federal reserve districts, which was rather coupled with the second problem of intra-relations. The present limited functions in our district are not satisfactory ones, and we rather assumed the attitude that it would make some changes, either enlarging the functions as a means of gradual developments, or the alternative of abandoning any transit functions now employed. I realize that this is a very large national and local question, and I had hoped that there would be that uniformity which would bring about the adoption of certain principles, and that the localizing of the application of the principles would be simply in degree according to distance or time elements, or something of that character.

We have a widely separated district, that is, a district of great distances, and the same thing that would apply in

Chicago could not, of course, apply in the 11th district.

I have no plan, but I have thought a great deal about the question, and it seems to me that there are three elements that must necessarily be employed as principles involved in the probable functions.

First, I would say that it might have to be done on some reciprocal basis which would contemplate the obtaining of the consent of the participating member banks.

As a matter of economic principle, it might not be right to undertake a plan of charging the items into the account of the member banks. That might be covered by obtaining the consent of such banks as desired to employ the facilities opened up. The adverse, or the other function usually mentioned in connection with the charge plan is that of divided entries. Any plan which we adopt, it seems to me, ought to be along such lines as would be reasonably workable; otherwise we avail nothing, and if there are any purposes in the employment of transit functions in the Federal Reserve banks they will not be served unless the items are handled and the facilities are of some value to the member banks.

The deferred credit plan, in my opinion, would not be employed, because as long as we are dividing the carrying of reserves with other reserve agents of member banks who are giving immediate credit for items, those items would be sent through the channels established, because the proceeds of them would render available a portion of the reserve for member banks upon the immediate credit basis, and therefore

any deferred credit plan which you may employ would not get the items.

Therefore I think that we may be compelled to adopt some plan of immediate credit which would be in conjunction with an immediate charge against the banks upon whom the items were drawn. That could be done, in my opinion, only upon the theory of reciprocal relationship; that is, it could be defended upon the theory that we are allowing the privilege to a sending bank, and therefore must have the privilege of charging his account with the items that have been drawn on him.

The second principle which it seems to me should be injected into it is the time element or the zone plan of creating districts of one, two, three and four days removed from the location of the federal reserve bank, and credit the bank with the item upon the day that it reaches its destination, which of course would include carrying two accounts. I would not credit for the item on Dallas on the day on which it arrives. I would not credit the item on El Paso on the day that it reached El Paso, and El Paso would be charged upon that day.

The third element would be an overhead charge against the ~~main~~ sending bank of some fee per item which would take care of the clerical force. I may not be able to defend this plan, or this skeleton of a plan, but I believe that those three elements can be injected into a plan which will make it workable and will act as a governor or a leveler of arbitrary rates, which I believe was intended in the Act, just as the

Act was intended to cover district operations.

Mr. McCord: I would like to amend my statement there in one particular. We have four reserve cities in district No. 6, distributed over the district. We have an application for another to become a reserve city since we have been clearing on the four, and there has been a tentative proposition made between the banks at interest that banks in towns of 65,000 inhabitants or less be allowed a differential of \$1 per thousand on all items. That is all I have to say, Mr. Chairman.

Mr. O. Wells: I want to add just one more thing, and that is that if this plan could be employed it is one that might be also ~~mm~~ applied to the intradistrict arrangement later.

The Chairman: The situation in New York ~~has~~, I think, been already explained. Albany is the only reserve city outside of Greater New York. There are only three banks in Albany, and we are charging them with items that we receive, giving immediate credit for items drawn on Albany. The peculiarities of the New York situation of course is not only the large volume within that district, but the large volume that Governor Rhoades represents just now which may be transferred to our district if the system is generally opened up. The volume is not only large, but the amount in dollars is very considerable. The inquiry that we have made of the member banks in our district leads us to believe that if the whole district was opened up and we did all the business within the district, we might be called upon to handle from

200,000 to 250,000 items per day, exclusive of those that go through the New York clearing house, and are handled simply between the banks of the city. These reciprocal relations between the banks would continue to prevail. There is this peculiarity about New York, however, that the national banks, the large national banks of New York city have for years maintained that they are actually losing money in collecting checks. I think they are all of them watching with a certain anticipation of pleasure and relief the possibility of our opening the district and opening the country to the free collection of the checks, in which event they may dump a very large amount of business on us, ultimately, as these reciprocal relations are broken up.

The only plan that we have considered within our own district was to test the ability of the bank to conduct clearances on the basis of immediate charge and credit with a limited number of banks, say in cities of 500,000 inhabitants or over, making an arrangement with them in advance that we would make clear that they had the right to make the charge before we have received the item for examination. Whether we shall do so or not depends very largely on two things: First, the position of this conference, and, second, what may be the result of the conference with representatives of the eight groups of the banks of the state.

The Federal Reserve bank of New York is clearing very few checks now, because there are no great number of banks in reserve cities outside of the City of New York.

It is 12 o'clock, gentlemen, and before we get to an

adjournment I think it is proper now to suggest some means of bringing this matter to a conclusion tomorrow.

Mr. Wold: For the purpose of getting it into the record I would like to add that while our information leads us to believe that the items which we might get if we would open up now would be only half a million today, the outstandings in our district I think will run between eleven and twelve million; that is, the transit accounts. Those are items that are in transit, other than those which are sent out and charged to the banks. But the volume is considerable if we get them all. One day would clean us up.

Mr. O. Wells: I would like to have put on the record that we have six reserve cities in our district, for the benefit of anyone who peruses the record.

The Chairman: It occurs to me that we ought to divide our time tomorrow if we meet at ten o'clock in such way as that the discussion will be strictly limited to the discussion of suggestions. We have heard expressions from the Governors of each of the districts, and I propose, unless you object, to ask each one who desires to discuss this matter to confine his remarks more to constructive suggestion as to what we should do, and in the meantime possibly for a portion of the meeting tomorrow morning, even at a personal sacrifice to themselves, have Mr. McKay and Mr. Hendricks before ten o'clock consider whether they cannot divide this subject up in such a way that we can get rid of parts of it and decide what to consider and what to

recommend.

Mr. McKay: I think the plan could be outlined in a very short time by which the different headings of the subject should be taken in the proper way and each one disposed of.

The Chairman: Is there a motion to adjourn?

(On motion, duly made and seconded, the conference thereupon, at 12 o'clock, midnight, adjourned until tomorrow, Saturday, January 23, 1915, at 10 o'clock a. m.)

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