

NINTH CONFERENCE  
OF  
GOVERNORS OF FEDERAL RESERVE BANKS

SHOREHAM HOTEL  
WASHINGTON, D. C.  
December 11 to 14, Inc., 1916

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## T H I R D     D A Y.

## CONFERENCE OF GOVERNORS OF FEDERAL RESERVE BANKS.

Shoreham Hotel, Washington, D. C.,

Wednesday, December 13, 1916.

The Conference reconvened in the Conference Room at the Shoreman Hotel at 9:30 o'clock a. m., pursuant to the adjournment of yesterday.

Appearances as previously noted.

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The Chairman: The meeting will come to order.

Governor Warburg has requested that we come over to his office, and we will go now.

(The Conference thereupon adjourned to the Treasury Building for a meeting with Mr. Warburg of the Federal Reserve Board.)

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12:20 o'clock p. m.

The Conference reassembled at the Shoreham Hotel.

The Chairman: Gentlemen, you will please come to order.

Governor McDougal: Mr. Chairman, I would like to report on behalf of the Committee appointed to confer with the Board. I refer to the matter of securing, if we could, the cooperation of the Board in the matter of getting the Comptroller to change his policy or his rulings with a view to not permitting member banks to count their transit items as part of their optional reserves.



Mr. Fancher, Mr. Wold and I had a talk with Mr. Delano. Mr. Harding was not present, but Mr. Delano said that he would receive the message on behalf of the committee.

Mr. Delano stated that they were in rather an unfortunate position with regard to helping us for the reason that until after the reserve adjustments had been completed they felt they did not want to interfere. He said it was one of those cases of divided authority and was a matter of embarrassment; that after the adjustment had been made the Board would not hesitate to correct that condition. He said until that time he felt they were not in a position to afford us very great help.

The Chairman: The substance of your report is that nothing can be done at present to change the situation and we will have to make the best of it until the readjustment is made?

Governor McDougal: Yes.

The Chairman: Mr. Jacobson brought over a memorandum with reference to the number of forms No. 34 that they proposed to have printed for the use of each Federal reserve bank for the current year. He asked me to submit this to the Governors, and if the amount they contemplated having printed met the requirements of the Governors, that they O. K. it and return it to him at our early convenience.

Governor Van Zandt: What is Form No. 34?

The Chairman: Daily statement.

I suggest, if there is no objection, that we take up for consideration subtopic (t) of Item 6 on the program.

(t) Use of words "collectible at par through Federal reserve banks."

Governor McDougal and myself asked to have this topic put on the program and I am going to take the liberty of stating the cause of the inquiry on my part.

We had a letter from Mr. Thrall, of the Clearing House Section of the American Bankers Association asking if we were not willing to cooperate with them in having that legend removed from the checks because, in the judgment of the clearing house section of that association, checks were not collectible at par.

I feel very strongly that we should not cooperate with Mr. Thrall on that point. The imposition of the service charge, as I see it, has no more bearing upon checks being collectible at par than the internal cost of handling those checks in the bank is a part of the operating cost of handling the checks, and is not an exchange charge. It does not affect the checks being par checks. It is a part of the operating cost of the bank in handling those checks, and I submit that it would be very injudicious for this Conference to cooperate in any such activity on the part of the Clearing house section of the American Bankers' Association.

Governor McDougal: I think your statement is exactly in accord with the facts, Mr. Chairman, but I believe that in the Boston district you are probably not subjected to the same confusion and criticism that we are in Chicago.

I am not discussing this topic because of any request



of Mr. Thrall's, although I have Mr. Thrall's letter here. I had intended to bring it up at this meeting prior to the receipt of this letter from Mr. Thrall. While it is literally true that we can stand behind the expression that these checks are collectible at par through the Federal reserve banks, you must qualify that by stating that they are collectible by a member bank. The checks coming into the hands of the public with these stamps on them, cause confusion. I suggested the topic for discussion and I will say that while at one time I encouraged the use of the phrase I am not encouraging it any more, and I would like to have an expression of the views of some of the other Governors on the matter.

The Chairman: I would like to ask if that expression of view is only an expression of the views of the nonmember banks through whom the checks go for collection?

Governor McDougal: No. I am not referring to non-member banks. It is confusing to the public, into whose hands these checks come. Three years ago, if you had received a check of that character, as a banker, you would have understood that it could be collected without any deduction. The public seem to look upon it in that way and there is where the trouble comes in.

Governor Fancher: And do not the clearing house regulations make it more confusing? When these checks go into the clearing house, or into cities where they have clearing house regulations, then they are subjected to clearing house charges in one form or another?

Governor McDougal: Of course that has a direct bearing on the whole matter.

Governor Fancher: Yes, it has.

Governor McDougal: If, for instance, our Chicago banks, through their clearing house association, had been liberal enough to give preference to the checks that we could handle, and had made it possible for Federal reserve banks to handle these particular checks at a very small charge--- which possibly might have resulted in their absorbing it entirely--- this matter would not be up for discussion now.

The Chairman: Is it not a fact that if we discourage the use of that we discourage it in the interest of the clearing house associations that are opposing the charges and not in the interest of the development of the par collection system in which the Federal reserve banks are interested?

Governor McDougal: I think that is quite true. At the same time the question is whether we can conscientiously encourage the use of that phrase at the present time and under current conditions, where you have to put out a check which makes on its face a statement which is very misleading. If we had used the term "collectible through a Federal reserve bank," of course that would not have created any discussion.

The Chairman: My idea was not to take action to push the extension of it or to interfere with the practices now prevailing in the different Federal reserve banks in



that connection, but merely to get an expression of opinion at this conference, which can be handed to Mr. Thrall, to the effect that the Federal reserve banks do not care to change the practice which they have established in that respect.

Governor McDougal: That is entirely agreeable to me. I should like at this time to attain my own object and ascertain whether or not the banks in other districts are experiencing the same difficulties we are.

The Chairman: In order to take the matter up in an orderly manner, I would suggest if there is anyone interested in the contention I make, that they offer a resolution to the effect that it is the sense of the meeting that the practice of the reserve banks should not be changed.

Governor Miller: I will make such a motion.

Governor Seay: I will second it. I would like to say that I wrote to the Secretary of the A. B. A. expressing the views expressed by you in almost the identical language.

Governor Miller: I did also.

Governor Seay: I am quite sure that the public will very quickly come to understand what the phrase means on these checks.

Governor McCord: I would like to explain our position. We have insisted from the first that the language used should be "collectible through Federal reserve bank of Atlanta at par." We entered into agreements with non-member banks that they would be permitted to put that on if they would remit to us. I want to take care of my

agreements with those people, and for that reason I shall vote in the affirmative.

(The motion was duly carried.)

Governor McDougal: My request is, Mr. Chairman, that we hear from the other Governors as to whether or not the use of that term has created inquiries or confusion in their districts.

Governor McCord: None with us.

Governor Fancher: We did not incorporate that in our collection circulars and the point has not come up. It has not been made an issue by any of the banks in our district.

The Chairman: Governor Wold?

Governor Wold: I am inclined to agree with Governor McCord in his contention, that it does not really state the conditions or convey what really happens to those checks. They are not collectible at par through the federal reserve bank. They are collectible through the banks subject to a service charge. A number of the state banks have joined the system and told their customers their checks were collectible at par through the Federal reserve banks. They now find that the ones to whom those checks are sent are subject to pay not only the service charge but an additional charge. I think the matter was phrased unfortunately, although I was in favor of it at the time. I believe it would be very much better if we used the phrase "collectible through a federal reserve bank." As suggested by the Chair, we do not want to accede to the request of Mr. Thrall.



Governor McDougal: May I say one more word in regard to this subject. It is not my intention at this time to suggest that the term be abolished, but it was my intention to say that it would not be best to push the matter.

The Chairman: Governor Miller?

Governor Miller: I wrote to Mr. Thrall using almost the identical words that you used, Mr. Chairman. I am opposed to acceding to his request. I hope it will be left just as it is without any effort to push it at this particular time.

The Chairman: Governor Seay.

Governor Seay: I have expressed similar sentiments and I adhere to them.

The Chairman: Governor Rhoads?

Governor Rhoads: I feel the same way, Mr. Chairman.

The Chairman: Governor McCord?

Governor McCord: I have expressed myself. We are not pushing the matter, but we propose to stand by our contracts.

The Chairman: Governor Van Zandt?

Governor Van Zandt: We are not pushing it. We put that in our original circular, and we do not feel like we ought to do anything to call it back now.

The Chairman: Governor Treman?

Vice Governor Treman: It is not used very much in our territory. There has been some complaint that it was not based on actual fact. Were we to do it over again it might be wiser to make a different phrase. However, I think it

would be unwise to make any change at present.

The Chairman: Does that satisfy your inquiry, Governor McDougal?

Governor McDougal: Yes, except that I would like to offer a motion that the Secretary be instructed to communicate with Mr. Thrall the action of this committee in regard to this matter.

Governor Fancher: I second the motion.

The Chairman: Is there any discussion.

(There was no discussion and the motion was duly carried.)

The Chairman: The next topic is (x)

(x) Action of A. B. A. Committee.

Mr. Curtis: As you all know, a committee of 25, appointed at the American Bankers Association meeting held last summer, has gotten out a questionnaire. This was originally sent to each of the State Bankers' Associations with a request that they send copies to their members. That was done by all the state associations except those of Illinois and Maryland. There was some mix-up in those two states and the questionnaire was thereupon sent out direct to the banks in those states by Mr. Thrall himself.

Twenty-seven thousand inquiries were sent out. About <sup>7500</sup> 2500 replies were received.

Mr. Thralls told me he did not feel at liberty to tell me all the data that he had received, but he would give me an approximation, and the understanding was that that



approximation was not to be circulated around in advance of the meeting of the A. B. A. Committee in Chicago.

Governor Miller: That met a few days ago, did it not?

Mr. Curtis: It met on Monday, the day that we met.

He gave me this, and I will ask the Conference to treat it confidentially until it is published by the other committee, if it is published. The questionnaire went to all banks, state and national, and trust companies.

(Mr. Curtis thereupon read from the paper referred to, which the stenographer was instructed to omit from the record.)

(Informal discussion followed.)

The Chairman: If there is no further discussion of this topic and no action to be taken, we will pass it.

(y) State banks remitting at par.

Mr. Treman wishes to have that removed from the program.

(x) Handling of time items.

I put that on the program because of a quite active demand among our banks for some facility for clearing time items through us, looking forward to the time when their deposits with their correspondent banks in the cities would not be available for reserves, and when they would be greatly reduced.

That matter was discussed at the meeting of the transit managers and they passed the following resolution:

"We recommend that the Federal reserve banks prepare

to open collection departments for the handling of various forms of collection items by February 1, 1917.

"Mr. Lawder, of Dallas, asked to be recorded as not voting, for the reason that he did not know the attitude of the executive officers of his bank on this subject.

"Mr. Flemming, of Cleveland, also desired to be recorded as not voting."

I would like an expression of opinion from the Governors as to the desirability of undertaking such operations and as to the time when we might undertake them, if you see fit to do so.

Governor Seay: The banks have been communicated with, apparently. They received notifications from the Comptroller to the effect that the Federal reserve banks were now prepared, or permitted, by amendment to the Act, to handle time items, and they are now acquainted with the fact. We have had a number of time items sent to us.

Governor McCord: Do you mean for discount, or just collection?

Governor Seay: For collection. We have in all cases offered to collect them subject to any charge that might be made, and have advised the member banks that the other member banks were not compelled to handle such items at par as they were in the case of checks.

I agree with you, Mr. Chairman, that we should be prepared to handle them; that we should communicate with our member banks and have it distinctly understood that we are not able to handle these at par, but subject to such charges



as the collecting bank might choose to impose.

The Chairman: I should like to ask if you would contemplate the imposition of a collection charge by the Federal reserve bank sufficient to cover the operation of that department. That would be an expensive department to operate, especially in the large centers like New York, Philadelphia, Chicago and Boston, where we will receive a large number of items which would require a number of messengers.

Governor Seay: I do not know that I am prepared to say whether it would be advisable to put a special charge on those items. The number of such items in proportion to the number of checks that you get is of course very small, probably not five per cent, and I do not know whether it would add appreciably to the cost of your transit department. I am not prepared to state that. I do not think it would.

The Chairman: It would be a very considerable item with us, because a great many notes, for instance, are payable at various banks in Boston, notes that are held all over the country. New York, Chicago, and possibly Philadelphia, would have a larger amount of business and it would be a more expensive operation with them, probably, than with us. I would like to ask Governor Treman how he feels on the matter.

Vice Governor Treman: I think there is no question, if we are to have a satisfactory collection system, but what the Federal reserve banks will have to do it ultimately. We have discussed it, but are not prepared to undertake it yet, because we realize it is going to involve quite an

expense. It seems to me it would do a good deal towards popularizing the Federal reserve banks, if we should give this added service, doing it for a very small charge, if any charge is made. I think it would help to break down the antagonism towards the present check collection operations.

Governor Fancher: Does not this feature have quite a bearing on it? How can we consistently ask a member bank, to whom we send a maturing bill to be collected and credited to our account, to do it free, when they have been in the habit of making a nominal charge on those items as distinguished from the mere collection of checks? Have we not got to recognize that there is compensation due to the member banks for the handling of those items?

Governor Van Zandt: Yes, we have.

Governor Fancher: We must put it on an entirely different basis.

Governor Wold: We are handling collections for our member banks subject to charges made by the collecting bank. While we are not encouraging it we are not discouraging it. The volume of that business in Minneapolis, at grain moving periods, is very large.

Vice Governor Tremain: What is the average charge in your district? Could you give any fair approximate idea?

Governor Wold: I would be disposed to question the right of a member bank to charge more than one tenth of one per cent, with a minimum charge of a quarter on small items. We believe they are entitled to a minimum of 25



cents, and that they should be allowed one tenth of one per cent on items of any consequence.

Governor Seay: Do you impose a service charge?

Governor Wold: We have not been making any separate charge, although it involves some additional clerk hire and expense. We think that is one place where we can render service to the member banks which they will appreciate, and it will create better feeling.

Governor Van Zandt: As I understood it, Mr. Chairman, your idea was that your bank being a collecting bank, it would entail large expense on your bank. Is that the idea?

The Chairman: Yes.

Governor Van Zandt: Then if you should make those collections either for your member bank or for some other Federal reserve bank, then your charge should be that of the collecting bank, as Governor Wold has said, say at the rate of one tenth of one per cent with a minimum of 25 cents per item. But if items were received from your member banks and sent to another Federal reserve bank or sent to another member bank, the expense of your bank would not be so great that you would want to make a charge of your own in that transaction.

The Chairman: I have had no experience in that. The whole matter of charges would have to be left to a committee of men who have experience in operating the collection department of the banks.

Governor McCord: There would be considerable expense on us.

Governor Wold: The practice we have followed in sending out items for collection in our district was not to send them to the federal reserve bank but to send them to the member bank in that district with instructions to remit to the Federal reserve bank. In that way the Federal reserve bank is put to no extra trouble and the member bank gets the exchange, which it is entitled to deduct.

(At this point Governor Harding and Mr. Hamlin of the Federal reserve Board entered the conference room.)

The Chairman: Gentlemen, will you not sit with us and take part? We were discussing the matter of the establishment of a time collection department in each bank, merely to get an expression of opinion from the Governors of the different banks of their feeling in the matter. I had stated that it seemed to me to be a facility that the member banks would appreciate and that we should take up the question of charge for such services. I was just stating to Governor Van Zandt that it seemed to me that it should really be left to a committee of men who are experts in that end of the business and who handle the business, that committee to consult with the Board as to the basis on which it should be developed.

I would like to hear further expressions of opinion on this matter.

Governor Van Zandt: My question was whether or not in your opinion and in the opinion of the other Governors of the Federal reserve banks, the bank which does the col-



lecting in its own city, and thereby is required to have additional messengers to do the collecting, should not be entitled to the same charge for those items to which the member bank would be entitled for collecting in its own city?

The Chairman: My feeling has been that we should exact the smallest possible charge we could make for the service, to cover the expense of operation. I do not think there is any reason why a Federal reserve bank should operate a department of that kind as a source of profit. We want to get our dividends, of course, but we want to give service, and I think in this way we would popularize these banks with the member banks.

Governor Wold: I do not think it is customary for city correspondents of country banks to make a charge for the collection of items in their own cities. In Minneapolis it is not the case.

Governor Fancher: It is not the case in Cleveland.

The Chairman: It is not in Boston.

Governor Wold: I do not think it is necessary to make a charge to the member banks for handling items on a federal reserve city. On items collectible outside of the city in which the bank is located, the cost to which the Federal reserve bank is put should be charged.

The Chairman: I did not put the topic on the program with the idea of having the Conference work out any schedule or any basis of charges. I simply put it there to get an expression as to whether it was desirable to set a committee

to work to evolve a scheme; that they should submit to us, for the ultimate approval of the Board, some definite basis of operation, and then we could decide whether or not we wanted to go ahead with it.

Governor Fancher: I think it is a matter we must take up. We are having collections sent to us and we have been collecting in our own district. We have also been collecting items outside, so far as we could. There is a growing demand for such a department and I think it is a matter that we should take up and have some preliminary work done, in view of working out a plan to be adopted at some time in the near future.

The Chairman: Governor Wold, what do you think of the general proposition?

Governor Wold: I think we have got to meet the situation and perform that service for our member banks.

The Chairman: Governor Miller.

Governor Miller: The Kansas City bank has been handling collections on Kansas City for the past six months. We charge a minimum fee of ten cents and a maximum fee of 25 cents for doing the work, according to the size of the item. That is a mere messenger fee. We handle outside time items and charge the member bank just what it costs us.

The Chairman: Governor Seay?

Governor Seay: I feel that as a matter of course we must give that service to our member banks. I am inclined to think that the terms upon which it can be done will vary in the different districts. It should be left to each



Federal reserve bank to notify its members that it will perform the service at a minimum charge without any idea of making revenue out of it. I think we will have to do it and that it should be undertaken at once.

The Chairman: How do you feel on the general proposition, Governor Rhoads?

Governor Rhoads: I should approve of concurring in the recommendation of the transit managers, leaving the details to the committee that will work out the plan of operation.

The Chairman: What is your feeling, Governor McDougal?

Governor McDougal: We are already performing that service to a very small extent for some of our member banks, and I believe we have been making no charge. I think, however, that if such business as that develops, we should be careful in the matter of charging sufficient to cover the expense involved, partly for the reason that this activity would mean a considerable expense, and partly because the benefits will be received only by a few banks, and I think those banks should naturally pay for that service.

The Chairman: How do you feel, Governor McCord?

Governor McCord: We are confronted by two conditions. One is that our city is a very large insurance center and the member banks in Atlanta, unless a charge was fixed sufficient to cover the expense, would have us doing all of their insurance collecting, collecting premiums, and so forth.

On the other hand, our clearing house protests our collecting incoming drafts drawn with exchange as an encroachment on their legitimate business outside of check collection.

The Chairman: But as a general proposition? I want to get primarily an expression of opinion as to the general proposition.

Governor McCord: I think sooner or later we must adopt some such system.

The Chairman: Well, sooner or later.

Governor McCord: Sooner.

The Chairman: Governor Van Zandt, what is your opinion?

Governor Van Zandt: I am in favor of concurring in the vote of the transit managers, with possibly the exception of changing the date to March 1, and having a committee of these transit managers get together and work out a detailed plan. Under the present system we are doing some collecting and we are asking some of the other Federal reserve banks to do some collecting for us.

The Chairman: Governor Treman?

Vice Governor Treman: I think we should adopt some such plan as soon as we can. The earlier it is done the better.

The Chairman: Governor Harding, would you like to express your views on this subject?

Governor Harding: I think not, Mr. Chairman.

The Chairman: Mr. Hamlin?



Mr. Hamlin: No, I think not.

The Chairman: Will someone offer a motion to crystallize this matter?

Governor Fancher: I move that the Conference concur in the action of the transit managers' meeting, recommending the establishment of a department for the handling of collection items, the date for the establishment of such departments to be set after the matter has been considered and a plan of operation submitted by a committee of three appointed by the Chair, such committee to report to the next conference of Governors.

The Chairman: Is there a second to that motion?

Governor Wold: I will second the motion.

The Chairman: Is there any further discussion?

(There was no further discussion and the motion, having been duly seconded, was carried.)

The Chairman: We will adjourn at this time until 2:30 o'clock p. m., if someone will make that motion.

(On motion duly seconded the Conference recessed at 1:15 o'clock p. m. until 2:30 o'clock p. m. of the same day.)

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## A F T E R   R E C E S S

The Conference of Governors reconvened at the Shoreham Hotel, at 2:30 o'clock p. m.

The Chairman: Gentlemen, we will come to order.

The Chairman will appoint as a committee to consider the matter of establishing collection departments in the Federal Reserve Banks to report to the next Conference, Mr. Fancher (Chairman), Mr. Rhoads and Mr. Hendricks, of the Federal Reserve Bank of New York.

Governor Fancher: Could you not make that committee outside of the Governors?

The Chairman: I think, Governor Fancher, it is going to be important to have a Governor on that committee.

The next topic to be considered is No. 14.

14. Uniformity in treatment of organization expenses.

Mr. Treman, you are listed for that.

Vice Governor Treman: I will read what I have, if that is agreeable to the Conference.

"Governor Strong, in several letters to the bank, has expressed himself strongly in favor of uniform treatment of organization expenses. It has been our custom from the very beginning, when the earnings of our bank were limited, to amortize all of our organization expenses so that at a given time they would be paid. The Federal Reserve Board apparently agreed with our method as they advocated that other Federal reserve banks establish a



similar practice. The treatment of the organization expenses should be uniform as it affects the distribution of investments purchased by us. If one bank should charge off all of its organization expenses and another bank amortize them, it would show decreased earnings for the bank charging off these expenses and consequently their allotment would be proportionately larger than the bank that amortized its organization expenses. Inasmuch as the Federal reserve banks have now emerged from the period of limited earnings, it would appear eminently proper that all of the organization expenses with the exception of the unissued Federal reserve notes be charged off so that at the beginning of the year 1917 all banks would be on the same basis."

Governor McDougal. I am sorry that cannot be made retroactive and be a basis for distribution up to date.

The Chairman: Are there any further remarks?

Governor Fancher: Would it be a good idea to find out whether each bank has cleaned up its organization expenses?

The Chairman: What have you to say, Governor Wold?

Governor Wold: We were all cleaned up a month ago.

Governor Miller: We have \$35,000,00 yet to pay, but we have funds to pay.

The Chairman: Do you propose to clean up this year?

Governor Miller: Yes.

Governor Seay: We were all cleaned up a year ago.

Governor Rhoads: We are all charged off.

Governor McDougal: Our organization expenses have

been disposed of.

Governor McCord: All disposed of a year ago.

Governor Van Zandt: We were cleaned up a year ago.

Vice Governor Treman: We have not cleaned up yet, but we expect to charge off this month.

The Chairman: No action is necessary on No. 14, and it will be dropped from the program.

No. 16 is next.

16. Reduction of paid-in capital of  
Federal reserve banks.

Governor Seay, you are to deal with that.

Governor Seay: That has been covered now by an amendment introduced by the Board. I have been desirous that the Board should adopt that position for a long time. We have had a great deal of correspondence in regard to it, and now, as we know, and were informed yesterday, there is an amendment permitting them to make the deduction for any bank which may desire to have it. So, the matter is covered, I consider.

Governor Fancher: By the Board amendment?

Governor Seay: By the Board amendment; yes sir.

The Chairman: Then, what is your desire?

Governor Seay: It might be well for the Governors to go on record, in order that the subject may come before us. With that in view, I move that it is the sense of the Governors' Conference that the law should be so amended as to permit the Board to reduce the capital stock of any bank upon request of that bank to a paid-in capital stock



of 1-1/2 per cent of the capital and surplus of the bank.

Governor Wold: I would like to amend that to provide that the bank may reduce its capital stock with the consent of the Board.

Governor Seay: I accept that amendment.

The Chairman: Will you recite the motion as amended?

Governor Seay: It is the sense of this Conference that the law be so amended that Federal reserve banks might, with the consent of the Board, reduce the amount of the paid-in capital stock to 1-1/2 per cent of the capital and surplus of the member bank.

The Chairman: You have heard the motion. It is seconded. Is there any further discussion of the motion?

Governor Fancher: Would you want to incorporate in that resolution that the remaining subscriptions stand, or is that inferred?

Governor Seay: That is inferred.

Governor McCord: Mr. Chairman, would it be possible to get in there that the lien of the Federal reserve banks on the member banks should be the amount of the subscribed capital? I do not know if that could be incorporated in the law, but that would be a great benefit in the small banks.

Governor Seay: It is there.

Governor McCord: No, it is not.

Governor Wold: Capital stock paid-in is there.

Governor McCord: If we reduce it to 1-1/2, then the lien we would have on these little banks would simply amount

to nothing. If we can incorporate in the law that the lien should be up to the amount of the subscribed capital and upon their assets, that would be better.

The Chairman: Why not act upon Governor Seay's motion. Then you can make a supplemental motion, if you desire.

Governor McCord: That is all right.

The Chairman: Is there any further discussion?

Vice Governor Treman: I have not, of course, given this proposition as much consideration as some of you, but it does not appeal to me as a wise thing to do, to the best of my judgment. In the first place, you take the New York banks, and we reduce to one-quarter. We would have about \$5,500,000 actually paid in. If we enter into relations abroad, there will be some question as to what the effect would be in regard to a bank on the other side in respect to dealing with a bank with as small a capital as \$5,500,000. Then, again, it seems to me there is a limitation to the amount that we could grant to any one acceptor based upon ten per cent of the capital and surplus. That is the law, I think. That would be another limitation which might work to our disadvantage.

Governor Seay: That is a regulation of the Board merely.

Governor Treman: It is a regulation of the Board?

Governor Seay: Yes.

Governor Miller: New York need not reduce its capital because Minneapolis does.



Vice Governor Treman: It seems to me you weaken the whole system. I say stop right where you are. Your capital is not too strong with the amount of business you are called upon to do. It seems to me you weaken the system. In my opinion, it is a step backward. That is simply my point of view.

Governor Wold: I would not want it to be inferred that because I vote for this motion I would turn around to my people and suggest that they reduce the capital at once. It makes it optional with the banks.

Mr. Curtis: I was not quite clear in regard to what was said about the law on capital stock, and I would like to read a paragraph from the law:

"The share holders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such banks to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions shall have been paid up in whole or in part, under the provisions of this Act."

Governor Deay: That was my impression.

Governor McCord: I was led to believe otherwise.

(Informal discussion followed.)

The Chairman: The motion is now before us. All those in favor of the motion will signify it by saying aye.

(The motion was carried.)

Vice Governor Treman: I wish to be recorded as voting

no.

Governor Van Zandt: I wish to be recorded as voting

no.

The Chairman: I wish to be recorded as voting in the negative.

We have now disposed of the program with the exception of two small topics, which are 8, Gold Settlement Fund, and 9, Currency and reserve, and also the reports on the various amendments handed to us by the Federal Reserve Board.

Mr. Curtis has called attention to the fact that No. 21 has not been touched upon. That is proposed by Mr. Calkins, of the Federal Reserve Bank of San Francisco, who is not here. Does anyone wish to speak on that topic? If not, it will be left on the program until the next conference.

Governor Wold: The Federal reserve Board asked us to consider that.

21. Change branch Federal reserve banks to offices or agencies.

Governor McCord, your bank is the only one that has had any experience in operating branches. Perhaps you would like to speak on that.

Governor McCord: We have had a peculiar situation down there, Mr. Chairman. The expense of operating branches is pretty heavy. We would favor officers or agencies. So far as the Federal reserve Bank of Atlanta and the branch at New Orleans are concerned, we are well satisfied with conditions down there. We would not favor



the establishment of another branch. You might put an agency in Nashville or Jacksonville to handle exchange questions and commodity loans, but I do not favor a branch bank very much.

The Chairman: Why are you opposed to it, Governor McCord? Are you opposed to it because of the expense and the cumbersome machinery involved?

Governor McCord: The cumbersome machinery involved; yes sir. I have to dictate in Atlanta what shall be done in New Orleans. That, of course, results in criticism down there. We are not in entire harmony, although we get along pretty well. They feel that they should do the same things we do in every instance. We cannot permit that in everything.

The Chairman: In order that there may be an expression of opinion, do you care to make a motion?

Governor McCord: I would prefer not to do so.

The Chairman: Is there any further discussion of this question?

Governor Seay: Is it not possible or probable that one of the views that was had in mind when the subject of branch banks was put in the act was that the branch would be able to pass upon local conditions and would aid in the matter of rediscounts in the immediate district in which the branch was situated? It seems to me that the development of the Federal reserve system has made it entirely easy to determine the question of eligibility of paper. It is not a question of local credit as it is with the individual bank. The idea has occurred to me that

this matter might be reached through an agency in a more economical manner than it could be through a branch; that it would be a less cumbersome system of operating, involving far less machinery; and we might accomplish the same object in a more simplified manner.

Vice Governor Treman: How would it be to make a recommendation that in cases where it seems advisable to inaugurate branches, that for the present agencies be established rather than a full branch bank?

The Chairman: Do you offer that as a motion?

Vice Governor Treman: As a recommendation that if it is necessary to do it, you start with an agency rather than a branch bank. Then that can be developed later, if necessary.

The Chairman: I understand the motion to be that the sentiment of the conference is that when conditions in a district seem to necessitate the establishment of additional facilities in cities <sup>other</sup> larger than those in which the Federal Reserve Bank is located, that those facilities be offered through agencies rather than through branches, as now contemplated under the law.

Is there a second to that motion; or is there further discussion?

Governor Wold: I would like to inquire what is meant by "agencies". What functions do they perform?

The Chairman: It would be the function of an agent of a Federal reserve bank.

Mr. Curtis: That depends upon the mind of the man who



makes the motion.

The Chairman: Perhaps Mr. Treman will help us on that point.

Vice Governor Treman: It seems to me it is this: Here is a gentleman here who is the head of one of the banks and who has a branch bank and knows from experience what the conditions are. He states that it is a cumbersome proposition. It seems to me, if I were establishing a bank or any kind of an organization, I would start with an office and with sufficient help to handle such matters as seemed advisable to put through that office by the necessities of the case; but I would not go to the point of erecting a building or renting a suite of offices and establishing a big branch bank, electing the necessary directors and furnishing the necessary machinery, until it had been demonstrated in practical operation that that was a wise move. Therefore, if it became necessary, I should start with the agency. Now, as to the duties and the limitations of an agency, I should say that should be a matter of regulation by the Federal Reserve Board and not a matter for us to determine.

Governor Seay: May I suggest this: Take the case of New Orleans, about which I know nothing, by the way. You might say that the banks of New Orleans, might desire rediscounts, acceptances, etc., in which case, if there were no agency, each individual bank in New Orleans would communicate with the Federal Reserve Bank of Atlanta. Suppose, however, it had an agency. All the banks could

go to that agency and that agency could communicate with the Federal Reserve bank. You could have the whole thing go through once, instead of each bank separately. That is merely a suggestion of the convenience it would afford.

The Chairman: It seems to me we can feel assured that we can count upon the Federal Reserve Board to define the function of the agency.

Governor Fancher: We have had correspondence with one member of the Board with reference to establishing a clearing system in Cincinnati.

The Chairman: I would like to say that we communicated by telephone with the Federal Reserve Board with regard to establishing a check collection agency in Burlington, Vermont, and they gave instant approval.

Mr. Curtis: It strikes me that under the existing law reserve banks have power to establish agencies in their own districts.

Governor Rhoads: Is the word used for agencies in the United States or only in foreign countries?

Mr. Curtis: The word "agency" only comes in connection with foreign countries.

Governor McCord: I think possibly I had better go on record as to my views in regard to the present branch. I would not be in favor of changing. The City of New Orleans is of such great importance that the branch bank is almost essential to handle the business of that city. As to future changes, however, I would not favor more branches.



Governor Seay: How far is it to New Orleans?

Governor McCord: It is 500 miles. It is the <sup>third</sup> ~~second~~ largest port in the matter of imports and exports on the Atlantic Coast.

(Informal discussion followed.)

The Chairman: Is there any further discussion of Governor Treman's motion?

(The motion, having been duly seconded, was carried.)

The Chairman: The next is Topic No. 8.

8. Gold Settlement Fund.

(a) Daily Settlements.

I will call upon you, Mr. Treman.

Vice Governor Treman: I have not anything to offer, except that the moment you get into the real collection system, and especially if you carry out the plan in regard to payment of Federal reserve drafts to any extent, you will have to have a daily settlement.

The Chairman: This is a matter of great importance, and it seems to me very desirable to have a free discussion of this. Have you any motion you would like to make, Governor Treman?

Vice Governor Treman: I would like to hear some expressions from Governors who have had more experience than I have.

The Chairman: The question really is whether or not it is desirable at the present time to change the present method of settlement to daily settlements.

Governor Seay, that is a matter that you have given a great deal of attention.

Governor Seay: Being so close to the Department at Washington, there is possibly more frequent intercourse between our auditing Department and the statistical department of the Board than there is in some other cases. The Richmond Bank has for some time been inclined towards substituting daily settlements for weekly settlements. Personally, I do not think that the matter is a serious one now, but I am sure it would be a very serious one if we were doing a greater volume of collection business.

Vice Governor Treman: You would feel that then it would be essential?

Governor Seay: I would feel, if we were to change our collection system in any way which would result in doing a greater volume of business, or if we were to institute any plan by which drafts on Federal reserve banks would be received by member banks at par in a large way, whether for transfers or general exchange purposes, it would probably become desirable to have a daily settlement. We have worked out a detailed scheme for daily settlements, which has been discussed by the statistical department of the Board; and I am advised that the Department is more and more inclined toward daily settlements, not due to any pressure which we may have to bring to bear upon that, but as a matter of evolution and as a matter of scientific settlement. Certainly at present the weekly settlements are <sup>not</sup> absorbing the greater proportion of the resources of any Federal reserve bank, such a great proportion that they embarrass us



in our reserves; but it is easily to be conceived that the operation of the weekly settlement could absorb a greater portion than we could afford to have tied up with Federal reserve banks.

The Chairman: What do you have to say with reference to doing away with any regular settlement day?

Governor Seay: That was contemplated in the plan already suggested for making drafts on Federal reserve banks. Certain specified sums would go through the Federal Reserve Board at Washington. I think that that could be done, leaving the exact settlement to a deferred period. The accountants are rather in favor of a mathematically accurate and exact settlement daily, but that is the accountant's method as against the practical method. I believe that, so far as the system goes, if we were to adopt a settlement by means of wiring in the amount that we might have on other Federal reserve banks exceeding certain sums, it would be just as well to adopt the daily settlement principle.

Vice Governor Treman: What would you think of a recommendation that in principle we approve of the daily settlement plan and recommend its adoption not later than the date when the final reserves are to be transferred?

Governor Seay: I would be entirely willing to adopt that, or I would be willing to offer a resolution expressing it to be the sense of the Conference that they approve the principle of a daily settlement to be put in effect when the volume of the transactions between Federal reserve banks seems to call for it.

The Chairman: Do you offer that as a motion?

Governor Seay: I accept Mr. Treman's motion, if he would prefer it that way.

Vice Governor Treman: I will accept your motion.

The Chairman: Will you repeat that motion, Governor Seay?

Governor Seay: It is the sense of the Conference that the daily settlement between Federal Reserve Banks is the correct principle, and the committee recommends that the plan of daily settlements be worked out by the statistical department of the Federal Reserve Board, in conjunction with a committee of Governors to be appointed by this Conference, in order that they may prepare and put in force a daily settlement whenever the volume of business between the Federal reserve banks seems to call for it.

The Chairman: You have heard Governor Seay's motion. Is there any further discussion?

(The motion was carried.)

The Chairman: The next is subtopic b, under 8.

(b) Silver and legals - Mr. Gidney's plan.

That plan has been submitted, I believe, to the Governors of all the banks. The matter has had serious consideration by the Federal Reserve Bank of New York. I would like to ask Governor Treman to open the discussion on that.

Vice Governor Treman: Is it the desire of the Governors that we have this read? It is a pretty long report to read.



Governor Seay: I have a motion I would like to make in reference to this plan.

The Chairman: That brings the matter formally before the Conference. The Chair will entertain the motion.

Governor Seay: I believe that some such plan would become necessary in case drafts on Federal reserve banks were made available at all other Federal reserve banks, and I move this plan be referred to the committee having that in charge for consideration.

The Chairman: You have heard Governor Seay's recommendation. Is the motion seconded?

Governor Van Zandt: I second the motion.

Governor Seay: I would like to ask if, inasmuch as we received this copy from the New York bank, the New York bank prefers to have it considered and read in detail now.

Vice Governor Treman: I do not think we are really prepared to give it the thought and consideration that it deserves at this time. It does not seem to me it is essential to do that at the present time.

Governor Seay: Would it suit you to have it referred to that committee?

Vice Governor Treman: Yes sir.

There is another thing. There has already been some discussion about banks in clearing houses in New York settling by checks instead of by legals and silver. At the present time messengers are sent back and forth with a great deal of risk. I have here a little article from the Times. It is a very short article, and it might

affect the situation somewhat.

Governor Seay: Yes. I saw that article.

I happen to know that the Board desires early action upon this subject of drafts upon Federal reserve banks. I believe it expects the committee appointed with that purpose in view to act with reasonable dispatch. In referring the matter to that committee, we are not postponing it indefinitely, but we are bringing it up for early action.

The Chairman: I will say that that committee consists of Governors Treman, Seay, Fancher, Rhoads, and McDougal.

Is there any further discussion? In view of Governor Seay's motion, do you care to elaborate on the plan submitted by Mr. Gidney?

Vice Governor Treman: No.

The Chairman: All those in favor of submitting the plan for the establishment of a settlement fund for the United States notes and silver certificates to the committee appointed to confer with the Board on the question of immediate availability of drafts on Federal reserve banks, etc., will signify by saying aye.

(The motion was carried.)

The Chairman: The next topic is (c), under 8.

8-(c) Branches in non-subtreasury Federal reserve cities.

At the Conference at Boston that subject was referred to a committee that had already been appointed to deal with the question of fiscal agencies. It so happened that none of the members of that committee were located in non-



subtreasury cities. As chairman of the committee I wrote to the Governors of the banks asking them for their opinions and suggestions in regard to the matter. I did not get enough information in reply to form a basis for a report. It seems to me that the committee is not properly constituted to deal adequately with that question, and so the Chair would like to have a motion authorizing the appointment of a committee of three as a substitute committee for the one already existing having that matter in charge.

Governor Miller: I move that that topic be referred to the same committee that has to do with the silvers and legal plan, because they are kindred, and the object of suggesting that topic was to husband the flow of currency in one season.

The Chairman: As a matter of fact, Governor Miller, is not that question bound up completely with the establishment of the silver and legal settlement fund?

Governor Miller: I think it is. That is the reason I think it should be referred to that same committee.

The Chairman: Why cannot that be withdrawn entirely?

Governor Miller: It can.

The Chairman: Governor Miller moves that (c) be stricken in the program, as the subject matter is included in the consideration of the silver and legal settlement fund under 8-(b).

The Chairman: The next is (d), Division between banks and reserve agents. I understand that such physical separation has been made.

8-(d) Division between banks and reserve agents.

Is there anyone here acquainted with the facts in the matter?

Governor Miller: Mr. Gidney told me this morning that the physical division actually existed.

(Informal discussion followed.)

Governor Fancher: I move that the chair appoint a committee, in compliance with the request of the Federal Reserve Board, to inspect the vault facilities provided for the custody of the gold settlement fund.

(The motion, having been duly seconded, was carried.)

The Chairman: The Chair will appoint a committee consisting of Governors Fancher and McCord.

The next topic is (e).

8-(e) Audit of fund.

Mr. Custis is down for that topic. He is absent, and we will pass it temporarily.

No. 9 is the next. That is "currency and reserve."

In regard to (d), I understand the physical separation of the funds between the banks and the Federal reserve agents has been accomplished. Therefore, unless there is some objection, we will have that removed from the program.

9. Currency and reserves.

The topics under No. 9 are to a very considerable extent covered by amendments to the Federal reserve Act which are to be recommended by the Federal Reserve Board. (a) is the retirement of greenbacks.



9-(a) Retirement of greenbacks.

Governor Seay: That is not in the amendment.

Governor Miller: That would be under No. 4, which is super tax on National bank note circulation.

The Chairman: Not necessarily, Governor Miller.

Governor Miller: Oh, no. I beg pardon.

The Chairman: I would like to say that, in connection with the various amendments, Mr. Curtis has prepared a vote covering most of the topics under discussion. I would like to read it for comment and criticism by the members of the Conference in connection with the topics under 9.

(Informal discussion followed.)

The Chairman: The next topic for discussion is No. 9.

Governor Seay: Have all those matters been disposed of that you read, Mr. Chairman?

The Chairman: As <sup>1</sup> recited, Mr. Curtis has prepared a resolution covering topics (a), (b), (c), (g) and (h), under 9. This resolution reads as follows:

"Resolved, That it is the sense of the conference that legislation should be obtained at the earliest practicable moment looking towards the improvement of the currency laws of the country, with the special view of lessening the number of different issues of currency now in circulation and substituting for such issues Federal reserve notes. Such legislation should include, among other things, the following:

1. Retirement of the whole of the present issue of

United States notes (greenbacks) and the substitution therefor of Federal reserve notes upon an equitable basis to be worked out between the Government and the Federal reserve banks.

"2. The acceleration of the retirement of national bank note currency.

"3. The authorization of the use of Federal reserve notes as vault reserves for member banks.

"4. A provision requiring all Federal reserve notes issued to Federal reserve banks and not redeemed to be counted as liabilities of the bank, and all gold and lawful money deposited with a Federal reserve agent to reduce liability on such notes to be included among the assets of the bank.

"5. A provision authorizing the Federal Reserve Board or the Secretary of the Treasury to readjust, in their or his discretion, from time to time the denominations of silver and gold certificates to be placed in circulation, to the end that the silver certificates should be placed in the hands of the public and gold certificates should find their way into bank reserves in the hands of the banks."

The Chairman: Is the Conference prepared to act upon that resolution, or does it prefer to take up separately for discussion the topics recited under it?

Governor Seay: I move that the Conference adopt the resolution.

Governor Fancher: I second the motion.

The Chairman: The motion made by Governor Seay and duly seconded by Governor Fancher is that the Conference adopt



the resolution submitted by the Secretary covering topics (a), (b), (c), (g) and (h), under No. 9. Is there any discussion?

(The motion was carried.)

The Chairman: The next is topic (d) under 9.

9. (d) Promissory notes of member banks as collateral for Federal reserve notes.

Governor McDougal is responsible for that topic on the program.

Governor McDougal: That was placed on the program at the suggestion of the head of our discount department, who stated in substance that while he believed the framers of the Federal Reserve Act intended that such notes should be eligible for deposit with agents for currency, that provision had not been made for the same, and his opinion seems to be endorsed by the Board. Action has already been taken. Therefore, I suggest that the matter be left there and no further action be taken.

Governor Fancher: Should there not be a recommendation here?

The Chairman: May I suggest that this matter be deferred until we consider the proposed amendments to the Federal Reserve Act submitted to us by the Board?

Governor McDougal: That will be entirely satisfactory.

The Chairman: Mr. Calkins was responsible for the next subject. Is there anyone who wishes to discuss it?

9. (e) Issue of demand certificates of deposit payable in gold to member banks depositing gold.

Governor Rhoads: I think that would solve the difficulty in dealing with non-members of the clearing house

associations in clearing balances, and it would be quite useful in Philadelphia.

Governor Seay: Issued by whom--- the reserve banks?

Governor Rhoads: Mr. Warburg thinks it is possible to cons true it so that we have the right to do that.

(Informal discussion followed.)

The Chairman: I would like to ask Governor McDougal if that would not help the settlement of balances in the Chicago clearing house.

Governor McDougal: It would work exactly as our present arrangement does, under which the clearing houses are depositing gold and lawful money. It might be of use there. I cannot see any objection to it, but I can see that some good might come from it.

The Chairman: Does any member of the Conference wish to make a motion in regard to that?

Governor Seay: Why not eliminate member banks, so as to make it broad enough to cover both?

The Chairman: The Chair waits for a motion to dispose of (e).

Mr. Curtis: It seems to me that would be a dangerous thing to start.

Governor Wold: Unless there was a segregation of the gold.

Governor Rhoads: That was the idea.

Governor Wold: A certificate of deposit does not indicate that.

Mr. Curtis: Unless this comes down to a mere custodial



certificate, it seems to me it would be a bad thing to adopt, because none of the other obligations of the Federal reserve bank are necessarily payable in gold.

(Informal discussion followed.)

Governor McDougal: It is my understanding that those certificates would be issued payable in gold upon the receipt of the deposit in gold, and that it would be necessary to warehouse that gold just as we do in the clearing house.

Governor Seay: It would become an asset of the banks, and you treat it as such. I cannot see the danger from the Federal reserve standpoint of receiving that gold deposit and issuing a demand obligation against it.

Governor Wold: The danger arises from the fact that they accept deposits payable in gold. That goes into the general funds of the bank, and you might be carrying 35 per cent reserve against it and be obligated to pay at 100 cents in gold.

The Chairman: Has anyone a resolution to offer in connection with this? If not, we will allow it to stand on the program until Mr. Calkins or Governor Kains is here.

The next is (f).

9. (f) Vault reserves. Transfer of.  
Amendment to law.

That is covered under No. 1 of the recommended amendments to the Federal Reserve Act. That disposes of everything under No. 9.

Have all the members of the Conference copies of the

memorandum given us by the Board as to the amendments to the Federal Reserve Act which they propose?

Governor Wold: In connection with these resolutions which we have just adopted, while I am in hearty sympathy with them, I do not think they have gone far enough in that we have offered nothing constructive to the Board. We have not offered any suggestions. We simply approved of certain things being done in a general way. We are not helpful to them at all in solving the problems which they have put up to us and which we have put up to them. I suggest there should be a committee appointed to confer with the Board.

The Chairman: Governor Wold, I had rather inferred that before matters as fundamental as these were disposed of we would have ample time to discuss them and to formulate a policy in detail. Perhaps that is not true, however, because the amendments are to be pressed at this time.

Governor Wold: This is a question relating to reducing the volume of National bank notes in circulation and there is also the question of retiring greenbacks. Besides, there are these other questions. It seems to me we ought to be in a position to offer them some suggestions.

The Chairman: I think that is a good suggestion. Of course, we cannot now formulate a plan for the retirement of the greenbacks. It is a matter that has to be dealt with by a committee which will give the subject serious consideration. It requires serious consideration and discussion.



Have you any suggestions to offer as to the best methods of bringing constructive suggestions to the attention of the Board bearing on the matter covered by these resolutions?

Governor Wold: I cannot say that I have, Mr. Chairman.

Vice Governor Treman: Taking No. 2, for instance. Reducing reserves and adopting simplified plan suggested by Federal reserve agents. What is that plan?

The Chairman: Have you any suggestions, Governor Wold?

Governor Wold: The question is too big to be covered by a mere informal statement.

Governor Seay: I think that we should discuss these one by one, and it will be developed then whether we have any concrete or constructive suggestions to offer to the Board. I suggest that we proceed to discuss these one by one and analyze them, and we will then find out whether we have any constructive suggestions to make.

Governor Wold: We have adopted the resolution covering the principal topics.

Governor Seay: I know, but we can now proceed and dissect them.

The Chairman: I would say that this resolution which was adopted covers comparatively few of the amendments to the Federal Reserve Act proposed in this memorandum.

Governor Seay: In addition to that, Mr. Chairman, one or two of the subjects are covered in a different way on that sheet from the way in which they are covered here;

and a discussion of these will perhaps go back to that resolution and we will then very likely have some constructive suggestions to make. I am interested in the substitute for making Federal reserve notes legal reserve.

The Chairman: If it is the pleasure of the Conference, we will proceed to the consideration of the amendments as proposed by the Federal Reserve Board in their memorandum.

(Informal discussion followed.)

Amendments to the Federal Reserve Act proposed by the Federal Reserve Board.

I will read the amendments to the Federal Reserve Act proposed by the Federal Reserve Board.

"1. Advancing the date when reserves, excepting those in Federal reserve banks and in vaults of other banks, will no longer count as reserves."

As amplified by Governor Harding this, I understand, contemplates getting from Congress authority to advance the date and make the change operative 60 days from the passage of the Act. I also understand that this was submitted to the Federal Advisory Council and was approved by them. Is there any discussion?

Governor Seay: I move that we approve that amendment, Mr. Chairman.

The Chairman: Governor Seay moves that the Conference approve Amendment No. 1.

Governor Fancher: I second the motion.

(The motion was carried.)



The Chairman: No. 2. Reducing reserves and adopting simplified plan suggested by Federal reserve agents.

Has everyone here a copy of the proposed plan? Will it be agreeable to the Conference if the Chair reads this plan?

Governor Seay: I would like to hear it read.

The Chairman: This plan was one that was submitted in the form in which we have it by the Federal reserve agents at their meeting here last week!

"The Committee on Reserves of Member Banks, after investigating the reserve situation in all districts, have carefully considered the matter of the readjustment of the present reserve requirements provided in the Federal Reserve Act, and beg leave to make the following recommendations:

1. That the Act be amended by cancelling the present reserve requirements and substituting the following:

First. Member banks in central reserve cities shall be required to keep three per cent of their time deposits and 12 per cent of their demand deposits on deposit in collected available funds with the Federal reserve bank of their district.

Second, Member banks in reserve cities shall be required to carry three per cent of their time deposits and nine per cent of their demand deposits on deposit in collected available funds with the Federal reserve bank of their district;

Third, Member banks not located in Central reserve cities or reserve cities shall be required to carry three

per cent of their time deposits and six per cent of their demand deposits on deposit in collected available funds with the Federal reserve bank of their district.

Fourth; Postal savings deposits shall be considered as time deposits.

This leaves to the discretion of the member bank the amount of cash in its vaults which it will carry and the amount it will carry on deposit with correspondents to meet the requirements of its business. Our investigation shows that a mandatory regulation is not necessary to compel member banks to carry sufficient cash in their vaults and on deposit with other banks.

2. Under this plan there will be no necessity for having legislation to make Federal reserve notes lawful reserves for member banks.

3. It will give member banks equality with nonmember banks in the availability of all till money.

4. It will strengthen the Federal reserve system by largely increasing the gold holdings of the Federal reserve banks through the additional deposits of member banks.

5. It will encourage state banks to join the system by reason of the readjustment of reserve requirements.

6. It will make the Federal reserve system similar to European systems in leaving to the determination of the member banks their normal requirements for counter exchange or remittance demands.

7. It will simplify reserve calculations and reduce the work of member banks in classifying and assorting cash.



8. It will prevent the unnatural and unnecessary redemption of national bank notes, Federal reserve notes and Federal reserve bank notes, except when not needed for the demands of trade, thereby increasing the real elasticity of such notes.

9. In addition to increasing the gold reserves of Federal reserve banks, it will also tend to protect them.

10. Since these reserves to be kept with Federal reserve banks must be in collected available funds, it will make uniform the reserve policy to be pursued with all members in each of the 12 districts, both as to calculation and the basis for the assessment of penalties.

11. Since the plan includes discontinuing as reserve balances with correspondents, and prohibits the use of float or items in transit as reserve, it does not tend to inflation, but eliminates fictitious reserves.

12. It also disposes of the question of counting as reserve the national bank notes and balances due from the United States Treasury.

13. This plan shall go into operation at a date coincident with discontinuing counting balances with other banks as reserve and with the expectation that the Federal Reserve Board will be authorized to fix the date in its discretion earlier than November 16, 1917.

14. The committee points out that the Federal Reserve Board still has the power to add to or subtract from the list of Reserve and central reserve cities."

This plan, as is obvious and as they explained it,

does away with any restrictions or limitations on the cash requirements of the bank. There has been a great deal of discussion by the Board as to the percentages of Federal reserve bank reserves that were appropriate and desirable for the three different classes of banks--- the central reserve, reserve and non-reserve bank.

This plan is submitted for discussion.

Governor Miller: To get it before the Conference, I move the adoption of the plan.

The Chairman: Is the motion seconded?

Governor McDougal: I would like to offer a substitute to that. I suggest that we approve the principle, but I would not like to be in the position, at the present time, of approving <sup>the</sup> percentages.

The Chairman: Do you accept the substitute, Governor Miller?

Governor Miller: Yes sir.

The Chairman: Governor McDougal moves that the Conference approves the principle of the plan submitted by the Federal reserve agents without committing the conference as to the percentage of reserves that it is desirable to have under this modification. Is Governor McDougal's motion seconded?

Governor Wold: I second the motion. I wish to call attention, Mr. Chairman, to the fact that the Board have reached a conclusion on this. There is an agreement on the part of the members of the Board, and if my memory serves me correctly, the percentages are changed somewhat from



those set forth in the recommendations of the agents. They are seven and three for country banks; ten and three for reserve city banks; and 13 and 3 for central reserve banks.

The Chairman: I will supplement that by saying that Governor Delano thinks 14 per cent would not be undesirable for central reserve city banks.

Mr. Curtis: None of those were final. Mr. Harding said that they were still debating those percentages, but that those were the ones the Board at present had in mind.

Vice Governor Treman: I think that the Federal Reserve Board would like to have this conference consider those percentages and make a definite recommendation.

Cox fls. The Chairman: Gentlemen, you have heard Governor McDougal's motion, duly seconded. The substance of the motion was that the Conference approve the plan as submitted by the Federal reserve agents without committing itself as to percentages.

Governor Seay: I would like to speak to that motion before it is put.

The Chairman: Proceed, Governor Seay.

Governor Seay: As I understand the situation, one of the purposes of proposing this plan is that it is in the nature of a compromise to the desire of the Board to have Federal reserve notes made legal reserves; that the Federal Reserve Board has not met with encouragement from those who have the formation of legislation in charge, and it believes that this will be a compromise which may, in effect,

bring about what they desire; that their chief desire is to strengthen the gold holdings of the Federal reserve banks.

Another desire on the part of the Board, as I take it, is to settle the question of reserves after the Act has gone into full effect, when there will be no central reserve or reserve cities. And further, that it will lessen the reserve burden upon the banks, particularly upon the country banks. Whatever vault reserve you may fix by law to be held by the country banks, is one thing, and the necessity of operation is quite another thing. The country banks can do with an irreducible minimum of vault reserve. I think that will be admitted.

Vice Governor Treman: A factory town may have to have more than a country bank in some other town of the same size?

Governor Seay: Yes. That may vary very widely between banks. Some banks may be compelled to hold 15 to 20 per cent reserves, and other banks may be able to do with five per cent, three per cent or four per cent reserves.

Governor McCord: Would not that also change the season as to the agricultural districts?

Governor Seay: Yes. It would be constantly changing. This is the point. If you compel the member banks to keep in the Federal reserve banks a higher reserve than they now have, fixed by the act, are you not imposing an additional burden upon the banks? If they cannot do with



an amount of reserve which, added to the reserve required to be kept under the law makes a sum less than the reserve with which they now operate, you place a greater burden upon them.

I have kept tally of the vault reserves which the member banks have carried since the operation of the Federal Reserve Act. The banks have found out--- the country banks have found out that they are able to do with a much smaller reserve than they formerly carried.

Not considering national bank notes and other forms of currency, but merely considering lawful money reserve, the country banks, for a period of years prior to the establishment of the Federal reserve Act, carried about seven and a half per cent of their deposits in their vaults. Since the establishment of the Act, however, on November 10, 1915, they got down to 5.75 of their total deposits.

On December 31st of that year they got down to 5.58 of their total deposits, and on September last, which was the last statement we have available, they got down to 5.30 per cent of their total deposits.

If you compel the member banks to increase their reserves in the Federal reserve banks; if 5.30 per cent, the amount which they held on September 12th last, is the lowest sum which they can keep for practical operations, then you are placing an additional burden on the country banks.

The result of this plan, proposed by the agents, is that it requires the country banks, if they keep a reserve of six per cent on demand deposits, and three per cent on

time deposits, to keep in the Federal reserve bank a reserve of 5.10 per cent of their total deposits. Under the law now they have to keep 4.12 per cent, so it is an increase of one per cent. If you make it 7 per cent, as the Board suggests, then you would require them to keep in the Federal Reserve Bank 5.80 per cent as against 4.12 per cent as it is now.

Governor McCord: Is it not 5.12 per cent?

Governor Seay: No, 4.12 per cent of the total deposits.

Governor McCord: Of total deposits?

Governor Seay: Yes. I am basing it on former conditions, because you can very easily compare on former conditions. If you say ten per cent of demand and five per cent of time, you have nothing with which to compare it; but if you take the percentage on total deposits you have a basis of comparison with former deposits.

So, if you make it 7 per cent on demand deposits and three per cent on time deposits, as the Board proposes, it would result in keeping in the reserve banks 5.80 per cent.

It is a question of what the country banks need in their vaults upon which to operate. We have been accustomed to supposing that they kept a very considerable proportion of their vault money in National bank notes and other forms of currency. As a matter of fact the central reserve city banks keep but 28/100 of their entire vault reserve in other than lawful money. The reserve city banks keep nine tenths, and the country banks only keep nine tenths in National bank notes and Federal reserve notes.



The Chairman: May I inquire if you think that the country banks really sort all that money, as they do not report their till money?

Governor Seay: I am quite sure they do not sort it. They get careless and count Federal reserve bank notes as legal tender, because they do not take the trouble to sort it.

Governor McCord: Are not their figures based on examinations made by the examiners?

Governor Seay: They are based upon the Comptroller's reports.

Governor McCord: That report is based upon the report of his examiners?

Governor Seay: No, it is the published report of the Comptroller, the report he makes five times a year.

As a matter of fact, the reserve city banks have kept 7.6 per cent in their vaults, and the country banks, on September 12th, had 6.28, including national bank notes, in their vaults. The question is how much can they do with? If you increase their required reserve to 5.10--- under the Act as it now stands they would only have to keep 4.80 per cent in their vaults. Can they do with 4.80 per cent. They had 6.28 before.

Governor Wold: May I interrupt there, Governor Seay?

Governor Seay: Certainly, Governor Wold.

Governor Wold: Is it not true that a large part of the money carried in the country banks today is carried there because it is required to be maintained, a certain

stipulated amount they must maintain in their own vaults? Of course their working cash must be over and above that.

Governor Seay: Yes.

Governor Wold: So that if there was no legal requirement for any amount of money to be carried in their own vaults, except what is necessary for day to day operations, they could do with very much less?

Governor Seay: Yes. I am coming to that, Governor Wold. Since the Act was amended to enable the member banks to keep in the Federal Reserve Banks a part of their reserves, we have no statistics, so we cannot tell just yet the minimum with which they can operate their banks.

Governor Wold: They must carry more than the amount required by law.

Governor Seay: They do, but they work down to an absolute minimum, in a very large percentage of the small banks.

Governor Wold: How much more does your report show they are carrying than the law requires them to carry? That will tell you how much it takes to operate on.

Vice Governor Treman: I think it is 1.10 per cent. The law will require them to keep in their vaults 3.30 per cent---

Governor Wold: How much does it require them to keep now?

Governor Seay: It requires 5.12 now in the Federal reserve banks.

Governor Wold: How much in their own vaults?



Governor Seay: It requires them to keep 4.12 in their own vaults.

Governor Wold: How much are they carrying?

Governor Seay: 6.28 per cent.

Governor Wold: That would be a working cash reserve of two per cent above the requirements?

Governor Seay: Yes.

Governor McCord: May I make this inquiry, Governor Seay? Do not your small member banks say to you that they cannot get along with less cash in their vaults?

Governor Seay: I do not think it is possible for the member banks to get along with <sup>the</sup> minimum requirement under the Federal Reserve Act.

The Chairman: You mean they cannot get along and maintain their reserves?

Governor Seay: I do not think that is the case. I think they cannot operate.

Governor McCord: That is it.

The Chairman: They cannot operate and keep their reserves good at the same time?

Governor Wold: That is the point exactly, Mr. Chairman.

Vice Governor Treman: There is a certain amount they must keep. All above that is what they use. If you take away that required reserve, is it not fair to say that above the amount they keep as the required reserve is what they actually need for their current use? Any good bank would probably keep one per cent beyond that.

Governor Seay: I am not trying to say what they can use or what they cannot use. I am merely trying to compare conditions and see what they may possibly lead to. I am not making the statement. I am just trying to analyze it and see whether or not it will impose a heavier burden on the country banks than the law now imposes. If it does, notwithstanding our desire to strengthen the holdings of the Federal reserve banks, we would meet with very strenuous opposition, doubtless, and I think the Board would hesitate to impose a greater burden on the member banks, even to bring about this desired condition with the Federal reserve banks.

I am not making a statement just yet. I have not had this in hand more than two or three days. I am just making an analysis of conditions which have existed and trying to form a comparison with what the banks can possibly do.

Of course, in order to maintain their reserves up to the required point they are compelled to have a little more on hand than they are actually required to hold, but what they can do with is difficult to see. The country bank is now required under the Act to keep 4.12 per cent. When the Federal Reserve Act goes into operation the country bank will be required to keep only 3.30 per cent, with an optional reserve of 2.48 per cent which it may keep in the Federal reserve bank. It is a question, under the law as it now stands, if the country bank can do with less than it is required to keep now. The optional reserve will be equal to 2.48 of the deposits in the case of the country



bank. The reserve city banks will be required to hold in their vaults only 4.6 per cent, but they will be required to have a vault reserve, either in vaults or in the Federal Reserve Bank, of 3.68. This Act would compel the reserve city banks to keep in the Federal reserve banks 8.28 per cent, whereas now they are compelled to keep only 5.62 per cent. So you have the reserve cities to consider, just as well as the others. It increases their requirements nearly 3 per cent.

Vice Governor Treman: But you lessen the vault reserve, just the same?

Governor Seay: The Central Reserve Cities are required to keep in the federal reserve banks 6.88 per cent. This amendment would require them to keep 11.80 per cent.

Vice Governor Treman: Yes, but you relieve them of their required vault reserve.

Governor Seay: Yes. I am aware of that. I can give you a comparison in that case also. The Central reserve cities are now required to keep 6.88 per cent. They have been operating with 12.30 per cent. The new conditions would require them to keep 11.80 per cent in the Federal reserve banks and just what they could get along with in their own vaults.

Vice Governor Treman: Is it not fair to say in regard to central reserve cities that they hardly ever have a dip in their reserve, except just for one day or so?

Governor Seay: Their required reserve?

Vice Governor Treman: Their required reserve.

Mr. Seay: Yes, I know, but suppose, for instance, they had to keep no required reserve in vault. How little would they be willing to do with or how little could they do with?

Vice Governor Treman: Is it not fair to say, if you place them in a position where they do not have to keep any required reserve, that you could eliminate the 1.5 per cent and find out what they have been keeping as surplus beyond their legal reserve as a working amount in vault?

Governor Seay: That is true, but the question still remains how much they consider necessary for a working balance?

Vice Governor Treman: I assume the central reserve city banks can get along with a very appreciable sum less than they have been carrying. That is also the case with the reserve city banks and the country banks.

The Chairman: I would like to ask you, Governor Seay, if you do not think, in case this plan was put into operation, that it would necessitate, on the part of the Federal reserve banks, very much greater facilities than they have at the present for supplying banks with money?

Governor Seay: Beyond all question. It would entail another obligation. It would entail the responsibility of keeping very much stronger, because other Federal reserve banks have got to have it or the member banks have got to have it. One way or the other it is a question of how much they would have to have..

Governor Wold: But we would be much stronger, would we not?



Governor Seay: Yes, we would be stronger, but we might have it and not be able to use it.

The Chairman: On the other hand, a situation that required rediscounts would be precipitated upon us very much sooner than under the present plan?

Governor Seay: Very much sooner, Mr. Chairman.

The Chairman: Even though we were stronger, the demands upon us would be much more frequent and would more nearly approach a chronic stage?

Governor Seay: Very much more. It is perfectly clear there would be a tendency to get along with as little as was possible for them to handle in their vaults, and in order to keep their reserves with the Federal reserve banks, they would have to resort to rediscounting. I think there is no doubt of that.

The Chairman: There is so much credit in the country that has to be supported, that if it is not supported in the vaults of the banks, then it will have to be supported by the reserves in the Federal reserve banks.

Governor Seay: Yes. The Federal reserve banks would not gain anything like as much, under this plan, as they would gain if Federal reserve notes were made lawful reserve. I think they have far more to gain from that source than they have from this source. This is a question which needs a great deal of analysis and deliberation to determine whether or not this plan will impose actually a greater burden upon the country banks and reserve city banks than they now have to bear under the Act. I do not say it will just yet, but it looks to me as though that would be the

result; and if that should be the result, then you are simply throwing it in the air.

Governor McDougal: I think it is quite possible that this plan, as outlined, would impose a greater burden on the central reserve cities, under some circumstances. Their cash, according to my observation, fluctuates very materially from time to time, and I feel very sure the management of those large banks would feel disposed to carry a good cash reserve. They feel that they must do it. That was my reason for objecting to the percentages here outlined, without at least giving a very careful consideration to them. I think it is a very important matter. Beyond that, there is another feature that it seems ought to be considered. This would be practically forcing the banks to do what we are asking them to do now--- that is to keep larger reserves with us. There being a great difference between a request and a command, it might naturally not sit very well.

The Chairman: I am very certain, Governor Seay, that the country banks, in the section of the country from which I come, won't stand any added burden. They are just about at the breaking point now. They are getting accustomed to the present situation and are bearing it with constantly increasing equanimity. If the banks in our large manufacturing centers, that are required to carry large amounts of cash for pay roll purposes, and that have very violent fluctuations in cash from week to week, as most of the pay rolls are on the weekly basis, find themselves



confronted with the necessity of carrying larger reserves with the Federal reserve banks, with no practical diminution in their cash holdings, because of the peculiar nature of their business, the tendency to be converted into trust companies would be greatly increased and the process of conversion greatly accelerated.

Governor Wold: Your banks do not use reserve cash for pay roll purposes. They carry the pay roll money in excess of their reserve cash.

The Chairman: Yes, they do; that is true. It would take a good while for those banks to become accustomed to the idea of reducing their cash holdings, or accustomed to the idea that they could safely reduce their cash holdings during that period. They would be confronted with the necessity of a larger reserve with the Federal reserve bank, with the result that in the period of readjustment they would be carrying materially larger reserves than they are carrying at present. There would be a spirit of very distinct antagonism developed, I am quite sure.

Governor Seay: I believe until we have some information which will enlighten us upon the minimum reserve that the banks of the country can operate under, it would be very hazardous to attempt to put that plan into operation.

The Chairman: I think this Conference should give very careful consideration to the recommendation of the Federal reserve Board upon this matter. If legislation is asked for at this time a great deal of pressure is going to be exerted to get it framed; the session is short and the

matter will be hurried. Once enacted into law we are going to be confronted with this situation and we will have to meet it as best we can.

Governor Seay: It might be easy to pass because apparently it reduces the required reserve of most of the banks. But whether in effect it reduces the amount of reserves necessary for operation is the vital question. I do not think we have anything before us that we can rely upon to determine that question at the present time.

Vice Governor Treman: Do you not think that we should also have a chance to sound out some of the banks as to their views on this situation, in a quiet way. It is a pretty big question. If you concentrate so much more of your reserves in the Federal reserve banks, when the time of stress comes you are going to have a great deal of pressure on the Federal reserve banks from all directions.

Governor Seay: I would like to say I had this report before me at the time I prepared the report for the committee on the subject of central reserve and reserve cities, and I so formulated that report as to put down something over on the other side to consider, rather than something that I would be absolutely willing to recommend myself, although I put it in the report. There is this question to consider with relation to the reserves which the banks may have.

We are going to deprive the balances in the central reserve cities of the quality of reserves. It is quite clear to my mind that that is going to induce a greater



competition for bank balances among all the banks, including those in the central reserve and reserve cities, and also among the larger banks all over the country, for the deposits of banks in their own neighborhood. When that is started some of those banks that will bid for those balances will probably bid high rates of interest, and the probability is they will attract them. The banks that receive them are not so accustomed to handling the balances of other banks, and they will have a great deal to learn by experience. I think there is no doubt that the balances of other banks are subject to more sudden and wider fluctuations or withdrawals than any other class of balances. That is a situation that might lead to complications, I am inclined to think.

Governor Wold: Along that line, in discussing this briefly and informally with Mr. Delano this morning, it developed that this question of reserve cities will be taken up immediately after this legislation is adopted, if it is adopted. Banks that are handling the accounts of either member banks or state banks, nonmember banks, will probably be put in the reserve city class and a larger reserve requirement required of them. I think that will be absolutely necessary in the case of a city like Buffalo, for instance, and in a lot of smaller communities.

(Informal discussion followed which the reporter was directed not to take.)

Governor Seay: That discussion is in line with the report of the committee on central reserve and reserve

cities, upon which action was deferred by the Conference.

The Chairman: Would it not be well to take up the other recommendations and then have the report of Governor Seay's committee on the reserve and central reserve cities in connection with a further discussion of this No. 2. Unless there is some objection we will proceed on that theory.

The next is No. 3. "Reducing paid-in capital of the banks to 1-1/2 per cent."

That was finally disposed of on our regular program.

The next is 4, "Supertax on National bank note circulation."

Vice Governor Tremen: Can you give us the details of that proposed supertax, Mr. Chairman, or can anyone here give it?

The Chairman: The proposition, as I understood it, was that banks with a circulation up to \$100,000 should be allowed to carry that circulation without a tax upon it; that there should be an increasing tax on circulation above that amount to gradually drive in the National bank note circulation, dispose of the bonds supporting it and substitute the Federal reserve notes as the circulating medium.

Has anyone a resolution to offer in connection with this?

Governor Seay: It has always been my view that it was a mistake to permit new banks entering the system to take out circulation. I think the National bank act ought to be so amended that that burden would not be added to the present system by every new bank coming in.



Mr. Curtis: The proposal offered us includes that suggestion.

Governor Wold: I spoke to Mr. Warburg about that and suggested there ought to be an amendment of that kind, but he was not in favor of it. He said that would deter organization of national banks. These little banks want to see their notes in circulation. That is one of the reasons why they sometimes organize a national bank where a state bank might have answered their purposes just as well. He thought it would deter national banks being organized in the smaller communities.

Governor Seay: How long ago was that?

Governor Wold: That was on yesterday.

Mr. Curtis: I understood Mr. Harding, in his statement day before yesterday, to state that their proposal would probably include a restriction on the circulation of new National banks to quite a considerable extent.

Governor Seay: In connection with that I would like to offer a resolution that the Board consider imposing a restriction upon the circulation of new banks entering the system.

Governor Rhoads: What would you say with respect to the renewal of charters?

Governor Seay: The same thing.

Governor Rhoads: Then the date of their birth would be a handicap to some of them?

Governor Seay: It would, yes.

Governor Rhoads: It would make a very unequal discrimination I think.

Governor Wold: Not if this new amendment went through. Still, however, that would not apply to banks under \$100,000.

Governor Seay: We are going to place a handicap on them by imposing a super tax, and if we are going to do that, why not place another tax in the way of a restriction on the circulation of new banks?

The Chairman: What was your motion, Governor Seay?

Governor Seay: That the board consider whether or not it would be advisable to restrict the circulation of new banks coming into the National system.

Governor Wold: I will second the motion.

Governor Van Zandt: Just a moment. Governor Seay, would you not be willing to add to that, "or renewals of charters?"

Governor Seay: Yes. I will make it restriction of circulation of new banks coming into the system or of banks renewing their charters.

The Chairman: You have heard the motion and the amendment. Is there any further discussion.

(There was no further discussion and the motion was carried.)

Governor Seay: I would not consider that that disposes of the question, Mr. Chairman?

The Chairman: No. I was going to ask you if you were disposed to make a motion covering No. 4.

Governor Seay: I would like to hear some of the national bankers on that subject.

Governor McCord: Would not a better way to bring



about retirement be to empower the Board to call in a certain percentage of bonds each year from each national bank, and then require circulation to go out according to the needs of trade and commerce. It would naturally force itself out. That would be better than taxing them. It would be better to just say that they would have the right to call in from each reserve district a certain percentage of bonds.

The Chairman: Might I ask how the bonds would be taken up?

Governor McCord: Require the Federal reserve banks to make a deposit of lawful money for retirement of that circulation and take the bonds.

Governor Wold: I prefer not to be obligated for those bonds in our district.

The Chairman: I would like to get some action on this No. 4. We either agree or we do not.

Governor Seay: Is there any way to enforce a more rapid retirement of national bank circulation than to have a greater purchase of the bonds securing it by the reserve banks? Is there any other possible way?

Governor McDougal: That is the question that has been in my mind. Further, how are these banks going to dispose of their bonds? Who is going to buy them?

Governor Seay: The reserve banks would buy them in larger amounts. I was wondering if there was any possible way to hasten the retirement of national bank circulation other than increasing the amount of bonds to be purchased by the reserve banks.

Governor McCord: Yes. If the Secretary of the Treasury offered them to the investing public and took bids on them.

The Chairman: Is there not a great injustice to the banks in this supertax plan?

Governor McCord: Yes.

The Chairman: It practically forces them, by means of the supertax, to market their bonds.

Governor Seay: Without giving a market for a greater amount than \$20,000,000 a year.

Mr. Curtis: I think the plan Mr. Harding spoke of did provide a rather elaborate system for the reserve banks to take these over, covering the possibility of reserve banks issuing Federal reserve bank notes against them, with a tax provision.

The Chairman: You are quite right about that, Mr. Curtis.

Governor Seay: And issuing three per cent bonds in their place.

Vice Governor Treman: Yes, and giving the three per cent bonds the circulation privilege.

Governor Seay: Giving them the circulation privilege in the hands of the Federal reserve banks?

Mr. Curtis: Yes. That was the idea.

Governor Seay: Placing a tax on the circulation issued by the reserve bank so that it would reduce the profit received by the reserve bank to one per cent. The Government would get one per cent, the Federal reserve bank would get



one per cent and the other one per cent would probably be covered by the cost of issuing.

Mr. Curtis: I do not think they have worked out the details, but I remember he suggested that would be a possible way of handling the situation.

The Chairman: Will some one offer a resolution on this?

Governor Seay: I will offer a resolution: That it is the sense of the Conference that the more rapid retirement of National bank notes can be brought about only in one way, and that is by the increase in purchase of two per cent bonds by the Federal reserve banks; that in the opinion of the Conference the amount of bonds provided to be purchased by Federal reserve banks in one year should be increased; that some equitable plan should be worked out by which Federal reserve banks could, without loss issue circulation to take the place of the National bank circulation retired. It is the opinion of the Conference that national bank notes should be replaced by Federal reserve notes, but under the law, as it now is, it is impossible to replace national bank notes with Federal reserve circulation, and the law <sup>should</sup> be amended so as to permit the issue of notes against gold and bills receivable.

There is one thing to be considered, and that is that the National bank circulation cannot be adequately replaced except by Federal reserve notes. It is perfectly certain that we cannot, under the existing conditions of the law, issue Federal reserve notes to replace the National bank note circulation. The Act must be amended to permit us to issue

Federal reserve notes against gold and bills receivable, just as they propose. They proposed that. That is almost a sine qua non of readjusting the National circulation.

The Chairman: I would like to have that resolution repeated.

(The reporter thereupon repeated the above resolution, upon which considerable informal discussion took place.)

The Chairman: I would suggest, in dealing with this matter, that we consider the desirability of expressing to the Board, as I have said, our desire to have the Federal Reserve notes replace national bank notes as rapidly as possible, but that we are disinclined to agree to any plan that involves the substitution of one form of bond secured note issue for another form of bond secured note issue. That will put us on record as being opposed to any plan that involves that as a necessary concomitant of it. I would like to be on record to that effect, myself.

Governor Wold: I would like to also.

Governor Fancher: So would I.

Governor Rhoads: We are all in agreement on that point.

Governor Deay: While I agree on that, I cannot see any other possible method, for some years to come, but a substitution. If you wish to retire them you must substitute Federal reserve bank notes. I am opposed to the principle of doing it, but at the same time if they are to be retired, I recognize the necessity of doing it.

The Chairman: Do you not think it is better to move



slowly in this matter. Do you believe there is any immediate necessity for doing this? The whole financial situation of the country is abnormal at the present time. It seems to me it is not a matter of such immediate urgency that we cannot wait until the financial conditions of the country return to something approaching normal before we take it up.

Governor Seay: I would be perfectly willing to express my opinion that while we believe early retirement of National bank notes is very desirable, yet we do not believe it is of such urgency as to be undertaken at this time.

The Chairman: If it involves the substitution of any form of bond secured currency for another form of bond secured currency.

Will you offer a resolution to that effect, which will take the place of the one previously offered by you?

Governor Seay: Yes. I move the Conference believes it to be highly desirable that National bank notes should be retired as rapidly as possible, but the Conference is opposed to the principle of substituting any form of bond secured currency for the present national bank currency.

Governor Wold: I will second that.

The Chairman: You have heard Governor Seay's resolution, duly seconded. Is there any further discussion?

(There was no further discussion and the motion was duly carried.)

The Chairman: The next is No. 5. "Renewing our re-

comendation of last summer for branch banks in cities."

Governor Van Zandt: We are on record as having concurred in that.

Governor Fancher: I move that we concur in it.

Governor Wold: I second the motion.

The Chairman: Is there any discussion?

(There was no discussion and the motion was duly carried.)

The Chairman: The next is No. 6. "Provision for associate or clearing membership in the Federal reserve system."

I would like to state, from my own point of view, I think it very desirable that every effort should be made to encourage state banks and trust companies to come into the system under existing conditions. It seems to me sufficient real progress is being made to encourage us to think that we might have additions to the membership from this source. I do not feel that the plan of associate memberships, as outlined, would be effective in inducing the more important state banks and trust companies to join the system, because <sup>of</sup> the dependence placed upon them for the endorsement of member banks.

I simply offer that as my own feeling in the matter gentlemen.

Governor Fancher: I quite agree with that, Mr. Chairman.

Governor Wold: I am in accord with that statement.

Governor Rhoads: If you open that question up, as



proposed by the Board, they will just wait and see what other gate will be opened, and it will deter them from doing anything.

Governor McDougal: Your contention is, Mr. Chairman, that state banks should be admitted to full membership or not at all?

The Chairman: Yes.

Governor McDougal: I concur in that view, Mr. Chairman.

The Chairman: How do you feel about it, Governor McCord?

Governor McCord: I think that is the correct principle. I think I know what prompted Governor Harding to make that suggestion, that the smaller banks, for clearing purposes, would probably be induced to carry an account with the Federal reserve banks.

The Chairman: How do you feel, Governor Van Zandt?

Governor Van Zandt: I concur in what you said. I should not like to see the state banks come in as members of the system on any other basis than that of a <sup>full</sup> member.

The Chairman: Governor Seay (who had been absent from the room), we were discussing the provisions for associate or clearing memberships in the Federal reserve system. I expressed my feeling that it is undesirable that the plan should be adopted because I do not believe it would induce the better state banks and trust companies to come in, and that I think we had better press for additional membership on the present basis.

Governor Seay: I fully concur in that opinion, sir. The question was propounded to the Advisory Council as to what should be done to induce state banks to come into the system. The opinion of the Council was that all the concessions that should be made to state banks had been made.

The Chairman: Will you offer a resolution covering the matter, embodying in it the statement that all concessions that should be made have already been made?

Governor Seay: Yes, Mr. Chairman. I move the Conference believes that to permit associate state members into the system would have a tendency to prevent state banks, particularly the better class of state banks, from entering the system, and that all concessions that should be made to state banks to induce them to enter the system have been made by the regulations of the Federal Reserve Board.

The Chairman: Gentlemen, you have heard Governor Seay's motion. Is there a second to it?

Governor Van Zandt: I will second the motion.

The Chairman: Is there any further discussion upon Governor Seay's motion?

(There was no further discussion and the motion was carried.)

The Chairman: The next is No. 7. "Reinstate power to accept up to 100 per cent of capital and surplus."

Governor Fancher: I move that we concur in No. 7.

Governor Wold: I second the motion.



The Chairman: Is there any further discussion?

(There was no further discussion and the motion was carried.)

The Chairman: No. 8. "Fifteen day notes to be made eligible as collateral for note issue."

Governor Wald: I move that we concur in No. 8.

Governor Van Zandt: I second the motion.

The Chairman: Is there any discussion of the motion.

(There was no discussion and the motion was duly carried.)

The Chairman: The next is No. 9. "Section 22- to be clarified."

Governor Van Zandt: I move we concur in No. 9.

The Chairman: I do not think there is necessity for action on No. 9.

Governor McDougal: May I ask what No. 9 means, Mr. Chairman?

Governor Seay: I think it is that section which says that no officer or director of a bank shall receive any emoluments, etc.

Mr. Curtis: Yes. That is the section they want to clarify.

The Chairman: No action is necessary and we will pass it, if there is no objection.

No. 10 has to do with Section 5200.

Governor Seay: I move that that be concurred in.

Governor Van Zandt: I second the motion.

The Chairman: Is there any discussion of that motion.

(There was no discussion and the motion was carried.)

The Chairman: No. 11. "The \$100,000 gold certificate."

Governor Fancher: I move we concur in No. 11.

Governor Wold: I second the motion.

(The motion was duly carried.)

Mr. Curtis: It seems to me it would be a good thing to have that refer not only to the Federal Reserve Board, but also to the Federal reserve banks. It would save us a lot of trouble.

Governor Wold: Why not suggest that?

The Chairman: There is no limitation on the use of those \$100,000 certificated.

Mr. Curtis: I do not know what they provide, but it may be considered to apply only to the use of the Federal Reserve Board. Mr. Harding stated at the time, "This will not interest anybody except the Board."

Governor Fancher: Then we had better modify the resolution to the effect that we concur in the issue of \$100,000 certificates for the use of the Federal Reserve Board and for the use of the Federal reserve bank or for general use.

The Chairman: You have heard the resolution by Governor Fancher. Is there a second?

(The motion was duly seconded and carried.)

The Chairman: No. 12. "Issuance of Federal reserve notes against gold."

Governor Van Zandt: I move that we concur in No. 12.

Governor Fancher: I second the motion.

The Chairman: Is there any discussion of that motion?



(There was no discussion and the motion was carried.)

Governor Seay: I think we were given to understand that that meant also the issue of Federal reserve notes against gold and bills receivable--- 60 and 40.

The Chairman: Governor Seay, we have not heard the report from your committee on reserve and central reserve cities.

Governor Seay: That report was offered, but action was deferred upon it until we had considered these amendments to the Act, as suggested by the Board.

Mr. Curtis: Before taking that matter up may I make a comment on this last motion, Mr. Chairman?

The Chairman: Certainly, Mr. Curtis.

Mr. Curtis: With respect to No. 12, issue of Federal reserve notes against bills receivable, I wish to say that I have had quite a correspondence with Governor Strong, in which we have come to the conclusion that the present method of bookkeeping by which the liabilities of Federal reserve banks on their outstanding Federal reserve notes have been offset by the deposit of gold with the agents and is not shown in the liabilities of the bank and the gold deposited with the agent is not shown among the assets of the banks, depends not upon any provision of law nor upon any rulings of the Federal reserve board, but upon a form of bookkeeping arranged by the organization committee.

After a good deal of study I believe the law means, as it stands today, that the liabilities on all Federal reserve

notes outstanding should be shown as liabilities of the Federal reserve bank, which they are; and that the gold held in temporary custody by the Federal reserve agent should be included as an asset of the bank which, in my opinion it is; that the Board could change the situation without any legislation whatsoever, by issuing an order to change our bookkeeping methods.

Governor Wold: In discussing that with Mr. Delano, he expressed the opinion that he was also in favor of it, but that it could not be done. He expressed that opinion, and said that counsel had said that it could not be placed upon the books.

Mr. Curtis: The Board's counsel had said so?

Governor Wold: That is my impression. I discussed it with him some time ago. I have always contended that inasmuch as the liability does not cease, after we have deposited gold with the Federal reserve agent, although the law says we reduce our liability in that way, we are still obliged to pay those on demand. You are required to pay our notes when presented to you, even if we have deposited gold with the Federal reserve agents to reduce our liability.

Mr. Curtis: If it would not take up too much of the time of the Conference I would like to read a letter I wrote Governor Strong on this matter, in which he concurs.

Governor Seay: He did not concur in it a year ago, because that is one of the first subjects I brought up before the Conference. He did not have that opinion then and the Board did not either.



(Informal discussion followed.)

Mr. Curtis: I will read the letter, if you do not object, Mr. Chairman.

The Chairman: No, read it, Mr. Curtis.

Mr. Curtis: (Reading:)

"My dear Governor:

I have been engaged in a somewhat vain endeavor to find the ruling of the Federal Reserve Board mentioned in your letter of October 18th, to Mr. Treman under which the liability of Federal reserve notes is extinguished when gold is deposited with the agent in place of commercial paper. I do not find that this practice was inaugurated by a formal ruling.

"As you may remember, on January 5, 1915, Judge Elliott issued a ruling concerning the correct procedure in the issuing and retiring of Federal reserve notes. . . . A little later you wrote a long letter to the board criticising this ruling and urging that it be not adopted as the position of the board.

"On January 8, 1915, the Honorable John Burke wrote us a letter demanding \$445,000 to be sent to him for the 5% Redemption Fund, to which we replied on the 15th that we did not need to send him any more money for his redemption fund as we only had to keep a 40 per cent reserve against Federal reserve notes in actual circulation and not offset by gold or lawful money deposited with the Federal reserve agent, as provided in paragraph 3 of section 16.

As I remember it, prior to this time we had had sever-

eral discussions with the staff of the bank as to the proper way of showing our liability on and reserves against Federal reserve notes and everybody had agreed, without a ruling, that the proper way was to show the liability only on the net amount outstanding, as above described, and keep our reserves on that basis.

"On January 17, 1916, the board sent a circular to each Federal reserve agent stating that the operation of the law might conceivably result in the situation of Federal reserve notes being secured by 100 per cent of silver certificates, which the board considered was not contemplated under the Act. Therefore, each Federal reserve agent was instructed that at least 40 per cent of gold must be held either by the bank or, in the alternative, by the Federal reserve agent against all outstanding Federal reserve notes, and the agents were instructed that a minimum of not less than 40 per cent of deposits made to reduce liability must be in gold or gold certificates.

It seems to me that this order of January 17, 1916, is somewhat inconsistent with the general position that the board and the system as a whole has taken in that it apparently recognizes the necessity of making the reserve requirements applicable to the amount of notes for which the liability has been reduced by depositing the gold or lawful money with the agent.

"I find that the method of showing the net liability of reserve banks upon outstanding notes by deducting from the total amount in circulation the gold and lawful money



in hands of Federal reserve agents for redemption of outstanding notes was begun at least as early as the weekly statement of combined resources and liabilities of the Federal reserve banks at the close of business December 11, 1914. This statement is apparently the first weekly statement published as it is the earliest of which we have a copy in our files.

"As you will doubtless remember, I have written various memoranda on the subject of what is meant by the words 'reducing liability' in section 16, in which I pointed out that there are various liabilities in connection with outstanding notes which might be reduced by deposits with the Federal reserve agent, to wit:

- "(1) Liability to pay the notes when presented,
- (2) Liability to maintain a 40 per cent gold reserve,
- (3) Liability to maintain a 5 per cent redemption fund, and
- (4) Liability to pay such tax as might be imposed on their issue by the Federal Reserve Board.

Under the present practice it seems to me clear that the liabilities which have been reduced by making deposits with the agent are Nos. 2, 3 and 4 above, the liability to pay the notes when presented being one which the Federal reserve banks cannot escape under any circumstances. If our methods of bookkeeping were changed so that all notes issued to the bank by the agent were included in our statement of liabilities and all gold or lawful money deposited with the agent was included in our assets, then, I believe, the only liability

which would be reduced by making such deposits would be the liability to pay whatever tax might be imposed by the Federal Reserve Board, as our liability to maintain a 40 per cent gold reserve and a 5 per cent redemption fund would exist with respect to all notes outstanding but would be compensated for, as a practical matter, by our ability to count the gold with the agent as part of the gold reserve.

"Of course, I agree with you that our position would be much strengthened if it were possible to consider the gold deposited with the agent as assets of the bank, and I also agree (if this is your view, it certainly being mine) that, as a practical matter, in case of the insolvency of a Federal reserve bank it would make absolutely no difference which way our books were kept so far as the paying off of outstanding Federal reserve notes was concerned. My view on this is that, even under present conditions, if a bank became bankrupt and its reserve notes were presented for payment, all its assets would be used so far as they went (including the assets held by the Federal reserve agent) to pay off all of the reserve notes outstanding, and I do not believe that the first notes presented could be handed to the agent for payment in full, leaving the notes later presented to be paid off in part only by the balance of the insufficient assets of the bank. Consequently, as a practical matter, whichever way we keep our books on this question the assets of the bank and the assets held by the reserve agent would be thrown into a common fund and used first to pay off the notes, and, subsequently, any other



liabilities of the bank.

"However, I am not quite clear in my mind whether it would be wise to try to get the board to authorize a change in the system at the present time in view of the fact that the amendment was presented to Congress and turned down. If you think it is wise to try for this change in practice, I think it could be done by suggesting to the board that the banks be intrusted simply to change their form of book-keeping so that all outstanding notes would appear as liabilities and all gold and lawful money deposited with the agent as assets temporarily held in custody by the agent. As a matter of fact, this would require very little change either in the books of the bank or in the weekly statements of the board as the figures in question all appear upon these statements in the form they are issued today. In this connection, it is somewhat interesting to note that the amount of gold and lawful money held by the agents on November 24, 1916, was in excess of the Federal reserve notes in circulation, both as shown in the reserve banks' statement and as shown in the reserve agents' statement, although the two statements do not contain exactly the same figures.

"With respect to the legal question involved, I am rather inclined to the view, although I think the solution is filled with doubt, that the gold or lawful money deposited with the Federal reserve agent remains the property of the bank. There are several indications to this effect in the statute, as follows:

- (1) The use of the word 'deposit' instead of the word 'transfer' or other synonymous expression indicates that title was not intended to pass.
- (2) The explicit provision that reserve notes so deposited shall not be reissued except upon compliance with the conditions of an original issue would seem to indicate that, without that provision, the notes might be considered as owned by or subject to some claim of the bank. The absence of any such specific condition concerning the gold or lawful money deposited has the tendency to indicate that there may be such a claim or ownership in the bank.
- (3) The fact that the reserve agents must hold the gold or lawful money exclusively for exchange for notes offered by the bank indicates that the bank is the only person that can ultimately obtain the gold or lawful money so deposited (except the Treasurer of the United States, who may get some of the gold for his redemption fund.)
- (4) It has been suggested that the Federal reserve agent holds the deposits as trustee for the note holders, but the fact that no individual note holder could obtain any part of the deposit even on presentation to the reserve agent of Federal reserve notes seems a conclusive answer to this suggestion.

Of course, the argument on the other side is that the



Federal reserve agent is an agent for the Government to protect its liability on notes and that he has consequently been vested with full legal title to the security in order to make that protection adequate. "

Governor Wold: I am not prepared to go so far as our Secretary has gone in claiming that these funds might properly be put into the funds of the bank. I do believe that the gold held in trust by the Federal reserve agent ought to be shown on the books of the bank and shown in the statement of liability for outstanding notes.

Mr. Curtis: But if you agree to that you agree to the other, because if those are still liabilities we have not extinguished them by putting up gold with anybody. In addition to that the gold must be assets of the bank or our liabilities and assets won't come anywhere near agreeing.

Governor Wold: I think they should be segregated for the purpose of retiring notes, but not put in the general fund with only 40 per cent carried against---

Mr. Curtis: (Interposing) The real question is will the Board let us consider them as part of the 40 per cent gold reserve. I cannot see any reason why they should not, because I really believe that is what the statute means.

(Informal discussion followed.)

Governor Seay: I call attention to the fact that the present form of statement in which we show the full amount of notes issued and the amount deposited in the hands of the

agents is the result of representations previously made by the council and partly as a result of very strenuous efforts to get them to do that same thing fourteen months ago. They first held that they could not legally do it. That was the answer they made to me. It was referred to their statistical department and then referred to their counsel. Their statistical department also pronounced against it.

Mr. Curtis: If you will look at the statute you will see that the language is extremely significant all the way through. The words "reduces your liability" and a variety of sentences there all tend to indicate to my mind that they did not intend that these things should be wiped off our books as liabilities, nor that the gold could beforever lost to the bank because the bank is the only person that can get the gold back.

(Informal discussion followed which the reporter was directed not to take.)

The Chairman: Do you care to modify your resolution with respect to recommendation No. 12?

Governor Seay: I would suggest that the Secretary modify it in <sup>the</sup> respect that he has himself just mentioned, because I think we should take advantage of everything in our power to bring this about. The Conference would not have to act on it again if they approved of that procedure.

The Chairman: Then our approval of it would be modified to the effect that we approve the proposed amendment subject to any right that is now in the statute enabling us



to carry our Federal reserve notes as a liability and our gold in the hands of the agent as a resource.

Mr. Curtis: I think this can be put up in a rather informal manner to the Board.

The Chairman: We will now take up the report of the committee on Reserve and Central Reserve Cities. That is subject 5-(a) on our program.

5. (a) Committee on reserve and central reserve cities.

Governor Seay: That report has been read and action was deferred. Each Governor has a copy of it, and I do not think it is necessary to read the preamble or the statements contained in the beginning of it. I will begin with the fourth paragraph from the bottom of ~~this~~ first page.

(Governor Seay thereupon read the report of the committee, which is incorporated in the record at pages 11 to 18.)

Governor Seay: I will state again what I said when I read this before, and that is that the purpose of this report was to get before the Conference something to discuss. It is just as difficult a problem to solve as the question of reserves as proposed by the Federal reserve agents and offered by the Board.

The Chairman: You have heard the report of Governor Seay's committee. What action does the conference wish to take upon it?

Vice Governor Treman: I move that it be received

and placed on file and that the thanks of the Conference be extended to the Committee for their arduous labor.

(The motion, being duly seconded, was carried.)

The Chairman: Let us take up again No. 2 on the list of amendments submitted by the Board, "Reducing reserves and adopting simplified plan suggested by Federal reserve agents."

There seems to be a very definite difference of opinion in the Conference as to the wisdom of a change in the reserve being made as outlined in this plan. I think the Board has in mind, as an alternative to this, the recommendation to make Federal reserve notes lawful reserve. My own personal feeling is that the making of Federal reserve notes vault reserve is essential for the development of the plan to accumulate gold in the Federal reserve banks. That is a very much simpler modification of the reserve requirements, and it would probably be very much more acceptable to the member banks than the one outlined here. Personally I think the method of fixing the reserve to be carried in the reserve banks as the only fixed reserve is a more scientific one, but I doubt if at the present time consideration of the matter has gone far enough to warrant legislation which definitely fixes those percentages. In view of that I think I would prefer, as against the plan outlined here, to make Federal reserve notes good vault reserve.

Gentlemen, this conference must take some action upon this. It is one of the most important matters that has



been brought before us. We would be remiss in our obligations to the Federal Reserve Board to make suggestions unless we report back to them tomorrow with a definite expression of opinion as to this matter. It is not a thing that we have any right to sidestep. We must get some action on this and I would like an expression of opinion from the Governors here as to what recommendation we ought to make to the Board on this specific proposition.

Governor Seay: I make this statement with all due deference and with entire respect, but there is one mistake I believe the Board made when they asked that Federal reserve notes be made legal reserve, and that was in the provision of the Act which empowers the banks to issue notes against bought bills. That is a point that Mr. Glass thinks is a source of great danger. Federal reserve banks might invest their assets in bills on the open market, which transactions would have no direct relation to the demand for currency on the part of the member banks, and there is therefore a danger of inflation. Mr. Glass said, for instance, "You might buy bills with your own currency, and, having bought them, issue currency again for the same bills in the open market, and so on ad infinitum." I also think it was a mistake to include bills purchased in the open market as eligible collateral for Federal reserve notes. It is true that if that was the rule it would modify the volume of notes that we could put out, because a large percentage of the bills received are of that character.

Notes issued against rediscounts bear a direct relation to the demands of currency, expressed through our member banks. Moreover, it is not to be forgotten that a discount bought by the member bank acts as a tax upon the issue of those notes, and renders them absolutely elastic. That is not the case with notes issued against bills which we buy in the open market. I am wondering if the Board has considered whether it would be practicable to obtain an amendment to that effect--- that if, if they are willing to alter their position in that respect--- and not count bills bought in the open market as eligible, issuing only against discounted paper, against paper bearing the endorsement of number of member banks, you might say, and against gold. There would not be any practical possibility of inflation through that source, it appears to me.

The Chairman: Would you propose a modification to the effect that Federal reserve notes might be made good reserve, as a substitute, Governor Seay?

Governor Seay: I would be very willing to do so indeed.

Resolved, that the conference believes it to be desirable that Federal reserve notes should become legal reserve, and that the enactment of the amendment proposed by the Board would be an ineffective substitute.

The Chairman: That is simply a round about method of making Federal reserve notes eligible, is it not?

Governor Seay: Yes. It is a round about way. They want to accomplish indirectly something that will strengthen the system by putting more gold into the Federal reserve



banks. It seems to me the better plan is to continue to work to have Federal reserve notes made legal reserve. As you all know, there has been a very marked change in opinion since that was first brought up.

(Informal discussion followed which the reporter was directed not to take.)

The Chairman: Do you wish to offer a resolution embodying the idea that you think it is desirable to press activities looking to the making of Federal reserve notes legal reserve for banks, as a substitute for this plan?

Governor Seay: Yes, I do.

(After considerable informal discussion of a proposed resolution Governor Wold was requested by the Chair to frame a resolution, which is as follows:)

"Governor Wold: Resolved: That from statistics and information at hand at this time it is the opinion of the Conference that the suggested amendment of the Federal reserve agents to revise the reserves required of member banks would result in increasing the total reserve required to be kept by a member bank in order to adequately handle its business; that it is doubtful, if it were adopted, that it would accomplish the purpose intended. We therefore urge that in lieu thereof the Federal Reserve Board press the amendment that member banks be permitted to count Federal reserve notes as a part of their lawful reserves.

The Chairman: Gentlemen, you have heard the resolution offered by Governor Wold. Is there any discussion of it?

(There was no discussion and the resolution, having been duly seconded, was passed.)

The Chairman: There are two or three minor items on the program that we might take up at this time. Item 22.

22. Press statement.

Governor Fancher: I move that our usual procedure be followed in the matter of press statement.

The Chairman: You mean to leave it in the hands of the Secretary?

Governor Fancher: Yes.

Governor McDougal: In addition to that I would move that we be furnished a copy of the press statement. We were furnished with one formerly, but we have not been furnished with one at the last two or three conferences.

The Chairman: The motion is that the procedure usually followed, of asking the Secretary to prepare a statement for the press, and providing the Governors of the banks with a copy thereof, be followed now.

(The motion, being duly seconded, was carried.)

The Chairman: On yesterday, during our meeting with the Board, Mr. Harding said something with reference to uniform credit statements. He said that the matter would be committed to us for our discussion. The statements have not been submitted, and unless someone desires action on that matter, it will be passed.

Governor Seay: Mr. Chairman, there was one subject, on which we passed a resolution offered by myself, in which



I think we made a mistake. It occurred to me the night afterwards. The Board referred to circulars issued by four of the banks which stated that member banks could count as optional reserve money in transit to the Federal reserve banks. We passed a resolution, which I offered, to the effect that optional reserves should be considered as collected funds in the Federal reserve bank or funds in the vault. That was not what they had in mind. What they had in mind was funds in transit to the Federal reserve banks which had not yet been placed in their reserve accounts. Therefore the resolution that was passed did not cover the situation that the Board asked us to consider.

Governor McDougal: I think our conference with the Board this morning covered that phase of it. I refer to the committee of the Conference in its conference with the committee of the Board.

Governor Seay: Then there is nothing further to be done.

The Chairman: I understood the substance of the committee's report was that the whole matter would be left in abeyance until the new reserve requirements were adjusted.

Governor Fancher: And they knew about the new amendment to the Act.

Salary bonuses, etc.

Governor McDougal: There is one matter, Mr. Chairman, that we might discuss, although it is not on the program,

and that is the attitude of the banks with respect to the question of paying additional salary to employes at Christmas time or thereabouts. I would like to inquire as to what has been done by the other banks and to say that we have not given consideration to it, beyond the fact that we would doubtless give them each a gold piece, as we did last year.

The Chairman: I would like to ask for an expression of opinion from the Governors of the banks as to what policy they will pursue in the matter of the salaries of their employes, because of the high cost of living. It is an important matter with us. It is coming up at the next meeting of our board, on a week from next Thursday, and I would like to know what the general policy of the banks is going to be.

Governor McDougal: My inquiry is not directed to the adjustment of salaries but to the matter of giving them some bonus at the close of the year.

The Chairman: It might be in the form of a bonus as well as an increase in salary.

Governor McDougal: I think they are separate subjects and the adjustment of salaries has no bearing on the matter I refer to.

Governor Wold: You refer to the usual Christmas gift, do you not?

Governor McDougal: Yes, I do.

Governor Rhoads: If that is once established it becomes a permanent liability.



The Chairman: I would say that the matter of Christmas gifts for the employes of the banks was discussed by our Board last year. We decided that we would not give them, because we felt if we did it would establish a precedent from which we could not escape. A consideration of bonuses in connection with salaries places the matter of payment on the wrong basis. We decided not to do it.

Governor Seay: It is a very common thing in many of the banks to give bonuses for faithful service rendered. Last year we gave a bonus of five per cent to all except officers of the bank.

I was called on the telephone today about it and I recommended to our board that, in view of conditions as they exist, we give all employes with salaries ranging up to \$2,000 a ten per cent bonus.

The Chairman: Not as a Christmas present?

Governor Seay: As an addition to their salary for the year.

The Chairman: A bonus for the year?

Governor Seay: As an addition to their salary for the year. Salaries above \$2,000 five per cent bonus. Of course the higher officers do not participate in it. The amount is to be reckoned upon the actual amount received by the employes during the past year.

Governor McDougal: And with no obligations for the future?

Governor Seay: No obligation for the future. There is no doubt but that the salaries paid the minor employes of

banks are very small. I must say that they are generally so with us. They are quite small and it is hard to see how capable young men can afford to work for salaries that they get in banks, performing the very excellent service that they do.

The Chairman: There is one thought that occurs to me in connection with that, and that is that most of our employes in the banks get as good if not better salaries than they would get in a commercial office.

Governor McDougal: Or in neighboring banks? Are you paying a little higher rate of salaries than the commercial banks pay in your neighborhood?

Governor Aiken: We had to do that in order to get most of our employes. I think our salaries are about like those in commercial banks.

Governor Seay: It was our intention to have ours that way. Before fixing the salaries we got memorandums from the banks of their salary lists, as we did not desire to compete with them, and we made our list as much as possible on the same basis.

The Chairman: Governor Fancher?

Governor Fancher: No action has been taken as yet, but at our meeting of the Executive Committee on Friday there are going to be recommendations as to bonuses for the year. We had not quite worked out a plan when I left, but the feeling amongst the officers was that owing to the fact that we had put our force to a good deal of extra work since the inauguration of the clearing, because of the extra



hours, that we would probably pay a bonus on salaries from the first of July. Just what the percentage will be we have not yet agreed upon. However, there will be a bonus of some sort paid to our employes for the year.

The Chairman: Governor Wold, what has been done in your case?

Governor Wold: We have done nothing as yet except to remember the employes at Christmas time with a gold piece. I had the matter in mind and I have been very much interested in what the other banks propose to do.

I would like to ask Governor Seay if that bonus would apply to employes who had only been with him four months, or three months?

Governor Seay: In that case we give them the percentage only on what they have received.

The Chairman: Governor Miller?

Governor Miller: We pay our employes \$15 flat as a Christmas gift.

The Chairman: You paid them that last Christmas. Are you going to do that this Christmas?

Governor Miller: We paid them \$10 last year and are going to pay them \$15 this year.

The Chairman: Governor Rhoads?

Governor Rhoads: We have done nothing.

The Chairman: Governor McDougal?

Governor McDougal: We have made no plans.

The Chairman: Governor McCord?

Governor McCord: We contemplate giving a Christmas

present of a gold piece, perhaps \$10, and the directors have been discussing an increase in salaries to date January 1.

Governor Wold: Last year or next year?

Governor McCord: Next year. Commencing on the first of January.

The Chairman: Governor Van Zandt, what have you done?

Governor Van Zandt: We have done nothing because we were sat upon pretty hard by the Board the first Christmas. They said it was a matter that we would have to submit to the board and have approved by them; it was too late and we didn't do anything. We did not do anything last Christmas, because of that, and we have not planned for anything this Christmas.

Governor McDougal: Last year we gave the employed \$10 or \$15 in gold, depending upon their positions. This year we have done nothing as yet.

Governor Seay: I would like to add that we have submitted this to the Board for approval. The Board has taken the position that it is a salary and should be approved by them.

The Chairman: Governor Treman, what has been done in New York?

Governor Treman: Last year the directors passed a resolution that hereafter, on the first of January, they would revise the salary list, according to their best judgment. I assume we will do that this year.

What we will do as to pure Christmas gifts, I do not



know. You know it is a very common thing in New York City for the banking houses to give their employes gifts. Already some of the banks have covered it. The Guaranty Trust Company, in addition to a dividend to their stockholders, last week declared a dividend on salaries of from ten to fifteen per cent to their employes.

It seems to me this is a matter that we should look upon as a little more important than merely Christmas giving. I happen to know of some men who have been making some investigations along these lines and they find, in nearly every case, that there have been advances in raw materials all the way from 25 to 30 per cent, and sometimes to over 100 per cent; that wages have been increased from ten to twenty-five per cent. Their statistics show that food stuffs and clothing and other necessities for the keeping of a family have actually increased during the last year from 15 to 20 per cent in price. It seems to me that you gentlemen ought to put up to your Boards the question of the right of your employes to have some recognition taken of the conditions as they exist.

I do not know what our directors will do at the meeting on Friday, but personally I think it should be entirely foreign to the question of advances in wages, because when you once advance them that means that they are advanced for all time, while conditions will not remain as they are today for all time. Here is a condition that is temporary, we assume, and yet it is a condition that exists. It is not a theory. I feel that we should in some way make a

payment to our employes around the first of January, for the past year, based on their length of service and their wages or salaries. I should assume it would take the form of a certain percentage of the salary, say up to \$1,000, \$1,200, or \$1,500, and then a certain smaller percentage on salaries above that. I should assume the directors will consider how far it should go. I think in our bank I would recommend that it include assistant cashiers, at least, because they have been facing increased costs, just as much as anyone. They are men of family and there are usually two, three, four, five or six people in their families. It seems to me that it is a matter that we drift along in because the higher salaried men do not say anything, but as a matter of justice it seems to me the banks should recognize conditions as they exist and make some preparation for them. That is what I shall recommend at our meeting on Friday.

Governor Wold: I might say I thought the discussion was simply on the question of bonuses for Christmas and Christmas gifts. We contemplate revising our salary list on the first of the year, of course. It is quite necessary to do that and will always be necessary.

The Chairman: We have disposed of our program, gentlemen, with one exception, and that is the matter of foreign relations, and also (1) under Topic 6, "Collections and clearances."

We will have a meeting with the Board tomorrow at 11 o'clock, and to give time for the disposal of these matters



it will be necessary to meet promptly at half past nine.

I will be very much obliged if everyone will be here promptly at that time.

(Whereupon, at 6:40 o'clock p. m., on motion duly seconded, the Conference adjourned until tomorrow, Thursday, December 14, 1916, at 9:30 o'clock a. m.)

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F O U R T H   D A Y .

The Shoreham Hotel, Washington, D.C.

Thursday, December 14, 1916.

The Conference reassembled, pursuant to adjournment, at 9:45 o'clock a. m.

Appearances as indicated on yesterday.

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The Chairman: Gentlemen, we will come to order. Our time is short, as we must meet with the Federal Reserve Board at 11 o'clock.

Governor Wold: Mr. Chairman, I have been thinking over the last resolution we adopted yesterday with reference to reserves; I have talked it over with some of the other members of the Conference, and I believe that resolution should be withdrawn and another one prepared which should have incorporated within it something with reference to the change in reserve cities, and possibly a little more

definite recommendations on the matter of the recommendations of the agents with reference to changes in reserves.

The Chairman: Governor Wold, have you drafted a substitute resolution?

Governor Wold: I have not?

The Chairman: Are you prepared to draft one to meet the situation?

Governor Wold: I thought probably the committee to which that was referred would be able to get something up. Possibly the Conference does not agree with me on that.

Governor Miller: I am in accord with you. I do not think we ought to urge the Board to make an effort to get Federal reserve notes made legal reserve for member banks, for the very reason that there is strong opposition to it in Congress and they have given up the idea, and have suggested this as a substitute themselves.

Governor McDougal: I do not see why this Conference should necessarily be influenced by the views of Congress on the matter. We are simply expressing our wish and asking that consideration be given to it.

Governor Miller: We are trying to get legislation that will benefit us. We should not ask for more than we can possibly get because we will not get anywhere if we ask for something that is impossible. I think we had better make a compromise.

The Chairman: Governor Wold, you will modify your motion, I believe, so that it will be to the effect that we approve of the general plan as submitted, but feel that suf-



ficient statistical data is not at present on hand to make it possible for us to decide definitely on the percentage of the reserve to be held; that we feel, in any event, that no percentage of reserve should be required of the country bank that would increase the reserves to a point higher than the reserves they are required to hold at the present time.

Governor Wold: That expresses my views exactly. I believe we ought to go a little further and pass on the recommendation of Governor Fancher as to the manner of designating reserve banks. Any bank which carries the reserves of any other bank should, it seems to me, be designated as a reserve bank and should be required to carry reserves accordingly.

The Chairman: Is not that really a separate matter?

Governor Wold: It comes under this report of Governor Seay's, and he makes a very good argument upon that question.

The Chairman: I think in our report to the Board that we would cover the substance of Governor Seay's report as to that, that the reserves should be based on the character of business. We should then report our attitude on this memorandum.

Governor Fancher: I feel, from the discussion indulged in here yesterday, that we are all in favor of the principle involved in the recommendation of the agents. I think it would greatly facilitate the matter of computing reserves on the part of member banks and on the part of the reserve banks and there would be less friction and less misunder-

standing. With only one requirement and with a fixed percentage, it would greatly simplify, in my judgment, the operation of our banks.

The Chairman: Governor Wold, would you be willing to offer a substitute for your motion of last night, to the effect that the Conference approves the principles embodied in the plan submitted to us by the Federal reserve agents, but feels that in deciding upon the percentages of reserves to be held no additional burden should be placed upon the country banks; that it further feels that in any consideration of a change in reserve requirement the status of cities that are now neither central reserve nor reserve cities, but are depositaries for country banks, should be taken into consideration.

Governor Wold: I offer that as a substitute for the resolution adopted by the Conference yesterday.

Governor McCord: I second the motion.

Governor Van Zandt: In thinking over the matter of percentages which you mentioned, I do not quite agree with the Federal Reserve Agents' percentages because I think there might be times when these percentages would be too high, and there might be times when they would be too low. The thought has occurred to me that it might be possible to have the act so framed that the Federal Reserve Board, in conjunction with the Advisory Council, making a body of nineteen men, might be given power to fix those percentages on thirty, sixty or ninety days' notice, or a certain length of time in advance, according to conditions.



The Chairman: I do not agree with that, but I will yield to the majority if they agree with you.

Governor Miller: I do not agree with that. It would very greatly complicate matters.

Governor Rhoads: All reference to the matter of Federal reserve notes being made lawful reserve is eliminated?

The Chairman: That is eliminated, yes.

Governor Rhoads: I would be glad if somehow or other in the report of the committee, that matter should not be lost sight of.

The Chairman: I shall report that as the general consensus of opinion of the Conference.

Governor McDougal: I believe the suggestions of the Agents' committee are good, in principle at least, but I would not be prepared to definitely advocate those percentages, for the reasons that were discussed yesterday. That is the way I feel, although I feel that the principle involved is a good one.

The Chairman: Do you not feel, Governor McDougal, that that is expressed in the resolution?

Governor McDougal: I presume it is.

Governor Wold: I was hoping that the Chair, in discussing this with the Board, would advise them of the discussion had here and of the uncertainty of the Conference as to whether that would not increase the reserve requirement of the country banks.

Governor McDougal: The requirements of the various districts being necessarily different, the question is

whether or not it would penalize the banks by requiring them to carry a greater reserve than they are required to carry under the present arrangement.

The Chairman: Is there any further discussion of this?

Governor Seay: It may be a matter of interest to the Conference to hear the answer of the Federal Advisory Council to the Board's interrogatory on the reserve city question. I do not know whether you would like to hear it or not.

The Chairman: Our time is limited, Governor Seay. Can you give us the substance of it?

Governor Seay: In our opinion, when the banks in reserve cities lose their privilege of acting as legal reserve agents, they should be placed on a parity as to their legal reserve requirements with the banks in other cities of equal banking capacity. These cities were designated reserve cities at the request and by the voluntary action of the banks located in them, and when their privilege of acting as reserve agents is withdrawn, it would seem that these banks should be entitled to resume their former status.

"If there is to be, in the future, any discrimination in regard to the legal reserves carried by the banks in different cities, it cannot continue to be based, as it has been, on the fact that banks in certain cities have been permitted to act as legal reserve agents for other banks. If such discrimination is necessary or desirable



at all, it might be based on a combination of their individual population and banking capacity, as shown by the capitalization of their banks, or it might be related to the aggregate amount of bank deposits carried by the banks in them."

Commenting on the other resolution, I feel, as we all do, that the plan proposed is extremely plausible and recommends itself to us. The only question I have in my mind, and it is a very strong one, is, can it be put into operation, like a good many other <sup>apparently</sup> desirable and plausible things. As Governor Wold's first resolution expressed it, it would not be effected without increasing the burden on the member banks. I feel, according to the information that is before us now, that such would be the case with a very large number of the banks, if not generally.

The Chairman: Is there any further discussion of the resolution?

(The resolution, being duly seconded, was carried.)

The Chairman: I have here a telegram from Mr. Calkins, which came in last night after the meeting adjourned.

"Mr. Kains' condition today very encouraging. Greatly pleased with the message from the Conference."

There is one subject left untouched from our program, the matter of foreign relations. As this is a matter of great delicacy I am going to suggest that the Conference go into executive session.

## Foreign relations.

(On this matter the Conference went into executive session and the Secretary reported progress on the negotiations conducted in connection with the establishment of foreign arrangements.)

(The open Conference thereupon proceeded as follows:)

The Chairman: A committee was appointed consisting of Messrs. Wold, Curtis and McCord, to report on the conditions of attendance of persons other than Governors of Federal reserve banks at the Governors' Conferences. I will ask the committee to report at the next conference of Governors.

Governor Fancher: Topic 18.

18. Regulations governing loans on farm lands and other real estate.

was referred to a committee, consisting of Mr. Miller, Mr. Wold and myself, to suggest proposed regulations in the matter of real estate loans. The committee conferred with Mr. Warburg on the matter yesterday, suggesting that it would be very helpful if the Board would put out some simple form of regulation, if possible. I handed him the memorandum which I submitted here and he in turn submitted it to Mr. Elliott, Counsel for the Federal Reserve Board. Mr. Elliott has framed up some answers to the questions and Mr. Warburg has sent it back. I think possibly a copy of these answers can be given to the Governors.

The Chairman: As Chairman of that Committee I will



ask you to assume the responsibility of doing it.

Governor Fancher: Yes, Mr. Chairman.

The Chairman: In regard to Topic 6-(1).

6-(1) Charges to be collected by member banks from their patrons, and charges to be imposed for collecting or clearing by Federal reserve banks.

is covered by Memorandum 901 from the Board. I understand from Governor McDougal that this Memorandum No. 901 is not definitive, but simply given by way of suggestion, and the matter is under consideration. In talking with Mr. Delano about it yesterday, and with Mr. Warburg, I told them that it seemed to me that the charges set forth here were so high that they would be entirely ineffective as penalty and would result in driving all the business into banks other than members of the Federal reserve system; that it would not accomplish that purpose. Mr. Warburg called my attention to the fact that these were maximum charges and that they need not be levied. I told him I thought it would be a mistake to publish these as maximum charges because nothing would give more support to the contentions of the gentlemen who want their exchange on checks than to talk about six cents on a check, which looks pretty high on a dollar check.

Governor McDougal: My words to you in regard to this point were given in the presence of Mr. Fancher and Mr. Wold, and my impression was that Mr. Delano simply put this out to us for consideration.

Governor Seay: The law requires us to put it into ef-

fect.

The Chairman: I would like an expression of opinion as to the attitude of the Conference in this matter so that, in reporting on it to the Board at our meeting with them a few minutes from now I can express the opinion of the Conference.

Governor Wold: As a general proposition I think the member banks are desirous that the Federal Reserve Board exercise the authority of the Act in fixing that charge. Personally I think it might be well to wait until after this Kitchin Bill is out of the way.

The Chairman: May I say to them, on behalf of the Conference, that the Conference feels it will be wiser to defer action on this matter until after the activities of the American Bankers' Association have somewhat subsided; that we feel the charges recited here are so high that they will support the contentions of the banks asking for the privilege of charging exchange?

Governor Seay: On the other hand it is possible that what the Board has in mind is the fixing of some reasonable charge to offset the effect of the Kitchin Bill. They desire to meet the contentions that will arise in Congress and defeat the bill in that way.

The Chairman: Speaking for myself, Governor Seay, it seems to me that these are not reasonable charges, and that it would simply support the contention of those banks desiring to make the exchange charge.



(Informal discussion followed on this matter.

It was the consensus of opinion of the Conference that the promulgation of the regulation should be delayed until after the activities of the American Bankers' Association Committee before Congress had subsided; further that the charges as outlined in memorandum No. 901 seem to the Governors to be too high.)

The Chairman: There is one item left, and that is the matter of the next meeting of the Conference. The customary practice is, if I remember correctly, to leave it subject to the call of the Secretary on the request of two or more Governors, or on the request of the Federal Reserve Board.

Governor Fancher: I move the same procedure be followed with respect to the next meeting.

The Chairman: Is there a second to that motion?

(The motion was seconded and duly carried.)

The Chairman: Gentlemen, is there any further business before this Conference? (After a pause) If not, the Chair will entertain a motion to adjourn.

(Whereupon, upon motion duly seconded, the Ninth Conference of Governors of Federal Reserve Banks was adjourned sine die, at 10:45 o'clock a. m., December 14, 1916.)

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