

PROCEEDINGS OF A CONFERENCE OF THE FEDERAL RESERVE BOARD

WITH THE

GOVERNORS OF THE FEDERAL RESERVE BANKS

ASSEMBLY ROOM  
FEDERAL RESERVE BOARD  
METROPOLITAN BANK BUILDING  
WASHINGTON, D.C.

NOVEMBER 19, 20 & 21, 1919

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Washington, D.C.,

Wednesday, November 19, 1919.

Proceedings of a conference of the Federal Reserve Board with the Governors of the several Federal Reserve Banks held in the Assembly Room of the Federal Reserve Board, in the Metropolitan Bank Building, Washington, D.C., On Wednesday, Thursday and Friday, November 19, 20 and 21, 1919.

Present:

Hon. W. P. G. Harding, Governor of the Federal Reserve Board,

Hon. Albert Strauss, Vice Governor of the Federal Reserve Board,

Hon. Adolph C. Miller, Member of the Federal Reserve Board,

Hon. Charles S. Hamlin, Member of the Federal Reserve Board,



Hon. Henry A. Moehlenpah, Member of the Federal Reserve Board;

Hon. John Skelton Williams, Comptroller of the Currency, ex-officio member of the Federal Reserve Board; and

Charles A. Morss, Governor Federal Reserve Bank of Boston;

Benj. Strong, jr., Governor Federal Reserve Bank of New York;

E. P. Passmore, Governor Federal Reserve Bank of Philadelphia;

E. R. Fancher, Governor Federal Reserve Bank of Cleveland;

George J. Seay, Governor Federal Reserve Bank of Richmond;

C. A. Peple, Deputy Governor Federal Reserve Bank of Richmond;

M. B. Wellborn, Governor Federal Reserve Bank of Atlanta;

J. B. McDougal, Governor Federal Reserve Bank of Chicago;

D. C. Biggs, Governor Federal Reserve Bank of St. Louis;

R. A. Young, Governor Federal Reserve Bank of  
Minneapolis;

J. Z. Miller, jr., Governor Federal Reserve Bank  
of Kansas City;

R. L. Van Zandt, Governor Federal Reserve Bank of  
Dallas;

J. U. Calkins, Governor Federal Reserve Bank of  
San Francisco;

H. W. Hoxton, Executive Secretary, Federal Reserve  
Board, Washington, D. C.

#### PROCEEDINGS.

Governor Harding. Gentlemen, this is a very important meeting and we have some vital matters to consider, some of which, in particular, we would like to discuss with you, and some of which you will probably prefer to discuss among yourselves.

I assume you have come prepared to stay until Friday night, and if I am not correct in that I would like to know, in order that we can change our program accordingly.

We would like very much to have all of you take luncheon with us tomorrow at the Metropolitan Club, at 1 15 o'clock,



and we hope you will make your arrangements accordingly. We can talk business while we are at luncheon.

We have a list of topics here, which I presume you all have, together with a supplementary list of topics which were added after the first list was sent out. I will go over briefly those topics which the board desires to discuss with you and the other matters can be referred to you at your own meetings. It does not mean, of course, that you are not to consider these matters that the Board will discuss with you independently, because the Board would like to get your views and recommendations on all of these points.

In order that you may get full information as to the views of the various Departments here with which you come in contact, I will read first a letter which the Board has received, dated November 5th, from the Secretary of the Treasury, which gives the Treasury's viewpoint. The letter is signed by Mr. Glass, and is as follows:

"THE SECRETARY OF THE TREASURY

WASHINGTON

November 5, 1919. X-1718.

Dear Governor Harding:

"I hope that the Federal Reserve Board will not allow

the Governors of the Federal Reserve Banks to rely wholly or too heavily, for the prevention of the abuse of the facilities of the Federal Reserve System, upon the increase in rates now established with the approval of the Board, myself included.

"The experience of all European countries (and Japan), including those countries which have been neutral in the war and those which have maintained a high central bank rate, supports the view that discount rates will not suffice in these extraordinary times.

"The Reserve Banks' rates should, of course, scientifically be above the commercial rate and not below it. That cannot happen until the independent resources of the banks suffice for the normal requirements of their customers for commercial, industrial and Government purposes. Banks cannot be expected to meet these requirements habitually at a loss. Their dependence upon the Federal Reserve System should be seasonal or occasional and not habitual. Until that condition comes about as a result of the production and saving of wealth the tendency will be, as Reserve Bank rates are increased, for the rates to the Government and rates to the commercial borrower to be in-



creased in turn. The world has been for five years consuming or destroying more than it has produced. My own belief has been and is that with the curtailment of export demand consequent upon the curtailment of foreign credits and with industrial production proceeding full steam ahead we should soon have reached an equilibrium in this country at least. In the meantime, however, the labor situation has become so acute as gravely to threaten production and the speculative mania has developed to such an extent as gravely to threaten our credit structure.

The conditions under which changes in the Reserve Banks' rates of discount would operate effectively do not exist here today. An increase in the discount rate will not result in the importation, nor curtail the exportation, of gold to any material amount. It will not result in a curtailment of the importation of goods nor in increasing our exports materially. In the present position of the international balances and of the foreign exchange and because of gold embargoes the Federal Reserve Bank rates cannot function internationally, and will operate solely upon the domestic situation. In that condition an important further increase in Federal Reserve Bank rates might

have the effect of penalizing and discouraging the borrower for commercial and industrial purposes, thus curtailing production and distribution and increasing the shortage of goods, and consequently the price of them, and thus, in turn, stimulating speculation. (An increase in rates (per cent. per annum) falls very lightly upon the borrower for speculative purposes, who figures a very large profit on the turnover in a day, a week, a month or some other short period.) It might have also a very grave effect upon the Government's finances.

In consequence of the war the Government has issued some \$25,000,000,000 of interest bearing securities which are of prime eligibility. Before the war, when the Government's debt was only \$1,000,000,000 and that all stored away in strong boxes, the possession of eligible paper was very strong presumptive evidence of the right of a member bank to borrow. Now and for the life of this great war debt the possession of eligible paper will be no evidence at all.

Therefore, I believe it to be of prime importance that the Federal Reserve Board should insist upon and that the Governors of the banks should exercise a firm discrimina-



tion in making loans to prevent abuse of the facilities of the Federal Reserve System in support of the reckless speculation in stocks, land, cotton, clothing, foodstuffs and commodities generally.

We cannot trust to the copybook texts. Making credit more expensive will not suffice. There is no precedent in history for the great war which we have been through nor for the conditions now existing. The Reserve Bank Governor must raise his mind above the language of the textbooks and face the situation which exists. He must have courage to act promptly and with confidence in his own integrity to prevent abuse of the facilities of the Federal Reserve System by the customers of the Federal Reserve Banks, however powerful or influential.

Speculation in stocks on the New York Stock Exchange is no more vicious in its effect upon the welfare of the people and upon our credit structure than speculation in cotton or in land or in commodities generally. But the New York Stock Exchange is the greatest single organized user of credit for speculative purposes. It is the organized instrument of a countrywide speculation. I believe that the practice of financing speculative transactions

in stocks by loans on call, with daily settlements, is unsound and dangerous to the general welfare. Call money loaned to carry speculative transactions in stocks is only liquid when there is no need. The paper is not self-liquidating and, in the case of an emergency, as, for example, upon the outbreak of the European war, and throughout the period of our participation in the war, such loans are in the mass uncollectible. The use of Liberty Bonds, Victory Notes and Treasury Certificates as collateral for borrowings made by member banks from the Federal Reserve Banks for the purpose of carrying speculative transactions in stocks makes it the right as well as the duty of the Federal Reserve authorities to see to it that the methods of financing such transactions are reformed and reformed immediately.

Open and notorious manipulation of stocks has been taking place during the period of, say, nine months, since the removal of the control of the Sub-committee on Money of the Liberty Loan Committee. This manipulation, which takes the form of putting up the price first of one stock and then of another, no matter what may be the conditions for the purpose of stimulating interest on the part of



the uninitiated public, is, I imagine, contrary to the law of the State of New York and the rules of the New York Stock Exchange. In any event, it needs only vigorous action to put an end to it. The Federal Reserve Bank of New York in its relation to the Sub-committee on Money of the Liberty Loan Committee, which Committee was at all times in touch with the officers of the Stock Exchange, naturally sought the views of the Treasury by reason of the fact that its prime duty concerned the sale of Liberty Bonds. A control now put into effect will be primarily for the conservation of the general credit situation and should therefore be initiated and supervised, not by the Treasury, but by the Federal Reserve Board.

I need not say that such steps should be taken not only firmly but with discretion and in such a way as not to involve grave hardship to individuals or injury to the general welfare.

I have written this letter believing that you and the other members of the Board are in general accord with the principles and views expressed in it and that it might be of some assistance to you in dealing with the problem with the Governors of the Banks to have this written expression

of the views of one of the members of the Board whose other official duties prevent his frequent attendance at your meetings.

I need scarcely add that this letter is written in no spirit of criticism. The Governors of the Federal Reserve Banks have served their country with devotion, courage and wisdom during the trying period that is past. It would be difficult for me to give adequate praise to the patriotic spirit of self-sacrifice which has actuated them or adequate appreciation to the skill and sagacity with which they have performed their duties. During the war they have naturally turned for leadership to the Treasury since its operations were the dominating factor in the financial situation. It would, however, be a great misfortune if, now that the Treasury operations are on a diminishing scale, the Governors of the Federal Reserve Banks are allowed to feel that the problems of the future were for them to solve each according to his own best judgment. The need of leadership is no less great, the need of examining the situation from a broad national and international point of view is no less imperative. I look to see the Federal Reserve Board, not critically nor aggressively but patiently and persistently,



provide this leadership.

Very truly yours,

CARTER GLASS.

Hon. W. P. G. Harding,

Governor, Federal Reserve Board."

The Federal Reserve Board, of course, will assume the leadership which the law devolves upon it, but in doing so it is going to count upon the close cooperation of the Governors of the Federal Reserve Banks. You are the commanding generals in the financial field and in a sense the Board here is a general staff, and there must be a thorough understanding and spirit of concord and cooperation between us. We have had that spirit in the past and we confidently expect it in the future. We will endeavor to aid you in any of your local problems, and when it comes to general, national or international questions we expect to ask your counsel and advice in order that we can get the benefit of your views as to them and determine more particularly the effect of the policy of the Board upon conditions in your own district.

As you know, the Treasury officials have been adverse all along to a raise in rates. We know furthermore that

some of you, and possibly some of the members of the Board, may hold the view that direct action, pressure, moral suasion, or whatever it may be called, in itself is not sufficient to control the situation. You will remember that in September the Treasury reduced its total indebtedness by about \$500,000,000. This is very gratifying, and it would have been fortunate had the slack, as it may be termed, been taken up; but unfortunately the credits were immediately released for general purposes, a good deal went into speculative operations, and the conditions which have been facing us ever since early in the Spring continue to prevail and are becoming more and more acute.

There is going to be another reduction in the floating debt of the Government in December by about \$500,000,000 possibly, and I think our first duty here today is to consider means of effecting a corresponding deflation. This reduction is to be made out of taxes which will be paid on the 15th of December. There should be a resulting reduction in bank deposits, and the time is most opportune to make for permanent contraction, by effecting deflation to that extent. We would like to have you consider this very carefully and give us your frank counsel and advice as to



how each one of you feels that this deflation can best be effected. In view of our past experience, it would be not only a very unfortunate thing, but we would all be most culpable if we permitted this opportunity to get away from us and permit \$500,000,000 to be turned loose into the general market to create further expansion.

The Treasury has been very adverse, as I said before, to an increase in the bank rate, and Mr. Glass stresses the importance of intensely studying the conditions in each of the Federal Reserve Banks and the necessity of a restraining influence to be exerted by the Governors of the banks on heavy borrowings. Assistant Secretary of the Treasury Leffingwell, in remarks made day before yesterday to Federal Advisory Council, stated that the present floating indebtedness of the Government, as represented by certificates, was about \$3,400,000,000, of which about \$2,400,000,000 was going to fall due in a very short time. He said that if rates could be maintained as they are now until about the middle of January he would have perfected his plans and would have put the Treasury finances on a more permanent basis; that then for a period of many months the Treasury would be entirely out of the market and Treasury condi-

tions would no longer be factors for the Federal Reserve Banks to consider, and the banks could adjust their rates according to commercial requirements.

The Federal Advisory Council when it met here, I am told, for the first five or six hours of the session, felt that it should recommend a drastic increase in rates, possibly not within a day or two, but certainly before the middle of December, the idea being that an increase in rates was the most effective way to check any further expansion and to take up the slack and hold it. Mr. Leffingwell made a statement more elaborate than the brief outline that I have given you, and it seems to have produced a profound impression upon the members of the Council, so that yesterday, when they reported to the Board, they made the following recommendation.

Topic No. 1. Policy in regard to the discount rate to the Federal Reserve Banks for the remainder of the year 1919.

Recommendation:

"It is desirable that the expansion of credit through the discount facilities of the Federal Reserve Banks should be held in check. The Council therefore approves the recent advance of rates made by the Federal



Reserve Banks. The Federal Reserve Banks should be instructed by the Federal Reserve Board to use all their influence and authority to prevent an excessive use of credits by member banks.

Increases in the discount rates would, in the opinion of the Council, tend to correct the present situation, but as such action might seriously affect present Government bond values and the successful refunding of the outstanding certificates of indebtedness, and as the Treasury officials are firmly of the opinion that at an early date the needs of the Treasury will cease to be an important factor in the money market, the Council recommends that no further change be made in discount rates at present."

The Federal Reserve Act is very clear and explicit in the matter of discount rates. It provides that the Directors of a Federal Reserve Bank may establish discount rates subject to the review and determination of the Federal Reserve Board. I do not want to be understood as trying to say to you what you must recommend to your Directors. I think on the contrary it is your duty to recommend to your directors such policy as you think the situation in your district, as co-related to the whole situation, requires.

If your directors decide to follow your recommendations and to establish discount rates in accordance therewith, they are clearly within their rights, but we want to ask, in case you should recommend any advance in discount rates, regardless of the Treasury situation and of the attitude of the Treasury officials, and despite the attitude of the Federal Advisory Council, that you do it quietly with your own Board of Directors, that you avoid as far as possible any public discussion, because rumors and general surmise on the street as to what the policy of the Federal Reserve Bank is going to be as to discount rates does not do any good, and if rumors are circulated and no action follows, it brings the system more or less into contempt, and the general effect is bad. I hope, therefore, that these discussions will be strictly sub rosa in your own Board meetings, and that whatever rates may be established, subject to review and determination of the Board, will be established as of a date sufficiently far in the future, say a week or ten days, as to give ample notice to the Board of what you want done and opportunity given us to discuss the proposed rates with you and among ourselves, in order that there may be no hasty action taken by the Board one way or the other.



The first topic is "Reserves. (a)." The Federal Reserve Board is authorized to reclassify existing reserve and central reserve cities. Should this power be exercised, and, if so, how? Should Congress be asked to amend Section 19 so as to require uniform reserves throughout the country, differentials, to be based on the various classes of deposits?

Of course we all know that the terms "Reserve City" and "Central Reserve City" in their former sense are now obsolete. The reserve cities now are the cities which have Federal Reserve Banks and branches of Federal Reserve Banks. No balances carried by a national bank can count any longer as reserve for another national bank. There are undoubtedly some discrepancies that should be rectified sooner or later. For instance, complaint has been made by clearing house banks in St. Louis that their designation as a central reserve city should be revoked. They claim it is unjust to require them to carry 13 per cent upon their demand deposits, while the banks of Philadelphia and Boston and Cleveland are required to carry only 10 per cent. Smaller places, such as Waco, Texas, and Tacoma, Washington, have claimed that they no longer get any benefit from being

reserve cities; that they are small towns, and that their reserves ought to be put on the country bank basis of 7 per cent instead of 10 per cent.

The Board has considered, both with this body and with the Federal Advisory Council on previous occasions, this question, and has asked for advice as to legislation. While we have power to change the classification of cities, we have not the power to reclassify the reserves according to the character of the deposits. The suggestion has been made that as we have uniform requirements in all cities as to time deposits, of 3 per cent, that we might have a uniform requirement as to the demand deposits of individuals, firms, and corporations, and adopt another schedule, if authorized by Congress, as to reserves to be carried on accounts due to other banks. The Council has advised us, and the Board is inclined to concur in the view expressed, that whatever may be done in the future, the problems of the present are sufficiently grave and intricate to require our undivided attention and that it would be inopportune to take any action at the present time. We would like very much to have the Governors consider the proposition and give us their view as to whether we should attempt to get any



legislation at the present time or whether this whole matter should go over until a more favorable time for its disposition.

Item (b) under Topic 1 is:

"Is there a demand for the payment of interest on reserve deposits, and should such a policy be considered?"

Unless some member of the Federal Reserve Board objects, I would suggest that this matter go over for your private consideration and report later. I might say for my colleagues on the Board that I have not had time to advise with them in detail as to these things and any suggestions that I make are of course subject to their discussion. If any of them differ, they will please say so.

The next question is,

Should the Federal Reserve Banks exert any influence upon the policy of member banks as to rate of interest allowed on deposits?

This question might go over for discussion by the Governors.

The next is,

Should efforts be made to induce member banks to continue the process of sorting and depositing gold certifi-

cates in Federal Reserve Banks?

I think that might go over with the observation that it seems just as important as ever, in view of the fact that our gold reserves are the basis of our credit operations, which may take an entirely new scope as our foreign trade develops. It seems to the Board that it is just as important as ever that the gold holdings of the country be concentrated with the Federal Reserve Banks.

Mr. Strauss. Will you not say a word about silver as well, while you are on that subject?

Governor Harding. I am sure the Governors of the Banks know that silver is liable at any moment to reach a point where the market value will exceed its coinage value and that it is liable to be sustained there, with the result that silver dollars will disappear. If silver goes to \$1.38, it would mean that our subsidiary coinage would go also. I understand that the Treasury is considering means of protecting the situation. We have, I think, about \$68,000,000 of free silver in the Treasury which can be sold to the Director of the Mint for conversion into subsidiary coins if it should be required.

The next question is, should the Federal Reserve Banks



continue to absorb the abrasion loss on gold coins?

That is a matter which the Governors can consider among themselves.

We next come to the matter of transit operations. That is a question which we may discuss very briefly here and then refer to you for more detailed consideration.

I want to say in this connection that complaint has been made on several occasions, by small national banks and by State banks, which have become members, that they are dissatisfied with the present situation in that, they claim, in the clearing house cities no discrimination is made in favor of a check which can be collected at par through a Federal Reserve Bank.

There is a clause in Section 16 which the counsel of the Board has construed as meaning that the Federal Reserve Board shall, by rule--it seems to be compulsory--fix the charges which may be imposed by member banks upon checks deposited with them which are, in turn, collected through the Federal Reserve Bank. The Board has never attempted to fix such charges; it has preferred to have those things work out in a natural, orderly way and as free from compulsion as possible; but I think the Board is prepared,

in case of necessity, to fix the charge.

We have had the matter up with the Federal Reserve Bank of New York and with the Clearing House Committee, and we understand the Clearing House Committee is entirely willing to be reasonable about the matter, but they have pointed out certain difficulties in the way, certain routine difficulties. For instance, as a matter of transit operation, it seems to be necessary to put all checks on the same state on the same basis. A large bank cannot very well discriminate between a check drawn on one town and a check drawn on another town in the same State; it would take too much time. There was devised last Summer a system of symbols. We had the transit managers here, and they did not think very well of the system, and it was suggested that the matter be left in abeyance, which we agreed to do. We promised we would not do anything about it until February, and the banks agreed in the meantime to prosecute their par point campaign, and we have now a great many States complete on the par list. The banks have undertaken to collect by express, and in some districts State Banks, affected by this operation, have yielded and agreed to remit at par, so that there is not very much collecting being done by express.



In the South and Southwest the situation is more complicated. Banks charging exchange have retreated into their Hindenburg line and they are making a very desperate fight. Some of the member banks and some of the national banks have been urged by committees to have printed on their checks certain words; for instance, "This check is payable in exchange at current rates"; "this check will be paid in cash to the original payee or will be paid in exchange at current rates to anybody else"; "this check will not be paid through the express company," and so forth, all restricting clauses on the face of the check. One of the Federal Reserve Banks is considerably disturbed by it. Of course any conditions on a check affect its negotiability. We have advised this particular bank not to handle these checks, and it says that that course plays exactly into the hands of the banks upon which the checks are drawn, and that when the matter is taken up with the drawers of the checks it is found that they are in sympathy with the movement; that they write some very tart replies to letters written them by the bank, saying that when they want any advice or assistance that they will ask for it.

In this whole par point campaign we have all been

impressed with this fact, that while the jobbers and the manufacturers of the country are in favor of par collections, and give us their good will, they do not do anything actively to support us. I do not know of a manufacturer or a jobber who will refuse to accept a check payable in New York exchange at current rates, or who is willing to discriminate against a check which is not collectible through a Federal Reserve Bank at par. He figures that he has made a profit on his goods and he has a chance to collect his money; and he had better get \$99.75 on the \$100 for his check, rather than risk losing the account or having its collection delayed. This may be a natural point of view, but it adds very much to the difficulties of the Federal Reserve Banks in working out the par system. But I can not help but feel if this movement, which has been inaugurated in the South and Southwest, to have restrictive clauses printed on the checks, becomes general and any great number of such checks appear in circulation, checks which are not negotiable, and not subject to protest, that there would be some remonstrance made by the recipients of the checks. It may be possible to end the whole matter once and for all by going to the Ways and Means Committee and



asking them to enact a law providing that a stamp tax of 10 cents on each \$100 must be affixed by the drawer of any check or other instrument which is payable conditionally, or not absolutely and unconditionally in money to the lawful holder thereof. I do not think the sentiment of the Committee is yet ripe for such action, but if this movement should spread I believe it may be counteracted in this way.

Sub item (a) is

"Method of Treatment of Transit Problems through Meetings of Transit Managers."

Then follows (b),

"In the interest of more prompt presentation and payment of checks, should not nearby banks be given instructions to clear on each other directly instead of through Federal Reserve Banks? Should the Federal Reserve Banks promote the establishment of such local clearing houses?"

(c) "Collection of drafts, bills of exchange and so forth. Should the collection facility of the Federal Reserve Banks be extended to include collection of commercial paper maturing in Federal Reserve cities and branch cities, and credit given on date of maturity, subject to

final payment."

In one of the districts, in fact, I believe in two of the districts, this has been our issue, and there is this situation: On ordinary collection items and drafts with bills of lading attached, the member banks in certain cities have claimed that they regard this business as a legitimate source of revenue, which they are losing on account of the disposition of member banks in other districts to send to the Federal Reserve Banks bills of lading drafts for collection. The Federal Reserve Banks have to employ runners and the member banks have to keep up their own collection organization at the same time, and the Federal Reserve Banks collect these drafts and remit them without any compensation. Counsel has advised us that a Federal Reserve Bank should properly receive collection items from its own member banks; it can not very well avoid doing so; and it is also obliged to receive collection items from other Federal Reserve Banks; but there is no obligation on the part of the Federal Reserve Bank in a given district to handle collection items for member banks in any other district. For instance, if a flour draft drawn on Nashville or Houston, Texas, should be sent by one of the



member banks in St. Paul or Minneapolis direct to the branch bank in Houston, or the branch bank in Nashville, the branch bank is under no obligation to collect it. It may very properly, if it sees fit, advise the sender of the draft that in future it should send the draft to some member bank, because it is not collecting <sup>items</sup> for member banks in other districts. But if the Minneapolis member bank should place a flour draft with the Federal Reserve Bank of Minneapolis, and that bank should send it to the Federal Reserve Bank, or to a branch, then the Federal Reserve Bank or the branch Federal Reserve Bank receiving the draft should collect it. This is a matter which I think you might discuss among yourselves, and if you wish any action taken you can let us know what you desire.

Governor Van Zandt. There is one point upon which I would like to make inquiry right there, Governor Harding.

If a member bank, say a bank that is a member of the St. Louis district, should send us an item for the account of the Federal Reserve Bank of St. Louis, would that be in effect the Federal Reserve Bank of St. Louis sending it to us?

Governor Harding. We would like your views on that point. It involves the question of direct sendings.

The next sub item is: (d) Transfer drafts and exchange drafts: The Transfer Conference held in Cleveland on June 25, 1919, recommended that limits on exchange drafts be removed. Is it desirable to remove the limits on exchange drafts and discontinue the use of transfer drafts?

Right here I wish to call the attention of the Governors to a circular issued by the Federal Reserve Bank of Richmond giving information with regard to the use of immediate credit symbols on checks drawn by member banks. With the consent of the officials of the Federal Reserve Bank of Richmond, I will outline briefly one of the problems that confronted them and how they met it:

The banks in Roanoke sometime ago did not ask for a branch bank, but they did ask that they be permitted to keep excess balances with the Federal Reserve Bank of Richmond and that for all checks drawn upon those banks and handled by the Federal Reserve Bank of Richmond, that immediate credit be given to the sender, subject to final payment, making them in effect the same as a check on Richmond. It seems that the Roanoke banks emphasized the value of this facility to their country bank corres-



pondents, and pretty soon they began to get accounts away from some of the banks of Lynchburg, particularly two of them. The Lynchburg banks complained; they wrote to their fellow townsman, Secretary Glass, and stated that they were not getting fair treatment; that they had lost about \$300,000 in deposits which had been transferred to Roanoke; that the Roanoke banks had pointed out the checks drawn on them were just as desirable as checks drawn on Richmond, whereas checks drawn on Lynchburg banks were subject to two days delay. They asked the privilege of carrying extra balances with Richmond and having their checks put on the same basis as Roanoke. It seems that two or three of the banks in Lynchburg did not care anything about this privilege and that the Richmond Federal Reserve Bank notified the Lynchburg banks that if all of them would make the same arrangement, the request would be considered, but all of them were not willing. Of course, if there should be any discrimination between checks on banks in the same town, the Federal Reserve Bank would be obliged to have extra help to sort the checks.

The Federal Reserve Bank adopted a symbol, F. R. I. C., with the District number on it, and a circle around it, and

it has a very definite contract with each member bank desiring its checks treated for immediate credit, and it avoids all complications. The officers of the Richmond Bank are here and they can tell you just what their experience has been.

The Board looks with a good deal of favor on this system. It does not request that the Federal Reserve Banks should inaugurate a campaign to have banks adopt this plan; but the arrangement does give an additional facility, and in some cases it may relieve the pressure for a branch bank. It gives a bank in any local center which attaches importance to it and wants to maintain a clientele among its surrounding country banks, an opportunity to protect such accounts. The Richmond Bank requires that excess balances be maintained in such cases where immediate credit is given. If the reserve gets below the legal limit I presume the penalty is imposed; the banks all understand it and the contract provides for it. This circular will be left here for your consideration.

The next item is (e) Transit expense: in view of the fact that no uniform method has been adopted of determining transit expense, should not this segregation be abolished?



This is an administrative matter for your consideration.

The next item is (f) Use of express companies by Federal Reserve Banks in collecting checks.

This is an expensive method of collecting checks, and I take it that it has been resorted to only as a temporary expedient in the hope that the banks collected on in that way will come in line.

The next item is (g) Prospect of putting entire country on par basis.

In the Federal Reserve Bulletin, published every month, there is a map showing, in white, all the states which are entirely par; and, shaded, the states which are not entirely par. In such states there is shown on the top line the number of banks remitting at par, and on the bottom line the number not remitting at par. The worst situation exists in North Carolina, Georgia and Mississippi. In North Carolina the percentage of non-remitting banks over remitting banks is about three to one, and in Georgia about two and one half to one.

The next topic is 6: Relations with State Banks.

(a) State Bank membership: Is any organized work

being conducted similar to the campaign to get par point ?

The Board regards it as important that we endeavor to maintain the interest of the State Banks in the Federal Reserve System, and that we should continue our efforts to get desirable non-member banks into the system. A great many State banks are not eligible, on account of their capitalization, and some are not desirable even if they are technically eligible.

You have your campaigns organized in the different banks, and the Board has designated its new member, Mr. Moehlenpah, as a committee of one to conduct a campaign of cooperation with the organization of each Reseral Bank on behalf of the Board. Mr. Moehlenpah will be glad to discuss this with you at your convenience, and he will appreciate any information you can give him; and we ask your cooperation with him in this matter.

The next item is (b) Fraudulent advertisement or claims of membership in Federal Reserve System: what means exist for preventing. This is a matter for your own discussion.

The next is number 7, Discount Rates.

(a) Review of policy, in the light of effect of recent changes. That we have already discussed to some extent.



(b) Effect of fifteen day collateral rates: should differential in favor of short time borrowings be discontinued?

You will remember that the Act, as originally passed, contained no provision for the discount of notes made by member banks. Rediscounts only were contemplated; the member banks had to rediscount eligible paper which they themselves had discounted.

One of the large banks in New York, back in the days when we were anxious to do business and the Reserve Banks were not making expenses, made a statement that it would be very glad to do some business with the Federal Reserve Bank, but that its requirements for money were usually temporary, five days or ten days -- not longer than fifteen days -- and it very often happened that it did not have paper of the proper maturities; that it did not want to discount thirty day paper or ninety day paper in order to secure five day accommodations. The matter was handled at first by means of rebates, but that involved additional work and extra computations.

Meanwhile, the war clouds began to gather, and our former member, Mr. Warburg, looking ahead to the future in

his characteristic way, conceived the idea of asking Congress to authorize the discounting of member banks' fifteen day collateral notes, the notes to be secured either by commercial paper itself eligible, or by bonds and notes of the United States. Mr. McAdoo, who was then Secretary of the Treasury, saw the possibilities of this suggestion and he endorsed it; and, as it stands now, the bulk of the loans made by the Federal Reserve Banks are in the shape of loans made to member banks against their own paper, secured by bonds and notes of the United States.

I do not think it would have been possible to float the great issues of Liberty Bonds and Victory Notes and Treasury Certificates unless this expedient had been adopted. Until recently all the banks were given not only the facilities for short time borrowing in this way, but were giving a preferential rate in favor of short time borrowing, even though in many cases the paper would be renewed every fifteen days. The member bank would naturally resort to this method, first, on account of the lower rate; and, second, on account of the saving in revenue stamps when the notes were secured fully by obligations of the United States. So it has been a very important factor in the discounting operations of the System.



But is it altogether desirable? That is the question that we ask you to consider and advise us on: is it altogether desirable that a differential in rates should be maintained in favor of member banks' fifteen-days collateral notes? There is no question as to the equity of letting the bank have the accomodation for a short time, if it so desires; but is there any reason why a member bank should, in addition, secure a preferential rate on the short time borrowing, when you consider the present situation, the probability of renewal, and the fact that, even though bank A and bank B do make bona fide temporary loans, banks C and D will come right in and put in their paper, so that, as far as the Federal Reserve Bank is concerned, it accumulates a continuous succession of fifteen day borrowings, the effect of which really amount to a lower rate than its scheduled rate for thirty to sixty day maturities? We understand that most of the banks have abolished this differential, but two or three of them still have it.

The next item is (c) The calculation of interest at 365 days per year: present practice is to compute interest on notes rediscounted on basis of 365, but on bills purchased in the open market at 360 days per year. Should basis of calculation be uniform?

There seems to be no uniformity of practice. All the Treasury computations are made on the basis of 365 days to the year. I do not remember just what the practice has been between Federal Reserve Banks.

Governor Calkins. 365 day basis.

Governor Harding. The next is number 8, Credit Situation.

(a) Discussion of the policy of the System. Governors have been requested to make a report of general price movement as to real estate, commodities and securities in their respective Districts.

It might be interesting to know to just what extent commodities are being hoarded. I received a telegram this morning from the National Farmers Union, in session at Memphis, asking whether a statement which was contained in a letter written to Senator Smith of South Carolina the other day meant that the Board did not look with favor upon the retirement from the market of two million bales of cotton, or whether the Board thought that the present prices were high enough, or just what we did mean. They will be advised during the day that we have no opinion as to the price of cotton, but that we want the Federal Reserve Banks



to have full information in all their cotton transactions, and to have ample margin, and that it is not the policy of the Federal Reserve Banks to furnish funds for the hoarding of commodities for speculative purposes. If a man wants to retire a commodity from the market and is able to do so out of his own resources, that is his own business; but you can see that it would be an entirely different situation were the Federal Reserve Banks to undertake to furnish funds for carrying two million bales of cotton at present prices, and then undertake to provide funds for all legitimate business, such as the movement of crops and the distribution of products.

I shall ask you to have some general discussions among yourselves and with the Board before you retire; and we will bring up a little later your individual experiences as to what the results are of exercising direct pressure upon individual banks inclined to borrow too freely, to what extent that pressure is desirable, and to what extent it is productive of good results, and the reverse.

A circular has been sent out as to the complicated situation presented by the amendment to Section 5200 of the Revised Statutes. I think you all understand that.

Section 13 provides that in discounting for a national

bank that you must take no paper which exceeds the ten per cent limit, with the statutory exceptions.

In Section 9, referring to State Banks, the Federal Reserve Banks are enjoined not to discount for any State Bank any paper which is in excess of ten per cent of the State Bank's capital and surplus, with the usual exceptions.

Section 5200, as amended, provides that National banks may lend for a period not exceeding six months out of any consecutive twelve months up to 25 per cent of their capital and surplus on paper secured by warehouse receipts and shipping documents, covering staple commodities. But Section 13 was not amended, so if you have a member national bank which has discounted against warehouse receipts up to 25 per cent of any one customer, you could discount for that National bank two-fifths of that line, but if you have a State Bank which, under the authority of the State laws, has discounted 25 per cent, or 30 per cent, or any given proportion above ten per cent, of its capital or surplus for one individual or firm, you could not discount any part of that line for the State bank. I am sure you all understand this, and hope you have explained the situation to the member banks which may be affected by it. This was not brought about intentionally, but was one of



these legislative lapses which occasionally arise in framing an Act of Congress.

There is to be a discussion of foreign business of the Reserve Banks and how it is managed. Governor Strong, as you know, has recently spent two or three months abroad, and before we separate I am sure the members of the Board would like to hear from him, and I will ask him at the proper time to discuss this subject.

As to the administrative problems, those are all for your consideration. I do not think it necessary to discuss them in the presence of the members of the Board, although I take it when you come to any of these matters, if any particular members would like to be present to get the benefit of the information brought out in your discussion, that there would be no objection to their doing so.

#### 11: BRANCH BANKS.

- (a) Published Comparisons of Branch Operations and Expenses: Inasmuch as statistics afford no opportunity for comparison unless the functions and operations are comparable, should they not be subjected to analysis or be discontinued?

We will ask you to consider the advisability of a con-

ference of branch bank managers to study the problems of branch bank operations. You know there is a considerable lack of uniformity in the method of operation of branch banks. The first branch which was established, that of New Orleans, has, for instance, seven directors; the manager of that bank is not a director himself; the bank has very liberal by-laws, it exercises almost independent functions; it has a distinct territory, and member banks in the territory are required to deal with the branch and not with the parent bank; it has an independent set of books; it keeps separate accounting of profits and expenses; completes the rediscount operations with its banks: yet the same Federal Reserve Bank has other branches which have not these independent powers; they have five directors only; the managers in those cases are not directors; they do not keep any reserve balances on their own books; they are in effect agencies, but they have a provision for paying out Federal Reserve notes; and they keep unissued Federal Reserve notes at those branches.

Then the Pacific Coast Branches operate under an unique system different from any other. They handle only notes issued by the Federal Reserve Banks; they have no



assistant federal reserve agents. They have power to lend up to the amount, I believe, of the capital of the borrowing bank without consulting the directors of the parent bank. I understand all transactions, of course, are subject to review of the San Francisco office, but they are essentially independent up to a certain extent. If any member in the branch territory wants to discount more than the authorized amount, a telegram is sent to the San Francisco office.

Then we have the Cleveland type of branch, the Pittsburgh and Cincinnati branches, which seem to be working out very satisfactorily, and we have still another type in Detroit; and a branch in Baltimore which I think is similar to the Cincinnati and Pittsburgh type. In all these banks the manager is a director; the law provides that that there shall be not less than three nor more than seven directors of a bank, and that the member Reserve Banks shall appoint a majority of one, and the Federal Reserve Board the remainder. The policy of the Board has been to have five directors.

The Buffalo bank, I believe, is very much on the type of the Pittsburgh bank, is it not, Governor Strong?

Governor Strong. Very much so.

Governor Harding. I think it would be very helpful if you would confer among yourselves as to the merits of the respective plans. Of course, when we consider the difference in the territory served, and the inequality of distances, it may be deemed necessary to continue these carrying types; but I think we will all agree that, as far as feasible, it would be advisable to have a little more uniformity than we have now. I have no doubt, as far as the Pacific Coast Branches are concerned, that their plan works out admirably.

Mr. Perin told me when he was here that he regarded these branches merely as parts of the parent bank. The manager always comes from the San Francisco office.. I think it is more of the type of the Canadian branches, is it not, Governor Calkins?

Governor Calkins. All of our branches, except one.

Governor Harding. Our branches, I believe, have come to stay. It would arouse a good deal of opposition if we undertook to close any branches, and there may be one or two more branches established. I hope, however, we have about reached the limit. I should dislike to see



many more. We ought to provide efficient means for their management. The Dallas bank has two branches. I think the El Paso branch is almost on the same basis as the New Orleans branch?

Governor Van Zandt. Yes.

Governor Harding. And the Houston branch has a large cotton business. However, it would be very interesting if you would discuss this among yourselves, and then it would be enlightening to the Board if we could be given a schedule showing the types of branches, and the differences in the various types of branches. I think we have it pretty well in mind now, but we want to check up on it to be sure we know what the System is.

#### 12: U. S. TREASURER'S ACCOUNT.

(a) Can more prompt and dependable verifications and reconcilements be obtained?

On the supplementary list:

Discussion by Federal Reserve Bank of New York of desirability of curtailment or elimination of practice of direct routing of items by member banks to Federal Reserve Banks in other Districts.

I think this interests the Eastern banks probably more than it does the others. Then reference is made to the use of immediate credit symbole. I have already called your attention to that.

Here is a suggestion from the Board's staff as to the desirability of an afternoon settlement in the gold settlement fund for Eastern Reserve Banks. Mr. Emerson, will you explain your views on this subject?

Mr. Emerson. That proposition has been considered at the transit conference, perhaps first for wide transfers, and possibly to include clearing house exchange settlements. The Eastern banks could have a settlement in Washington at two o'clock, settle their balances, instead of waiting until the following morning. A number of Governors have advised Mr. Dial, of Philadelphia, that they have been very much interested in this and have taken it up with Governor Passmore, and it is a proposition of settling on the same day rather than waiting until the following day.

Governor Harding.

14: ABSORPTION OF EXPENSE BY FEDERAL RESERVE BANKS

(a) How far can Federal Reserve Banks go in absorb-



ing expense of collecting checks on non-member non-par remitting banks?

(b) In view of large earnings of Federal Reserve Banks, would it not be well to furnish postage and pay all express and postage charges for member banks, covering their transactions with Federal Reserve Banks?

I presume that this was suggested in view of the arrangements made with non-member banks which remit at par, but there is this distinction: when you pay postage for a non-member bank you facilitate the collection of items you receive from member banks and have to collect at par.

Then there will be a discussion of the functions of Federal Reserve Banks as fiscal agents. Those are routine matters, which I assume will not especially interest members of the Board.

16: CONTROL OF FOREIGN EXCHANGE TRANSACTIONS  
TO PREVENT DISHONEST BANKING PRACTICES.

Here is a memorandum by Mr. Leffingwell, sent to Mr. Strauss. Mr. Strauss, it seems, sent in a memorandum in regard to robbery being perpetrated upon ignorant foreign immigrants who desire to make remittances to their home countries, with particular reference to Hungary. There

is full information regarding the matter, and a circular in Hungarian, if anyone can read it. The complaint made is that --

"They circularize Hungarians, and it seems to be a rank swindle. They do not get anything at the other end at all." Mr. Leffingwell makes comment and says: "I am inclined to agree that the State control leaves the matter uncontrolled. New York has completed some sort of control over it, but Chicago still furnishes a happy home for this sort of robbery. On the whole, I desire to state that if a basis of law could be found for turning over to the Federal Reserve Banks a system for licensing dealers in foreign exchange, that would be the wise thing to do."

The question arises whether the Federal Reserve Banks feel they would like to undertake the supervision of a licensing system and license these dealers in foreign exchange.

Here is a translation of a complaint, and also the complaint in the original Hungarian.

17: UNIFORM METHOD OF HANDLING REVENUE TO BE  
DERIVED FROM SALE OF CANCELLED POSTAGE  
STAMPS OF LARGE DENOMINATIONS.



I do not understand that topic. Does anybody else understand it.

Governor Strong. Yes, I understand it. I discovered that we were getting \$900 about every three months for the sale of cancelled postage stamps at the bank. I do not know whether other Reserve Banks are doing that or not, but if they are not, there is a large revenue to be had from the collectors that buy them and ship them abroad. We put them up at auction every three months.

Governor Mill. How do you get them? Soak them off?

Governor Strong. No; just cut them off.

Governor Harding.

18: FEDERAL RESERVE TELEGRAPHIC CODE.

Are there any suggestions regarding this? This is a matter of routine for you to consider.

19: STANDARD FORMS FOR ALL FEDERAL RESERVE BANKS.

We will have Mr. Jacobson present when we discuss that.

20: INCREASE OF FEE PAID TO DIRECTORS ATTENDING EXECUTIVE COMMITTEE MEETINGS.

In view of the diminished purchasing power of money,

there is a disposition in one of the Districts, I believe, to provide \$20 instead of \$10 as compensation. You see, that District does not have as many meetings as are held in other Districts, and the committeemen feel they ought to have more pay. We would like the Governors to consider this; and if they think any increase is advisable, to suggest some uniform plan.

Here is one other matter for discussion. It seems there has been a movement in banking circles for some time to adopt a uniform size for drafts and checks, particularly drafts and checks used by the member banks of the Federal Reserve System. Here is a letter from the Todd Protectograph Company on the subject, which will be referred to the Governors for their consideration. If they consider it feasible, I suppose they will take it up in their own Districts.

I have given a hasty outline of the various topics to be discussed, and will ask members of the Federal Reserve Board now to suggest which particular topic they would like to take up first for more detailed discussion by the Governors. Do you want to discuss the credit situation and see what are the views of the Governors on



discount rates and direct action, or discuss the transit matter?

What is the view of the Governors themselves as to which topics they feel are best to be discussed with us first, because, frankly, I do not intend to stay with you all of the three days?

Mr. Miller. I suggest that after the Governors have conferred together on these things that we reconvene.

Governor Harding. I think it important, gentlemen, when we come to discuss the matter of discount rates, that members of the Board be present in order that we can get the benefit of the views of each one of you. Do you not think so?

Governor Strong. I think it is highly important. This action by the Advisory Council may make it desirable to have a little preliminary discussion to see what the reaction is on the Governors, and then to have a very full discussion of it. I should hope we could take that up pretty shortly in the meeting.

Governor Harding. Could we not, in the next hour, just go briefly around the table and ask the views of each Governor on the subject? I should like to get those views

and call on Governor Strong last.

Governor Strong. I have talked too much about it already.

Mr. Miller. If I were a Governor, I myself would want to discuss it with my conferees before discussing it with the Board. Personally, I am inclined to think I should value the opinion of the Governors very much more if they had been given that opportunity.

Governor Harding. Most of you have already discussed it pretty fully at the preliminary meeting we had here two weeks ago.

Mr. Moehlenpah. Suppose we get the expression here as to how they feel, as to how that raise in discount rate affects the Governors, from the experience in the past, and especially in the last few days. It would be desirable if we could get them to express themselves now.

Governor Harding. Just say what effect their present raise has had on the sale of Liberty Bonds.

Mr. Moehlenpah. The effect right in their own Districts, and as to the volume and indications of any violent fluctuations.

Governor Calkins. It would be necessary for some of us to say we knew nothing about it, as we left home about



the time the rate went into effect and had no opportunity to get the information. I think none of the Governors are sufficiently informed to answer that question fully or satisfactorily.

Mr. Hamlin. I move the members of the Board now attend their regular meeting and leave the Governors to come to us a little later.

Governor Harding. Before I put that motion, I should like to ask whether it will be agreeable to the Governors to have members of the Board to drop in informally from time to time, or whether you prefer to discuss some matters strictly among yourselves, and then to discuss these matters which I have indicated as being of general interest to the Board, letting us know when those discussions are coming on, so that any members of the Board wanting to come over could attend. What is your view about that?

Governor Strong. Of course we will be here for three days. I should say members of the Board should come in when they feel free from their regular work at any time. We have done that before.

Mr. Strauss. It is just a question of how you feel about it.

Governor Strong. There are some routine matters here which, by the old sledge hammer method, I think we can settle very promptly, but perhaps members of the Reserve Board would not submit to the method we apply.

Governor Harding. Then I understand that any member of the Board wishing to come over and sit in the meeting can do so, and if we want to hold a formal session with you we can do so?

Governor Strong. I understand on these topics you placed on the supplementary list you would like to be here when they were discussed?

Governor Harding. Not all the topics on the supplementary list. I merely marked some here that I thought would be of particular interest to members of the Board. One member of the Board might be interested in one thing and another in something else, you know.

Mr. Strauss. I should like to get over as often as <sup>it is</sup> my time would permit, if/agreeable.

Governor Harding. So would I, but, frankly, my time will not permit me to be here continuously. If you wish me to be present you can send for me and I will come over,



but I have a considerable amount of routine business to transact in my office.

Governor Passmore. Would it not be a good time to discuss this credit system, say tomorrow morning, or some particular time?

Governor Harding. I think it would be very well for you to agree among yourselves at what time you would feel prepared to discuss with the Board the credit situation and the discount matter; then we will have a session, say this afternoon or tomorrow -- I think tomorrow would be preferable. What do you think?

Governor Passmore. It seems to me a good idea.

Governor Harding. What is your view of that, gentlemen? It has been suggested by Governor Passmore that you fix a time when you would be prepared to discuss formally with the Board the question of discount policy and the general credit situation.

Governor Strong. Suppose we took that up right after lunch today, would that be satisfactory to members of the Board?

Mr. Strauss. I have an engagement at 6:30 at the

State Department.

Mr. Hamlin. I think tomorrow would be better.

Governor Harding. Would it be agreeable to arrange it for eleven o'clock tomorrow morning?

Governor Strong. At any time.

Governor Harding. Then those in favor of having a formal discussion with the Board on the question of the effect of the discount policy on the general situation at eleven o'clock tomorrow morning will indicate by saying aye; contrary, no.

(The motion was agreed to.)

At the expiration of the Joint Conference with the Federal Reserve Board, the members of the Board thereupon retired from the conference room and the conference of Governors proceeded, Governor Benjamin Strong, jr., of the Federal Reserve Bank of New York being unanimously chosen by unanimous vote to act as Chairman.

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## PROCEEDINGS OF THE GOVERNORS IN CONFERENCE.

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box

The Chairman. Are you gentlemen ready for business?

Governor Seay. Mr. Chairman, I should like to say, in view of circumstances with which you are probably familiar, our Deputy Governor is also here, and I hope you will grant him the full privilege of the floor, and he will probably act as spokesman. I shall probably not be continuously with you, and promise not to take up the time of the Convention.

The Chairman. That is agreed to. It has been our practice at these meetings to limit discussion by rather arbitrary ruling of the chair when the time seems to have arrived to consider a motion so as to dispatch a topic. Is there any objection to continuing that method of procedure? If not, we will proceed under the rules we have formerly adopted for these meetings.

It occurs to me that this program was made up on short notice and there may be some other topics that members of the Conference would like to add. If so, it would be desirable, I think, to hand that to the stenographer and have them written out and handed in at a later session.

What are your wishes as to the order of discussion of topics on the program?

Governor Wellborn. I suggest they be taken up in the order printed.

Governor Calkins. Might it not be well to consider topics of minor importance before we get down to one of major importance?

The Chairman. I thought if we did that we would not then be considering topics which some of the members of the Federal Reserve Board might like to consider with us. Do you offer that as a motion?

Governor Wellborn. In view of what Governor Harding stated a few minutes ago, as to coming tomorrow to hear our report on discount rates, probably it would be better to take that up.

The Chairman. And have a preliminary discussion of that now?

Governor Wellborn. Yes, begin right now with it, in order to get together on it some way or other, to mature our opinion so we can express it to them tomorrow, or take it up awhile and put it aside and take it up this afternoon. We should be ready in the morning to give it to them. It is fresh on our minds now from his talk, and

I think it the proper thing to take it up right now.

Governor Van Zandt. Mr. Chairman, there is one question I should like to bring before the Conference before we start in on anything else. It is that some of the Governors have not yet received the Board's letter No. X-1721, together with the questionnaire it desires furnished to the employes.

The Chairman. I have that before me to bring up before we finish the meeting.

Governor Van Zandt. I do not think it would take much time.

Governor Morss. I should like to suggest a topic on these companies that are being formed especially to finance industrial concerns, about their ability, and so forth.

The Chairman. Would we not save time by having all topics handed to the stenographer to be brought up later, and I will see that they are added to the program?

Governor Wellborn suggests we consider first the subject of discount rates on the credit situation; Governor Calkins suggested we dispatch some of the less important subjects first. Governor Wellborn has the right of way, and his suggestion was made first.



7. DISCOUNT RATES 8. CREDIT SITUATION.

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Governor Wellborn. My idea is that we have just heard Governor Harding's talk and it is fresh in our minds, and it is far the most important thing we have here, and I think the sooner we start on it the better.

The Chairman. What are your wishes? Is Governor Wellborn's motion seconded.

(The motion was duly seconded).

The Chairman. Governor Wellborn moves that we first consider topics 7 and 8 preliminary to a discussion of those topics with the Federal Reserve Board. His motion is seconded. Is there any discussion?

(The motion was carried).

The Chairman. The subject was brought up by Governor Harding in the reading of a letter from Secretary Glass of November 5th. Is there any discussion of that letter?

Governor Wellborn. Mr. Chairman, it appears to me that the increase of rates will very materially affect the Government finances. There is no doubt about that. They will have to pay higher for their money, and it will probably affect the sale of Government bonds, too, and depreciate their value. At the same time I think we have

got to look out for the general situation, the financial situation and the welfare of the country, and those are the two points we have got to consider; that at least is what I am considering in my mind, which is best, and, without going into a long discussion of it, I feel that we ought to increase the rates. Since we increased the rates on November 10th, I have seen that it has affected the banks a great deal; they have taken notice and are going to be closer in their credits; there is a tendency to curb their credits, which I believe is very essential at the present time; we have got to curb them in some way or other. That is the only weapon we have to fight with, is the rates.

The Chairman. Governor Miller?

Governor Miller. I am in favor of an increase in rates, as it has been thoroughly demonstrated in our district that after we increased the rates on November 10th we had liquidations within a week of about \$9,000,000 or \$10,000,000, directly attributable to the increase in rates, and we want them higher yet.

The Chairman. Governor Passmore?

Governor Passmore. The change of rates has brought no very material change in our loans. Our loan situation

has remained about the same. There was an increase of about \$7,000,000 in loans during the first week after the raise. After that they fell off right away, and I think we are just a little under in our total loans where we were when the raise took place, on November 6th. We have had a good deal of complaint from outlying country institutions about taking some unfair advantage of them, and they were forced to take the securities at a time when they were not able to secure secondary distribution, but we have had very little difficulty, I think, in replying satisfactorily to that. If it was not for the Treasury situation we would certainly prefer a further advance in rates.

The Chairman. Governor Mc Dougal.

Governor McDougal. Since the rate advanced our reserve has been going steadily down. That is occasioned by an increase in demand from our own district, and, to some extent, a demand which we have helped to supply from other districts. My belief is that current conditions justify a further adjustment of rates upward. I believe, however, that in view of the fact that the Advisory Council came here, according to our understanding, under the strong impression that rates should be increased, but that their views were



materially modified after hearing Mr. Leffingwell's story, that we should ask Leffingwell to come in and explain the situation to the Governors before we take final action on the matter.

The Chairman. Governor Calkins.

Governor Calkins. I wish, first, to second Mr. McDougal's suggestion that Mr. Leffingwell be invited to attend this conference. I think that none of us have any doubt regarding the expediency of advancing rates, except that doubt which we are brought to consider because of the condition of Government finance. I feel rather reluctant that it is necessary to say we must still consider the situation of Government finance. I cannot say anything in the way of information regarding the practical result of advanced rates, neither do I believe that any of the other recommendations presented can give valuable, practical information with regard to this advance, the time not being sufficient. I am fully committed to the view that the policy should, as soon as possible, lead, first to the entire wiping out of the differentials between Government securities and commercial paper, and, second, an advance of rates as is determined to be necessary after that

point has been reached.

The Chairman. Governor Young.

Governor Young. In our district there has been a reduction in about fourteen days of approximately \$10,000,000, \$6,000,000, I know, has been reduced through the sale of Government obligations. Of course this is the season of the year when we are loaning money to member banks. We have received no complaints from any bank at all. The Twin City bankers are in favor of this increase in rate. Aside from the situation at the present time, it would seem the natural and only way we have of reducing the inflation is to increase the rate, but apparently we have to consider the request of the Secretary of the Treasury for the Government financing, and I would prefer to hear from Mr. Leffingwell a little further before committing myself.

The Chairman. Governor Fancher.

Governor Fancher. Mr. Chairman, I think if it were not for the fact that we all had in mind the requirements of the Government in temporary financing that we would all favor a further increase in rates. I would say, so far as our situation, the Federal Reserve Bank at Cleveland, we seem to be the one bank that wiped out the differential as between

commercial paper and loans secured by Liberty Loans and Victory Notes. We brought out rates to the same level in from one to ninety days, four and three quarters per cent. After the recommendations of the Board, immediately acted on here, it took some little time, two meetings of the Board finally concurred in our rates last year.

It is a little early, I think, to detect what the effect would be, but we have seen an increase in our borrowings, and, of course, a decrease in our reserve the last ten days. It has not been very marked on Government secured paper. We showed an increase of about \$6,000,000, but by reason of our making a rate for the four and one quarter and four and one half certificates, a fifteen-day rate, we have seen a change in the percentage of borrowing, we have seen quite a marked increase in advances secured by certificates and a decrease in advances secured by Liberty Bonds, looking to the professional rate made for certificate borrowings.

The Chairman. I have a message that Secretary Glass would appreciate it if all Governors would meet in his office at 12 45 today. May I send an answer that we will be there?



(The suggestion of the Chairman was agreed to.)

The Chairman. Excuse me, Governor Fancher.

Governor Fancher. I believe that, to correct this excess of borrowings, I think that the protective method is by a gradual increase in rates. It is going to be the only effective method, as I view it.

The Chairman. Governor Biggs.

Governor Biggs. After raising the rate in our district, immediately liquidation was quite heavy. Our larger banks are borrowing comparatively very little, reflecting the immediate effect on the raising of rates for their customers, and there is where I think the raising of rates is a good thing; I think the moral effect is a good deal better than raising those rates now, because it reverts immediately to the banks, if we raise them one quarter they go one half; they double us all the time. That has had a tendency, in the general trend of talk from the bankers to their customers, to the effect we are going gradually to put the soft pedal on. I see no need in our district for increasing the rates. I do not think it would help very much, except it would be an additional expense to legitimate needs.

The Chairman. Governor Van Zandt.

Governor Van Zandt. I do not believe that a further increase of rates in our District would have any effect at all, unless it was a very material increase. The slight raise that we made down there, acted in the nature of a warning to banks that they must curtail their speculative loans, and we are putting out a little propaganda along that line. I believe that a further increase in rates just as this time would hurt the Treasury financing and, and, therefore I do not believe in it at the present time, although I am theoretically in favor of a Federal Reserve rediscount rate which is at least as high as the commercial bank rate.

The Chairman. Governor Seay?

Governor Seay. The loans in the Fifth District have decreased since July about \$50,000,000, nearly all in Government securities.

The Chairman. Have decreased.

Governor Seay. Have decreased.

The Chairman. About fifty million?

Governor Seay. About fifty million?

Deputy Governor Peple. That has been largely by the

sale of certificates, though.

Governor Seay. We can not attribute, I think, any decrease of loans to the increase in rates. We think is due to the season.

The Chairman. And the sale of cotton?

Governor Seay. Yes, the sale of cotton, and the replacement of agricultural and commercial paper. There has been some disposition to re-sell certificates of continuance.

The Chairman. To you?

Governor Seay. Held by the banks, yes, to us; and, however much we might wish it, and nobody wishes it more strongly than I and has wished it more strongly, we may dissociate our rate from Government financing, we can not do it, I think. I believe it would have a material effect on Government securities if we were at this time to increase our rates further. I believe the increase in the rate so far has had a very salutary effect; there is no question about that. I think the admonition it gives is much more forcible than the difference in the rate, which is very slight, in a speculator in commodities or other things.

I think the most powerful influence we can bring to



bear is not in an increase of one-half per cent in the rate, but in the admonitory attitude toward the member banks, and we have been exercising it for some time. We have been scrutinizing very closely the character of the loans and the purpose for which made -- that we are making to our member banks, and we have excited the cotton community very much in our District by the issuance of a circular warning them against speculation in cotton, and perhaps the other Federal Reserve Banks have received that circular.

I can not go as far as the Advisory Council in saying that it does not appear to me that there should not be any further increase between now and January first. I think that is a matter which exigencies should leave open. I would not be in favor of any further increase at the present time, without the further exercise of admonitions to the member banks. But I believe we would be able to control it in that way. They have taken notice, unquestionably, and the better bankers in the District undoubtedly are cooperating with us, and I believe exercise more influence that way than by increasing the rate one-quarter or one-half per cent, which increase I do not believe should be made without very close consultation with the Treasury Department.

The Chairman. If the better banks in your District will observe your admonitions/<sup>it</sup> will deliver the plunder to the worserbanks in the District, who will profit by it.

Governor Seay. I think that is undoubtedly true.

The Chairman. Governor Morse?

Governor Morse. The borrowings of the Boston bank were quite moderate up to a month ago, and that induced us to take on quite a large line of deposits, but since the rate was advanced, our loan account has jumped very materially, though I think it is entirely for local reasons and has nothing to do with the rate especially.

The Chairman. You do not think it is to enable them to lend money in New York?

Governor Morse. There is always more or less of that but I do not think so to any great extent. The jump came on us from our big banks right there in Boston that I know did not have very much money in New York, although they always have some, by the Shawmut Bank, the First National and the Old Colony; and those had some withdrawals of deposits. I do not know that money did not go to New York, but it appeared they did not have any control of it, but it was caused to a considerable extent by the fact that

all these municipal and State notes, issued in anticipation of taxes came due in New York, and, besides that, our District is now coming to a time of year when they will need a good deal of money to buy cotton and other things to supply their legitimate business, which I do not feel I would have any right to check credit on that account.

We have always exercised a considerable moral restraint, what we could, on the banks, as to how they should borrow, and what they should borrow it for, and we carry on a sort of general campaign against these country banks, and keep in close touch with the city banks. I do not think there is much more we could do, and I think the feeling grows all the time that we should not do it. There is a sort of resentment against it.

The Chairman. Against moral restraint?

Governor Morse. Against moral restraint. They say they have been morally restrained a great deal, but the war is over, and if they are not borrowing heavily that we should not interfere with what they do with their money.

As for the policy of rates, I feel myself that the policy of the Federal Reserve Banks, and the Board too, on rates should be guided very much by the average reserve rate of the banks. It seems to me it is the duty of the



Federal Reserve Board and the banks to protect their average reserve, and especially when it is getting down to as close as forty per cent, or to the legal rate, as it is today, and I should be guided very much by the tendency of that rate. A month ago that rate was declining quite rapidly. The advance in the present rate has had a tendency to keep check up, but if it overcomes the present advance in rates and that declining tendency is still there, I think that we ought to advance our rates again. Of course, we want to give every consideration to the Government financing, but I think the Government financing could stand to one side against this declining rate when it is as low as it is today.

Governor Passmore. May I just supplement my report to say that I believe loans would very materially advance in our District if, on account of our reserve position we had not used restraining influences. Ever since the raise of rates we have not put on new loans without asking the borrowers if they had money on call in New York. In every case where they had money out in New York we declined to loan. There were a few cases where we put the loan on just overnight, in order to give them an opportunity to call the loan in New York to pay the next day.

The Chairman. Suppose all Reserve Banks do that. There is \$712,000,000 or \$715,000,000 loaned by banks located in other Reserve Districts. If you all do that, we shall have to make those loans directly, then, of course, in New York. We are prepared to do it, if necessary, but I am wondering whether that type of direct action, in the long run, is going to be in the interest of the Treasury itself.

Governor Passmore. We felt that our reserve position made it necessary for us to do it. We felt we were in a little different position than other banks were.

The Chairman. I should hope that we could find the means at this time to look to the reserve system as a system, and not as a lot of isolated banks, and work out a policy which will not do what I am certain will result from the excessive application of this direct action that Governor Harding refers to, which is simply to drive the infection from one place to another. That is my fear of the consequences of a concerted drive, for instance, on one certain line of credit, not that I am particularly a partisan of the Exchange -- I think possibly some people in New York think quite the reverse now.

Governor Seay. Will you let me add to the reference to our own District, that the admonition to our banks had reference to speculative commodities, commercial transactions principally, and I think I might almost exclude the speculation in securities. It had reference to cotton movement and real estate movements, and other movements of an allied character of a commercial nature.

The Chairman. We have got to adjourn now to meet the Secretary, but I would ~~xx~~ like to say this discussion about rates is probably due to the fact that I have over here rather constantly, and it has unfortunately taken the shape of more or less a personal difference of view between Mr. Lef-fingwell and myself in this matter, and I think I shall take the first opportunity of expressing my views to this meeting as fully as I can and let it go at that. I do not want to be constantly in the position of opposing; we all want to help.

If it will be agreeable, we will have our meeting at the Treasury now, and then all go over to the George Washington to lunch, so we can get back promptly.

Whereupon, at 12:30 p. m., a recess was taken until 3:15 p. m.



The conference re-assembled, pursuant to recess, at 2:30 o'clock p. m., Governor Strong presiding, their being present Mr. Moehlenpah of the Federal Reserve Board.

Governor Strong. The meeting will come to order.

The discussion this morning completed expressions of opinion from all the Governors as to the advisability or in-advisability of changing the rates by the Reserve Banks. I would like to go around the table in order to bring out in the record clearly, and as briefly as we can, certain features in regard to the rate policy, and to ask two questions, if I may:

First, Governor Wellborn, do you believe that admonishing the banks as to the amount of their borrowings from the Reserve Banks, or inquiry as to the use that is to be made of the borrowings, or, in case of need, absolute withholding of credit, is a feasible way in which to control the situation; and, second, if that can be successfully done, what will be the effect upon interest rates throughout the country?

I merely want to get on the record an expression of opinion on that very vital matter, which will be of service

Governor Wellborn. Mr. Chairman, I think both should be done. I think we should admonish them and also increase the rates on commercial paper. There is a pretty wide difference in some localities in interest rates obtained by the banks over what they get from the Reserve Banks. That applies in a good many of the districts, and therefore I think we ought to increase the commercial rate to a point where there will be no inducement to the banks to borrow money to extend credits.

The Chairman. You would not increase the Government rates?

Governor Wellborn. No, I would not. I am not in favor of increasing Government rates. I am in favor of allowing them to stand as they are. I heard this morning it was the idea of the Treasury Department that we would not increase any of the rates. I asked Mr. Leffingwell the question, and he stated that they were only interested in the question of Government rates. We have already put it on a basis where there is no profit to them, that is, at the same rates that the securities bear, and I am in favor of letting it stand at that. With the commercial rates, I

am in favor of increasing that to some extent.

The Chairman. We have discussed the rate matter, Mr. Wellborn, and the question now is, will direct action, as we understand the meaning of the word, be effective, and, if so, what will be the effect upon the interest rates. Have you any opinion on that?

Governor Wellborn. You said the action of withholding credits?

The Chairman. Yes.

Governor Wellborn. I do not see how we can do that. I do not think it would be wise to withhold credits.

Governor Seay. Even when the credit is plainly desired for improper purposes?

Governor Wellborn. That is a different question. We do not see much of that. It has not reached any degree at all in our section of the country. Our commodities are moving very rapidly, and money is being borrowed by the member banks to market cotton on sixty and ninety day bills. The products have been purchased and are awaiting shipment. The condition is so crowded that they can not secure sufficient shipping facilities, either in the way of railroads or ships at ports.

The Chairman. Suppose, gentlemen, that we have those



questions I submitted answered first. Governor Passmore, what is your opinion?

Governor Passmore. Trying to answer your specific question, Mr. Chairman, as I explained this morning, we have tried, in a moderate way, an admonishing program. It is most too early for us to forecast any definite results from it; but I must say that for the most part it was received in good spirit, and I feel sure that all the large institutions realize the importance of it, at least on the surface, and they promised cooperation. How effective it is going to be, I confess I can not foresee.

Governor Strong. Do you think it will have any effect on interest rates?

Governor Passmore. I do feel this about it, that if we decide that that is the plan to pursue, that it must be done throughout all twelve Districts, because we all have more or less bearing on the situation in New York, and some of us a very direct bearing.

The Chairman. You are not sure yet whether or not it will be effective?

Governor Passmore. No, except that I do feel sure that it is possible to draw to our assistance in our program

the cooperation of our largest and best bank people; I feel quite confident of that.

The Chairman. Do you think it will have any effect upon interest rates, such as follows it generally?

Governor Passmore. I do not see why it would not likely increase interest rates.

The Chairman. Governor Miller, will you express your opinion on it?

Governor Miller. I do not believe that we get very far with admonishing the banks. They believe they know their business better than we can tell it to them. You could never put your finger on any particular transaction that they would acknowledge was a hoarding or speculative transaction. They would claim that it was in the ordinary course of their business. Of course, if it were general all over the whole country, and we were to use a real strong arm, we might do something. Rates could be increased by reason of the fact that customers who applied at the banks for accommodation and could not get it would bid for it in the open market.

The Chairman. Governor Calkins, what is your opinion?

Governor Calkins. I believe that the situation could

be influenced by inquiries. I believe that any action sufficiently drastic to control the situation, or approximately control it, would inevitably lead to increased rates.

The Chairman. Governor Young?

Governor Young. I think that they can be controlled to a certain extent, but when it comes to the final analysis, there really is no control. You can ask the banks what they want to use the money for, and they can camouflage their reply more or less and, in making their reply, they do not have in mind making any false statement, because, in their own minds, they are making the right statement. If we have a certain control over the member banks, we have the State banks to reckon with. You force unfair competition. State banks can get assistance indirectly through the other member banks. I think if the member banks refused to loan money under those terms, that it would cause the borrowers to go to the other banks and offer to pay a higher rate for it, and I think it would increase the interest rates.

The Chairman. I would like to have your opinion,  
Governor Fancher.



Governor Fancher. I think that close inquiry of the borrowing banks as to what the funds are to be used for in a way will have some effect, but it will not right the situation that we now face. Any curtailment of credit is bound to bring higher rates.

The Chairman. Governor Biggs?

Governor Biggs. We are probably in a little different situation from most of the other banks, and, frankly, I do not think it would do any good to raise the rates in our District on commercial paper or other paper, because the banks and trust companies have sufficient amount of Government securities to take care of them, and it would simply mean that they would go out and raise the rates on commercial paper and get the differential there. They would not put in their commercial paper, but would use it in that way.

The Chairman. Pardon me, but the question has to do with direct action. We have discussed the rate matter, and the question now is direct action.

Governor Biggs. Having a more or less compact District, we can do more by persuasion, or as much, I feel, as we can by raising rates, and control it better. We have

always been able, by the personal contact of our officers with our big institutions, to keep in very close touch with them. We have discussed matters of this kind freely with them, and we can persuade them easier than we can force them by increasing the rate.

Governor Wellborn. That may be true with regard to the banks in your city, but how do you influence those that you do not see? How about those that send in their business by mail?

Governor Biggs. We have only large borrowers in three cities, including Memphis and Little Rock; and they are not borrowing to any great extent --

Governor Wellborn. Are they loaning money on the New York Stock Exchange?

Governor Biggs. The Memphis banks?

Governor Wellborn. Yes.

Governor Biggs. No, Memphis is not. A few of the St. Louis banks have been, but they have cut it out. I do not think we have a member bank loaning any money to amount to anything. Some of them did, but they have cut it out.

The Chairman. Gentlemen, there is a definite question before the meeting. Mr. Biggs, what would be the



effect of this action on interest rates in your city?

Governor Biggs. The effect of direct action?

The Chairman. Yes, such action as might be exerted by influence or otherwise to restrain the employment of credits by member banks for speculative purposes?

Governor Biggs. It would not be especially bad. I do not think it would help us very much, but it would not be bad.

The Chairman. Would it have any effect upon interest rates?

Governor Biggs. Yes; it would have some effect, but it would not be serious in any way.

The Chairman. Governor McDougal?

Governor McDougal. The first question is the effect of personal persuasion -- is that it?

The Chairman. Yes, or absolutely deny them credit, if necessary.

Governor McDougal. We have exercised that means for a period of a year or more, taking as our guide the amount of liability of the banks. When their borrowings reach an amount equal to the capital stock and surplus, we carefully make inquiry as to the occasion for it; and, where



necessary, take opportunity of reminding the banks of our obligation to deal fairly with all banks provided they were all borrowing at the same time. I think it has had some effect.

The Chairman. Will that be effective in the way of checking speculation, assuming, of course, that we do not increase the rate?

Governor McDougal. I think it will to some extent, but the measure of that we can not tell. Our strong reserve position can be attributed to some extent to that policy. On the other hand, we have been the creatures of very favorable circumstances, in that we have had wonderful crops and high prices.

I do not quite understand, Governor Strong, the second question, as to the effect that this would have on interest rates.

Governor Calkins. If it amounted to control, what would be the influence on interest rates?

The Chairman. Certainly the expectation of the Reserve Board and the Treasury Department is that the Reserve Banks shall exercise a needed influence in checking this speculative mania that is sweeping over the country. If

we do not employ the discount rates to do it, other means are suggested, and that is to tell the banks that they must not borrow from us in order to make speculative loans or to carry commodities for speculation and so on. If we use those direct means, and tell them that they can not have money for that purpose, will it have any effect upon the interest rates? It seems to me that they have relation to each other without doubt.

Governor McDougal. I do not know, Mr. Chairman.

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

Governor Van Zandt. We have tried it out for a year and a half. We have admonished the banks, and have withheld credit at times from those that can not explain satisfactory uses of the funds which they want to borrow, and while that has some effect, it is not what you would call effective in any way. It has, as Governor McDougal has said, an effect to a certain extent. We can not control the non-member loans and, without doubt, the denying of loan facilities to certain customers of the bank will make larger customers for other banks, which will, in turn, bring about increase in rates. It is bound to do it.

The Chairman. Governor Seay, what is your opinion?

Governor Seay. I feel sure that a general campaign of that character would have material effect upon the demand for credit, and upon the use of it for improper purposes. We have a pretty intelligent class of bankers in the country, and merchants, too, and I think they realize the dangers which confront us; they realize the necessities of the world outside of America and the imperative demand for credit and, that being so, I can not help feeling that admonishing them will have a very widespread effect. If it has the effect of lessening the demand for speculative purposes, it must be true, then, that it will conserve bank credits; and the question is will the tendency be to increase interest rates or otherwise? Otherwise, I should say.

The Chairman. You think it would reduce rates?

Governor Seay. If it succeeds in checking the demand for credit for improper purposes, the tendency would be rather to conserve banks' credit. Certainly, it would not have any effect in increasing bank rates, so far as I can see. I think the point is well taken that if they can not obtain it from the usual sources they will go into



the open market and bid; but where is the open market going to get it? Aren't we in touch with the open market? Do we not advance the same argument to people/where that we <sup>every-</sup> advance to our banks?

But I can not help but think that a campaign of that sort would have a material effect. I am sure it has had a material effect with us, and I think it is continuing.

The Chairman. You think it would put the rates down?

Governor Seay. If it conserved banks' credit, if it is successful in doing that, it will keep the rates down. We all know what our ailment is, and that is we are loaded up with Government securities at a low rate. The people are not paying off their loans. There is a riot of extravagance, and if a spirit of economy can be made to prevail over the country, it is bound to have a conservative influence and lessen the demand for bank credits for all purposes, and if that is done it will keep the rates down.

The Chairman. Governor Morss, what is your opinion?

Governor Morss. I do not feel that in our District we can do very much in the way of controlling that sort of thing by talking to the banks. I do not feel that they have got very far away from borrowing money that they really

need, although there is some of it, of course. That does not seem to me to be an effective way of doing what we want to do at all. Taking your question, if it was effective, and that means effective all over the country, and it prevented the use of money for speculative purposes to any degree, it would mean that they could not get the money anywhere else, then the proper use of money would not necessarily be increased that I can see. I do not see why it should not have the effect of keeping down the rates, because if it is effective you really take so much demand for money right out of the market.

Governor Van Zandt. My statement, and I think the statement of most of the Governors who have spoken, was based upon a question of whether it would be effective. Of course we understand that if it is effective, and if there is no demand for speculative money, the interest rate for money for legitimate purposes would be cheaper.

The Chairman. My question was designed to avoid that very point, and it is this: can that be relied upon as an effective method of controlling speculation, and if it can be relied upon, what will be the effect of the application of that method upon interest rates?



Governor Morss. That is if it can be relied upon.

Governor Calkins. Is it not necessary to confine the inquiry to banks over which we are assuming to have control? If we have control over those banks, and prevent their furnishing money for speculative purposes, and there was a sufficient demand for money for speculative purposes, it would be furnished from other sources, and that movement would drag interest rates up all along the line.

The Chairman. I do not know whether there is any other feature of the general discussion to be developed at the meeting, unless someone has a suggestion to make. This was simply a preliminary discussion, preliminary to taking this subject up with the Federal Reserve Board. I understood you wanted to exchange views on it. Has anyone here any further point to bring out or suggestions to make?

Governor Morss. Do you want an expression of opinion, Mr. Chairman?

The Chairman. It is just as you feel about that, Governor?

Governor Morss. I think myself that the proper course to have been pursued was to have raised the rates months ago. It was not done because of the needs of the



Treasury Department. It has resulted, to my mind, in a lowering of rates and a great increase in the use of credit, and I think that is against the interest of the Treasury Department and of everybody else. I think a continuation of that policy will continue the results to a greater degree. The question is whether we can hold the amount of credit that will be taken long enough to satisfy the Treasury Department, or whether by that time the average rate of the Federal Reserve System will go down below the legal rate. That is a question that I do not know who can answer. I can not answer it, at any rate, but we are continuing a policy which leads directly to that if we follow the Treasury Department's program.

Now, if we are to follow that program, personally I should like to see the responsibility for the result placed where it belongs. As far as I am concerned, as a Federal Reserve Bank, I think it should be put up to the Board,<sup>and</sup> the Federal Reserve Board can make its own decision. It may be that you could hold on long enough to meet the needs of the Treasury without your rates going below the legal percentage.

Governor McDougal. You mean your : reserve getting

below the legal percentage?

Governor Morss. Yes. It seems to me it is our business to protect that percentage, and if we are to get below that percentage, I think the responsibility ought to be placed where it belongs.

The Chairman. If there is nothing else, we will take up the consideration of the program in order of topics, skipping those topics during the discussion of which the Federal Reserve Board has expressed a desire to be present.

The first topic is

1. RESERVES.

(a) The Federal Reserve Board is authorized to reclassify existing reserve and central reserve cities. Should this power be exercised and, if so, how? Should Congress be asked to amend Sec. 19 so as to require uniform reserves throughout the country, differentials to be based on the various classes of deposit?

Governor Morss. That question was submitted to a meeting of the Federal Reserve Agents, a committee was appointed, of which Mr. Curtiss was chairman, to report on that ques-

tion.

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The Chairman. Then we will defer consideration of this until the Reserve Board is present.

The next is --

1: (b) Is there a demand for the payment of interest on reserve deposits, and should such a policy be considered?

Did anyone here propose that subject? Are there any remarks on it?

Governor McDougal. I think I proposed or suggested that because of the fact that in the conventions that were held in two States in our District was abundant evidence to indicate that there was a growing desire on the part of at least the smaller banks that interest be paid on their reserve accounts. My own belief is that no encouragement should be given them; that the minute steps are taken in that direction it would strike at the very foundation of the system and would mark perhaps disintegration or a step backwards toward the old order of things. The inquiry was made to determine whether or not there is a desire shown on the part of banks in other Districts to ask for interest on their deposits.



The Chairman. In our District it is almost entirely confined to those State banks that are not members, who think that they should get interest on their balances if they become members. The members of the system do not care much about it, I think.

Are there any further remarks with reference to item (b)?

Governor McDougal. There is one feature in connection with this, and that is I am satisfied this demand for interest comes largely because of the publicity that is given to the earnings of the Federal Reserve Banks. If less could be said about that or if, when the reports are made, which is necessary under the law, I presume, something could be done to educate those banks to the knowledge of the fact that the earnings are abnormal now, and that they must not expect them to continue, or that they must not accept the present earnings as any criterion, that might do some good.

Governor Calkins. I will move it in the sense of the conference that no consideration be given to the question of paying interest on reserve deposits.

Governor Fancher. I will second that motion.

The motion, having been duly seconded, was carried.

The Chairman. The next is Topic number two.

3: SHOULD FEDERAL RESERVE BANKS EXERT ANY  
INFLUENCE UPON THE POLICY OF MEMBER BANKS IN  
THE AMOUNT OF INTEREST ALLOWED ON DEPOSITS ?

Did anyone here propose that subject? On second thought, I think Mr. Jay may have suggested this. It arises out of a situation in New York where the rate allowed on bank deposits by the New York City banks, now fixed at two and a quarter per cent, increases a certain amount as our ninety day discount rate for commercial paper increases, and goes down, in a fixed proportion, as our rate is reduced.

Governor Seay. It is a delicate subject, Mr. Chairman. It may be that on occasion, at some places, good advice may be given on that subject, but I do not think we can go any further than that.

The Chairman. It is undoubtedly a fact that in some places a most unsound practice has developed in allowing too high rates on deposit balances.

Governor Seay. Does not that come within the sphere

of the Comptroller?

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Governor McDougal. I think it is a matter for the Comptroller and the State Bank departments to handle. They have men at work who are supposed to point out the dangers of such practices, and who are correcting the same.

The Chairman. Do you offer a motion to that effect?

Governor McDougal. I will, yes.

Governor Passmore. The Federal Reserve Board has held in the past that it was a proper function for the Federal Reserve Banks to exercise influence in order to prevent excessive interest payments in the various Districts.

The Chairman. I know they made a determined effort to stop it in Pittsburgh, Philadelphia, New York, Rochester, and in other points.

Governor Passmore. And they were quite insistent upon it at one time. As long as it is a vicious practice, why should we not attempt to exert such proper influence as we can. It can not be anything more than moral influence, as I see it.

The Chairman. Governor McDougal has moved that this topic be referred to the Comptroller of the Currency.

Governor McDougal. I think the motion is entitled to a second.



Governor Seay. As I expressed the same opinion, I will second the motion.

I will simply say that I think it is primarily, at the present time, a function of the Comptroller's officer. I do believe, however, that the advice of the Federal Reserve Banks under such circumstances should be extended, and that caution be extended when called for.

Governor McDougal. The question is whether or not we are to exert a general influence, make a business of doing it. I think that individual cases where we can give a word of advice to our member banks, that we should give it.

Governor Calkins. The topic is worded "exert any influence upon the policy." The word "policy" is a very elastic term.

Governor Seay. I will offer an amendment to Governor McDougal's motion, that the discussion of such matters be left within the discretion of the Reserve Banks.

The Chairman. That is hardly an amendment, Governor Seay. You can not refer it to the Comptroller, and then leave it within the discretion of the Reserve Banks.

Governor Seay. You can if the suggestion I made is accepted, that while it is my belief that primarily it is

the function of the Comptroller's office at this time, nevertheless the Federal Reserve Banks can be a guide to the banks, and it may be left to the discretion of the Federal Reserve Banks when to give advice.

Governor Miller. The Comptroller has endeavored to do something along this line, as well as the Federal Reserve Board; but you may not know this, but the Interior Department and Indian Agencies advertise down in Oklahoma and Kansas that they will not accept anything less than five per cent.

The Chairman. Have you brought that fact to the attention of the Reserve Board?

Governor Miller. No, I have not, but it is a fact. The very banks that we are lambasting for giving high rates of interest are the bidders, and it is necessary for them to bid not less than four and a half or five per cent to get the money from the Interior Department.

The Chairman. Is there any disposition to dispose of this topic along the line of Governor McDougal's motion, as amended by Governor Seay? Does the amendment meet with your approval, Governor McDougal?

Governor McDougal. Yes; I will accept the amendment.

Governor Passmore. Before the question is acted upon, I would like to ask whether or not this would not meet the situation:

While in our judgment this is a proper function of the Comptroller of the Currency and the State Banking Commissioners, we believe the Federal Reserve Banks should exercise such remedial influences as in their judgment occasion warrants.

Governor Seay. I will accept the substitute.

Governor McDougal. It is satisfactory to me.

The Chairman. What happened was this: very sharp competition developed as soon as the interest rates began climbing in New York, with regard to getting bank deposits by the trust companies, which, after they became members of the system and after the requirement as to re-deposited reserves was eliminated from the act, were just as able to hold out of town accounts as was a national bank, so far as any reserve law was concerned, so the trust companies got busy soliciting the national banks all over the country for balances; and some of the national banks replied by marking their rate up. The banks that did that incurred the animus of some of the other national banks who thought it



was unwise, and the discussion was taken into the clearing house. A bank would send out a circular stating that they would pay a certain rate of interest on bank balances, measured by one of our rates. In the meantime, competition had gotten so serious, they were bidding such rates, some of the banks, for out of town balances, that we were a little concerned lest it lead to some pretty unsound banking. After numerous and unsuccessful efforts to bring about an understanding on the subject, Governor Harding went over to New York from Washington, and addressed the clearing house; that is, addressed the members of the clearing house at the clearing house, and pointed out to them the unwisdom of a lack of understanding about interest rates on bank balances; and it resulted in this rule being adopted, as an amendment to the constitution of the clearing house, and that rule is now in effect.

Governor McDougal. It is in effect in Chicago also.

The Chairman. I think it is a bad rule to have the rates go up automatically with out rates, because when you measure the rate of interest allowed on balances in banks by the reserve bank rate, you not only exert an influence upon interest rates in the community, but you exert an in-

fluence conversely upon the fixing of the rate of the Reserve Bank, which is bad, because that ought to be free of any such influences. We are seeking to secure a change in the constitution of the clearing house eliminating the provision, and have the practice conform to the London practice, where, on the Bank of England's rate advances the London Clearing House Committee meets and fixes the rates which will be allowed on bank balances by the London joint stock banks, which rate may or may not be higher than it had been formerly, according to their judgment.

Governor Seay. It frequently happens that there is rivalry between cities, and there is a uniform action on the part of the banks to raise rates for the purpose of attracting funds to the city. I think Pittsburgh, for many years, has been in the habit of paying a very high rate.

Governor Fancher. And that practice continues.

The Chairman. I will ask Governor Passmore to state his resolution again.

Governor Passmore. It is -- while, in our judgment this is the proper function of the Comptroller of the Currency and the State Banking Commissioners, we believe Federal

Reserve Banks should exercise such remedial influences as in their judgment occasion warrants.

Governor Seay. That is satisfactory to me, sir.

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

The Chairman. The next topic is number three.

3; SHOULD EFFORTS BE MADE TO INDUCE MEMBER BANKS TO CONTINUE THE PROCESS OF SORTING AND DEPOSITING GOLD CERTIFICATES IN FEDERAL RESERVE BANKS?

I think I might make a little statement in regard to the situation about currency, about which I happen to get some information over here in Washington.

There are three or four important things before the country now on the matter of currency. One is the situation with regard to silver, which sold yesterday at \$1.325 an ounce, and 70 pence in London. At \$1.325 an ounce or thereabouts it is possible to melt our silver dollars and ship them to the Orient. While the melting of silver dollars alone may not be a calamity, it means the withdrawal of one and two dollar silver certificates for that purpose, and consequently the creation of a great vacuum in the circulation of one and two dollar bills. The sec-



ond difficulty arising from that is the fact that the amount of one and two dollar bills which may be issued under the Pittman Act are now pretty well exhausted; we have issued them all. I do not believe that we have any margin to speak of, and our supply would be less if the silver is withdrawn and melted.

The first point is that the greenbacks, which may be now issued in one and two dollar denominations, are very largely held by the Reserve Banks for legal tender purposes, where a member bank wants legal tender for any reason.

Therefore the three sources of supply of one and two dollar bills are very much impaired by the present situation and that would be increased if the silver should be melted.

There is another important consideration, and that is while it may be unreasonable just yet to expect that silver would sell at a premium over the bullion value of our subsidiary coinage, which is about \$1.38-plus, yet if silver should get up to \$1.40 or \$1.45 and almost anything seems possible to happen as a result of the war, then our silver 25 and 10 cent pieces would have to be melted up and sold as bullion. Figuring on the possibilities of that, it might be the cautious thing for the Treasury Department

to say to the Federal Reserve Banks to gether in all the silver certificates they can and hold them in reserve for our protection in case we need the silver to recoin the subsidiary coins of the country; because the \$68,000,000, which is the amount now held in the Treasury of silver dollars free would not go very far in cash it became necessary to recoin them on the basis of 800 fine, or some other percentage of fineness.

Therefore, the fact is, as to our circulation generally of various forms of small denominations of money, that this sort of process is important not so much with gold as with silver. I personally believe that a definite and strengthening policy should be adopted by all the Reserve Banks, with the approval of the Federal Reserve Board, of sorting and hoarding, if you please, the reserves of the Reserve Banks in certain kinds of money in circulation; and the question is what you would recommend.

Governor Van Zandt. On that point is it not a matter of almost necessary that we either have a recoinage of the silver at a lower silver valuation of each coin, or that we put an embargo on the exportation of silver in order to save our silver coins?

The Chairman. To tell the truth, I do not believe much in the embargo plan.

Governor Van Zandt. I do not, either, Mr. Chairman.

The Chairman. I think when you go into the question you will find there is not much in it.

Governor Miller. Is it not against the law to melt the coins of the United States?

The Chairman. No.

Governor Miller. Why would it be necessary to hold the silver certificates at the Federal Reserve Banks? Why not send them on to Washington?

The Chairman. Because it would just cause an accumulation of a dead balance in the Treasury which they could not use, which is just now undesirable. The Government does not want to be borrowing money on certificates of indebtedness at 4 - 1/2 per cent, in order to lock up the silver certificates in the Treasury, and that is what they would be doing. They can count as reserve for the banks, and they may as well be gathered up and locked up and Federal Reserve notes issued for them.

Governor Miller. Would a law have to be passed in order to issue coins of lower fineness?



The Chairman. Yes. However, gentlemen, I do not think it is desirable that we should go into a discussion of the silver situation just now. Mr. Strauss has said that he would like to be here when we discuss this question.

Governor Van Zandt. I move it is the sense of the conference that the present practice be continued; that this is not the time to discontinue the practice.

The Chairman. Would you accept the amendment that the Reserve Board be requested to send a letter to the Reserve Banks to that effect?

Governor Van Zandt. Yes.

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

The Chairman. The next is topic 4.

4; SHOULD THE FEDERAL RESERVE BANKS CONTINUE  
TO ABSORB THE ABRASION LOSS ON GOLD COIN?

That was suggested by New York. It is a very small question with us, but we believe it should be continued until we have exhausted all the gold coin in our District.

Governor McDougal. I move that the practice be continued.

Governor Calkins. That is a question which concerns us more or less. From the beginning we have been trying to gather in all we could of the gold coin in the District. We took certain steps, which seemed to be effective at the time, to eliminate from circulation, and when I say eliminate from circulation I mean from all sources, the five and ten dollar pieces, and we succeeded to a considerable extent. I believe the Treasury Department at that time instructed the Director of the Mint and the Assistant Treasurers not to put five or ten dollar pieces into circulation. Those coins, of course, get very much more abraded than the twenties. We have absorbed the loss on all the fives and tens that we gathered in. Now, the Assistant Treasurer at San Francisco is supply<sup>ing</sup> five and ten dollar pieces, and insists that he has no instructions with regard to paying them out. He says he may continue the practice for a considerable length of time unless the Treasury Department will take some steps to prevent their circulation.

The Chairman. Is not this a matter to be dealt with by resolution, calling it to the attention of the Reserve Board?

Governor Calkins. I think it should be dealt with by resolution, and that recommendation should be made to the Treasury Department to withhold from circulation any five and ten dollar coins in the Treasury. I believe they are fully in sympathy with the situation.

The Chairman. Then the motion is that the policy of absorbing abrasion of gold coin should be continued, with special reference to Governor Calkins' report on the attitude of the Sub Treasurer in San Francisco, and that the Reserve Board be asked to secure the cooperation of the Treasury Department in seeing that five and ten dollar gold pieces are not paid out by the sub treasuries.

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

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LIMITATION OF GOLD COIN ISSUE FOR HOLIDAY CIRCULATION.

The Chairman. That motion having been carried, in this connection there is a matter that bears on that subject; that is, whether we should do anything to check the use of gold coin for Christmas circulation.

Governor Passmore. I wanted to ask that question. After a conference of the Governors with the Federal Reserve Board we sent out our gold conservation circular again just recently, due to this inquiry for gold supply; we sent it to all banking institutions in the District.

The Chairman. Is there any suggestion for a recommendation to the Reserve Board on this subject of Christmas gold? No one seems to have a suggestion, therefore we will pass it.

Governor Calkins. As all know, gold has been more generally circulated, and the most successful thing done to prevent a continuance of that was that no five or ten dollar pieces should be made available for circulation. When demands were made on the banks for gold they replied they were able to supply twenty dollar pieces and unable to supply five or ten dollar pieces; and the effect has been very

much more general than would be anticipated.

#### TRANSIT OPERATIONS.

The Chairman. Topic number 5, Transit Operations, Governor Harding would like to have the Board present when that is discussed.

#### RELATIONS WITH STATE BANKS.

The Chairman. Topic number 6, Relations with State Banks. That general subject has been referred by the Federal Reserve Board to Mr. Moehlenpah as a committee, and possibly this is an opportunity to get Mr. Moehlenpah's opinion on it.

Mr. Moehlenpah. Mr. Chairman, as I told you this morning, I wanted to sit on the side lines and get in touch with the inside workings of the banks, get in touch with you men personally. This campaign now is in charge of the Federal Reserve Agents, and they have worked out many plans. We are trying to assemble them and get it together and get Mr. Hoxton to make some new plans for an intensive plan, with your cooperation, and the Federal Reserve Agents. If you will give me all you have, and help me all you can, with the Federal Reserve Agents, I am sure I

will appreciate it, as a new member of the Board, or with this work of the Committee. I expect to get around to the different banks and meet you, as time goes on, but if you can give me anything, personally or by mail, it will be appreciated very much. We have some plans, but they are not fully concentrated now.

#### STATE BANK MEMBERSHIP.

The Chairman. This topic, subdivision (a), contains this question:

"Is any organized work being conducted similar to the campaign to get par points?"

I should like, if I may, to explain what was done in New York, as having some direct bearing on the question of organized work.

Mr. Jay has been handling it, with the assistance of some of the other officers of the Bank, and we have divided the District up into sub-divisions. Of course we have a list of every eligible non-member State bank and trust company, and some knowledge as to whether they are desirable for membership or not, which reduces the number of candidates for treatment to a moderate number, and those are approached by indirect and direct methods both. In



northern New Jersey they have a committee; they have State bank officers whose institutions are members of the Reserve system, who are undertaking themselves to whip the whole State into membership, and the sub-divisions of the State Bankers' Association, where they have eight groups in New York State, and are likewise undertaking some work; as the result of Mr. Jay's experience in taking it up in detail in this way, it has been eminently successful, and we have the great bulk of them now in the system, and he has written a letter to Mr. Strauss in which he makes these suggestions:

(1) Prepare a summary of all State laws relating to membership of State institutions and substitution of Federal Reserve for State Reserve requirements. In States where these essential provisions are lacking ask the Federal Reserve Agents to endeavor to have them enacted.

(2) Ask each Federal Reserve Bank to prepare a list of eligible State banks, by States, and showing:

- (a) Capital and surplus.
- (b) Deposits.

Also indicating which are members and which are not members of the Federal Reserve system.

For your purposes, (that is, the Reserve Board), it might be well to have the list arranged in each State in order of the size of each bank.

(3) Ask the Federal Reserve Agents to report in respect to each State what is the attitude of the State Bank Commissioner regarding membership of the State Banks.

(4) Also, ask each Federal Reserve Agent for a report as to what the conditions are in each State which would make a vigorous campaign easy or difficult."

Now, in our District I have said that we had a much less complicated situation than in other Districts, but Mr. Jay's experience, or mine, so far as I had contact with it, convinced me that the only way to get them in is by attacking them in detail; have a list and sick your organization at those banks, one after another, and get the State bank members who are convinced of the value of the system, and get after them, and we will get them in time.

Governor Fancher. This has been our procedure in Cleveland. We have sometime ago listed all of our eligible State Banks, then, by a process of elimination, we have eliminated some of those that are eligible but perhaps would

not be desirable; then we have grouped those banks, and we have invited the representatives in; had about two meetings a month, bringing eight or ten representatives at the expense of the bank.

The Chairman. We have had those.

Governor Fancher. We discussed the situation with them; had a lunch and sent them home; and then, more recently, we found that effective, we have the opportunity to get close to them and discuss things around the table and bring out their ideas, and if they have got some objections, to overcome them, and try to set up the desirable features of membership, then, the first of last July, we put on our staff a very competent advertising man to write about once a month, to put out some good circular, and then we followed that up by a letter about once a month, and by that consistent effort we have awakened a good deal of interest, and we are bringing in banks pretty regularly. We are convinced you have got to approach each individual bank and put it up to it in some practical way.

Governor Wellborn. As our District has so many State Banks, and we have a large number, there must be



about eleven hundred that are not in, perhaps it might be well for me to make a statement.

Last spring we decided to make a campaign, and we selected our Cashier, who has a pleasing personality and understands the system thoroughly, and we sent him out among the banks, and he visited Alabama, Georgia, Florida, Louisiana, and part of Mississippi, and he made a personal call on the bankers. In a good many cases he got the Board of Directors together and talked to them. The result of it was very disappointing to us. The banks he picked out for that personal solicitation I think were very good ones, but he was unable to move them. It is true we got a good many applications since that time, but they happen to be from none of the banks he called upon. Applications came from banks that wanted to borrow immediately, so they came in just to get accommodations and rediscount privileges.

The Chairman. Of those 1,100 banks probably not more than a couple of hundred --

Governor Wellborn. Yes, about eight hundred. Nearly all the solid, good State banks in our section simply do not entertain the idea of coming in. They say they see

no necessity for it. They have good, steady business and can get what accommodations they want very easily from their correspondents, and they figure they lose money by keeping their reserve with us without any interest, and you can not budge them from that position. As I have said, the only banks that come in are those that want to borrow, and borrow very heavily.

The Chairman. Are there any other remarks or suggestions?

Governor Calkins. In our District, we have brought about the amendment of the laws, of all of the seven States, so they are practically uniform, so far as conditions of membership are concerned. We have had for some months past one of our Directors engaged, first, in this movement to amend the law; second, in the preparation of a hand book; and, third, in visiting and discussing the matter with the banks.

We have specifically instructed the managers of our four branches to make it their business to secure par points and membership of eligible and acceptable banks as fast as they can get around and visit them; and we have found one thing, I think, without question, and that is the best method

of approaching a bank and inducing it to become a member of the Federal Reserve Bank is to send to that bank an officer of the Federal Reserve Bank who is fully qualified to sit down with the officers of that bank, examine its situation, its condition, and show the officers of the bank how they can benefit by membership in the Federal Reserve System. We have been extremely successful in following this method. The State member banks, in all these States, except in Arizona, have been quite successfully solicited at this time. We have a good many applications.

The Chairman. Are there any other statements?

Deputy Governor Peple. I can say from the Fifth District we have felt it wise to subordinate the campaign for membership to the campaign for par points. One of the principal arguments, and the most general argument, of State banks against membership was the loss of exchange. Nevertheless we have done what we could from time to time to arouse interest; we have never neglected a single opportunity, where any interest in the system was manifested on the part of the officers, and we have found that the most effective way is to send a thoroughly competent man to the bank to talk, not only to the officers of the bank, but to



the directors. We have made a special point, when a man visited a bank -- generally one of our Assistant Federal Reserve Agents -- that he try to get a meeting of the directors, and discuss matters with them.

We have had, from time to time, interest manifested in membership in the system by banks that, as Governor Wellborn has said, wanted to join because they had borrowed everything they could borrow outside and wanted to tap the inside sources. Those, of course, we have discouraged.

We have made direct efforts on a selected few of good non-member banks, whom we thought ought to be members of the Federal Reserve System, directly ourselves, and indirectly through the officers of member banks. Quite a number of the member banks have been very kind in seconding our efforts in that respect. We feel very well satisfied, however, that no systematic campaign for membership can be successfully conducted until we clean up the par collection system very much better than it has been heretofore, or is likely to be in the near future.

The Chairman. Any other remarks?

Governor Passmore. In our case, we have invited the bank officers in, and have shown them all over the bank

and have explained the exact situation to them, and that has been most effective. I think we are right now conducting a far more intensive campaign in our District by personal visits of some officers of the bank, because we find that is very well received. In the State of Delaware there are State banking associations taking the matter up and they are appointing committees, trying to get every institution into the system. It is, of course, only a small State.

The Chairman., Are there any other statements?

Mr. Moehienpah. Mr. Chairman and gentlemen, I have been very much interested in what you men have said and in the efforts you have put forth. I am quite convinced of this, coming so newly to the Board and coming from the active banking end of it, and the State banking end of it, that much will depend upon your individual personal approach to these men, the non-member eligibles, as to how you handle them, and the question that is in their minds, the main question, is: will you take just as good care of them as their correspondents?

And now I know, as you men know, that many of the city corresponding banks are, we will say they are selfish, and

I have run across State banks who have talked with me personally, and I have discovered that they have not had the punch -- we have not had the punch, the cooperation, from the big city corresponding banks that we think we are entitled to. Now, if you men, on this one thing, as these men come to you, could convince them that you can and will care for them in their seasonable, reasonable needs; they are thinking about the prestige that membership in the system will give them, as State banks, in competing with national banks in their communities, but they are fearful that maybe they may not be cared for.

That leads me to suggest this, that perhaps you men can bring to your assistance the concrete personal view of the State bankers that are now in to assist us in this campaign. If they are satisfied customers, we can sell the membership to them quickly and easily. I am sure you get what I am getting at.

Now, we have got to make up our minds to this, that it must be a sane, clean-cut, concrete appeal that we must make to them. May I ask of you men, in standing by the agents in your Districts, and the things you have already done, that we shall try to work now from the inside out, that you will



be, if you can be, more persuasive, and, if I may ask, more diligent, to show these men what they can expect of the system.

I have appreciated this, that the par program has had the right of way; before that the war program. Now, line upon line, precept upon precept, I am quite optimistic that we will persuade these men that are desirable to come in. I want to assure you again that what you men have said has had its appeal to me; and if you will get continuous action and make it more personal and more direct, perhaps you can get results. I am sure we will.

The Chairman. The other division of this topic is:

- (b) Fraudulent advertisement or claim of membership in Federal Reserve System. What means exist for preventing?

Has anyone any report of cases of that character in their Districts?

Governor Calkins. I do not know who suggested that question. It may possibly have come from San Francisco, although I am not conscious of it.

We had an interesting case in our District which brought up that question, and the answer to the question asked here

is apparently, there is no means of preventing it. A bank in the northwestern part of the District, which had been in notoriously bad condition for many years, and never has been even an applicant for membership, sent out a very large number of circular letters, in which the statement was made "This bank is a member of the Federal Reserve System and is therefore under both Federal and State supervision." We took it up with them, and I suppose we indulged in intimidation, or something of that sort, for they disclaimed responsibility and said the circular was sent out without the knowledge of any officer of the bank -- rather an unusual condition -- and undertook to correct it. But the question was asked in that connection: what means is there of preventing such statements?

The Chairman. Has any one else had a similar experience?

Governor Passmore. No experience of that sort in our District.

Governor Biggs. I have had one in the Eighth District, at Edwardsville, Illinois, they got out of the system, but they continued to advertise by bill boards, newspapers, and every other way they were still members of the system,

and we got after them with a pretty sharp stick, and we got to the point where we told them that we would use the press in that locality, if they did not discontinue, but we had to repeat it two or three times before they stopped.

The Chairman. I do not think this topic, in view of the fact that there are only two cases of that sort in the whole country, would justify any action now by the conference.

Governor Seay. I think it does not need any attention. It is bound to be sporadic.

Governor Wellborn. If a motion is necessary, each Federal Reserve District should handle that question.

Governor Biggs. It might be of interest. We took this up, and I have part of a letter of Governor Harding on this and it may be of interest to you gentlemen to know.

The Chairman. Is it long?

Governor Biggs. No, very short. He says:

"Any misrepresentation of a material fact ought to be a violation of some statutory law. It seems to me that the Federal Reserve Bank will be justified in a case of the kind described in your letter, where it is not only a fraud upon the public, but infringing the right of your member



banks, to make a very sharp and positive demand that the misleading statement be withdrawn. If this method be not successful, it should be published, correcting the statement over the name of the Federal Reserve system, and I think it would prevent any further abuses of this kind."

That is what we had already done. This is from a letter of Governor Harding in June.

The Chairman. Mr. Wellborn has offered a resolution to the effect that it is the sense of the meeting that each bank should adopt such methods as are thought proper to suppress such practices. Is that seconded?

(The motion was duly seconded and carried unanimously.)

The Chairman. The next topic is Discount Rates.

#### 7: DISCOUNT RATES.

Governor Harding would like to have the discussion when the Board is present, except as to subdivision (c).

(c) Calculation of Interest at 365 days per year:

Present practice is to compute interest on notes rediscounted on basis of 365 days and on bills purchased in the open market at 360 days per year.

Should basis of calculation be uniform?

Who suggested this topic for the conference? Someone must have suggested it.

Governor Passmore. I think the recommendation was made by us to the Board that the Board and the various Federal Reserve Banks, that we all go on the 365 day basis in our discounts, so the only thing that is not on that basis is the bills purchased in the open market at the present time.

The Chairman. Yes; I think that is simply conforming to the market custom.

Governor McDougal. It is.

The Chairman. We have two kinds of uniformity, then, instead of complete uniformity.

Has anyone a suggestion whether the 365 days applying to purchases should be changed?

Governor McDougal. The Government uses 365 days, does it not?

The Chairman. I believe so.

Governor Morss. I move that it should not be changed.

Governor Van Zandt. Why should it not be uniform?

Governor Morss. Because it is the trade custom of figuring those bills at 360 days. If we should figure them on a different basis it makes so much change in our purchase rate, and it would cause so much discussion and

opposition that it does not seem to me it is worth while.

Governor Van Zandt. I moved that no change should be made in the method of computing discounts.

Governor McDougal. Before you put the question, I should like to inquire whether all the banks are operating on the 365 day basis as to discounts and the 360 day basis on open market.

The Chairman. Is any bank here to report any different method?

The motion offered by two Governors is that there shall be no change in the present practice. Is that seconded?  
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(The motion was duly seconded and carried.)

#### 8: CREDIT SITUATION.

The Chairman. Topic 8, Credit Situation, is another topic for consideration with members of the Reserve Board present here, except as to subdivision (c).

(c) Discussion of the complicated situation presented by the amendment to Section 5200 U. S. R. S.

That is a topic that was suggested by the Federal Reserve Bank of New York, inspired somewhat by the receipt of circular X 1705-A of the Federal Reserve Board, which



presents so complicated a situation as to what may or may not be loaned that I doubt if any banker can really thoroughly understand it without employing a lawyer -- certainly a country bank could not be expected to understand it, and I am not sure that I understand it, even with this very explicit circular before me. Are or are we not

justified in asking the Reserve Board, if any legislation is required in connection with the Federal Reserve Act to endeavor to have a study made in connection with Section 5300 and get it simplified, both as to the Reserve Act and Section 5300 of the Revised Statutes, as to discounts for the paper that can come from State bank members of the system? Certainly this present situation is altogether too complicated.

Governor Wellborn. Is not that plain to you?

The Chairman. I will read a memorandum, which need not appear in the record.

(Following reading by the Chairman:)

Governor Wellborn. Do you not think the Federal Reserve Board ought to ask Congress to amend the Federal Reserve Act, Section 9, and put them on the same basis as a national Bank?

The Chairman. I should think so.

Governor Wellborn. I think the Chairman may very well call attention to that and ask them to do that.

Governor Van Zandt. In connection with this Section 5200, we are having a lot of complaint about the wording of the amendment down in our section. I know of several instances where banks, in attempting to lend their cattlemen under 3, the discounting of notes, secured as the provision shows, and fully covered by insurance. Those fellows down there go to work and take out tornado insurance on their cattle.

The Chairman. That is an interesting sidelight.

Governor Van Zandt. That seems to be the cheapest kind of insurance they can get. It says "fully covered by insurance".

The Chairman. Can they give the cattle documents?

Governor Biggs. Accident insurance.

The Chairman. What do you recommend about that, Governor Van Zandt?

Governor Van Zandt. I do not offer any recommendation at all. It looks to me like a very crude amendment.

Governor Calkins. I think the conference ought to

recommend the ironing out of the kinks in those three sections. They are inconsistent, confusing, ambiguous, difficult of interpretation, and altogether bad.

The Chairman. You seem to be competent to offer the necessary resolution, Governor Calkins.

Governor Calkins. I will offer the resolution that this conference recommend that Section 9 of the Federal Reserve Act and Sections 5200 and 5202 of the Revised Statutes be amended by the elimination of inconsistencies.

Deputy Governor Peple. Would you not include Section 13?

Governor Calkins. Yes, sections 9 and 13.

The Chairman. Is that motion seconded?

Governor Wellborn. That embraces my resolution made a moment ago. I second it.

I would like to add to that, in order to put the State Banks on the same basis as the National Banks.

Governor Morss. Put all the banks on the same basis.

The Chairman. I will make the statement for the record that the object of this recommendation is to put State banks, which are members of the Reserve System, and National Banks, which are members of the Reserve System, upon the same basis



as to limitation of liabilities, under both the Reserve Act and the Revised Statutes, and to put Federal banks in a position where the limitation as to endorsement of bills sold shall apply the same, both when the bills are payable abroad and when they are payable in the domestic market.

Is there a further discussion?

( The motion was seconded and carried unanimously.)

9: DISCUSSION OF FOREIGN BUSINESS OF RESERVE SYSTEM  
AND HOW IT IS MANAGED.

The Chairman. Topic 9: Discussion of foreign business of Reserve System and how it is manager.

I understand that is being reserved for luncheon tomorrow.

10: ADMINISTRATION PROBLEMS.

The Chairman. This leaves topic number 10, Administration problems. Dr. Miller wanted to be present when we discussed the question of special compensation to meet high living costs.

Governor Wellborn. You mean bonus to employees?

The Chairman. Yes, special compensation.

The Chairman. Here are extra topics that have been suggested, which I will pass along.

Governor Passmore. Are there any other sections we might discuss while we are waiting for Dr. Miller?

The Chairman. Yes.

I want to make a little explanation of this topic number 10. It was suggested by the New York bank for this reason: We have employed some new men at the bank, and very good men, with the object of dealing with matters of personnel and efficiency and of organization, and they are developing a good many new ideas in connection with how these matters should be treated. At the same time there has started in New York city a very determined effort on the part of the American Federation of Labor to organize clerks of all kinds in banks, insurance companies, offices generally throughout the city, such concerns as the Borden Condensed Milk Company, and big manufacturing and industrial concerns that are not now organized, and get the whole population of wage earners in the organization of the American Federation of Labor. They are holding a series of meetings; they are undertaking the movement by some methods which I think are decidedly wrong and under-handed, but they

are making some little progress. They have succeeded in organizing the clerks in the Borden Condensed Milk Company, and within twenty four hours they had a strike. They have got the clerks in one of the banks in Brooklyn organized.

I might say that the bank clerks in the City of Paris are organized under a labor union and they had a strike some time ago, and a very considerable inconvenience resulted. They are at present engaged in efforts to organize all bank clerks in London in the same way, and I too was told by the officers of the Bank of England that the work of organization was proceeding in the Bank of England at that time. These efforts are due to conditions; they are not simply the design of one man or one group of men, but I believe are the result of conditions which have developed in the country and which, in some instances we may have been lax in anticipating and dealing with, and I am perfectly well convinced that we have got to get at it and insure proper attention to the moral and mental and physical welfare of the people that work in the banks, and just how to do that is a question.

The men who are working on this subject thought they would like to put it on the program. If it too much of



a chew, why, you gentlemen say so, and we will go it alone in New York. We have got a very extensive program under way with the problem of the clerks.

Governor Wellborn. I have had some experience along that line.

Governor Passmore. It is a very live question in our bank.

Governor Miller. Have you reduced that to writing, and will you send it out to the other banks?

The Chairman. If I attempted to send all the material that has been written on that subject, you gentlemen would be swamped.

Governor Miller. Just the substance of it.

The Chairman. I have had some data prepared by various of the men in the bank, which is very interesting. If you would care to have me take it up by topics, I would be glad to do so.

Governor Miller. I think that is a very important question.

Governor Passmore. I think Dr. Miller ought to hear it.

Dr. Miller. I was very glad to see that item on your

program, and to know that the Reserve Banks were giving some attention to conditions of employment, especially for the lower grades in the salary scale of the employees, and I wanted to speak a word on behalf of an inquiry that the Board is trying to make for its own information, with the hope that the information may also be of some value to the banks in this connection.

The object of the Board's investigation is purely to ascertain what effect the increase in the cost of living for clerks in the different salary grades has been, due to the rising prices in the past few years. The Board is not trying to set up a definition of what standard of living a clerk should live in; we are trying simply to get some method of approximating the extent to which high prices have borne down upon the standard of living that was common to clerks in a given class, we will say three years ago, before the great rise in prices began.

Propositions have come from the banks for bonuses, say of twenty per cent on salaries of clerks receiving less than \$1,500 a year, or perhaps fifteen per cent for clerks receiving \$1,500 to \$2,500 or \$3,000; and a bonus of ten per cent upon the higher classes. That seemed to me a good

enough way a couple of years ago, but it seems to me the time has come when we ought to be able to proceed in making salary adjustments upon a better knowledge of what the condition is of which we are trying to make an adjustment.

I feel this, from a point of view of a member of the Board, and I do not feel I would be discharging my duty if I approved results arrived at by a rough and ready and don't-care process like that. Something better can be done.

Something very much better is being done by a great many private institutions, among them some banks, and, let me say that some of the largest private banks in some cities in the country -- there is a very striking case in New York -- are going to cooperate very thoroughly with this plan of the Board in their own interests, while I hear some of the Reserve Banks are apparently, if I am rightly informed, holding back through one sort of fear or another.

Now, my belief is that the Reserve System has got a chance here to show that it knows how to conceive a problem of this kind, which gets particular poignancy out of a recital of such facts as Governor Strong has just given us, and they appear to count upon the confidence of the great mass of its employes in the good spirit and good intention of the



management to be able to secure their full cooperation in attempting to get the data that you must have if you are going to proceed to make salary adjustments upon anything than a rough hit upon this principle; If you are going to make adjustments that will correct such cases as these that are never reached by the fifteen or the twenty per cent horizontal bonus.

In brief, what we are trying to do is to get certain data which will do for us precisely what the chart that the nurse keeps at the bedside of the patient, or that the physical director in the gymnasium does, in order that he may know what the physical condition or the economic status of the people who are under your employment are; and for whom you must feel a certain degree of responsibility.

This questionnaire, by the way, I do not know whether you have all seen it or not. This is the first copy I have had in my hand.

The Chairman. We have them right here.

Dr. Miller. Let me say that has been most carefully prepared. Let me say this, although I am speaking for it, I did not prepare it; in fact, this is the first time I have had it in my hand. I had the original copy in my

hand a few moments, but we were anxious to get this under way, and sent it to the printer at once. But I did have the selection of the men who passed on it, and nothing better than this has been prepared, and nothing better than this can be prepared, I am prepared to say authoritatively. It has been passed through the crucible of a thoroughgoing test by men who know what they are about. It has been particularly edited, with reference to keeping out of it anything calculated to excite offense, or any intrusion into one's private affairs; it is a plain, matter of fact, series of questions; and I think any clerk who has the requisite confidence in his employer will be glad to furnish the data called for, if he can furnish it; and for the most part I think those who are being most hard hit by present high prices can give you this information with a great degree of accuracy, so that you will know about how much a man who is in the salary grade of \$2,000 or \$2,500, in New York, Philadelphia, or Atlanta, or anywhere else --- how much he spends for fuel and light and heat; how much he spends for clothing, supposing he is the head of a family embracing a wife and two or three children under fifteen years of age, and so on. So, if you set your-

selves against this, it strikes me you are virtually saying "We do not want to attack this problem seriously; we do not want to do it methodically; we prefer to handle it in a rough and easy way of saying "We will give these fellows down in the lower grade twenty per cent."

Now, I have no hesitation in saying, as regards myself, if I could have my own way, I should want to go very much further. I have no hesitation in saying that the fellow at the lower end makes great claims upon my consideration and my interest, and I think, individually and personally, I would refuse to be at the head of an institution where there are many cases where I felt there was real need, real suffering and real impairment of health, efficiency, good spirit and things that make for a happy atmosphere in a working institution, if they happened in any considerable number and were anything more than sporadic accidents there.

But that is not involved in this. This is merely the attempt to get information, to know, in other words, to what extent we are responsible for employing several thousand of men in the Reserve Banks all through the country without ever having taken the pains to ascertain to what extent the burden of the rising cost of living is weighing upon them,



and is not being properly adjusted through lack, either of concern, or through lack of an intelligent comprehension of what fair dealing with the problem really implies.

The first thing we need for that is information, and I see no objection to asking for this information; it is purely voluntary; there is nothing obligatory about it, either upon the part of the bank in cooperating with the Board on this work, or upon the part of the employe in cooperating with his bank; but I see no objection whatever to any banker undertaking this and undertaking to present it to his employes in a way that will really enlist their cooperation; that will neither excite their suspicion that some unfair advantage is going to be taken of the knowledge which will be gained, or that it is the fore-runner of a great increase in salary.

More than <sup>that</sup> /, I think if we put this thing through and show that we know how to use the results thus gotten at we will be doing something not only to improve the employment situation within our banks very much, but we will also be setting an example that I think the country needs very badly as regards the great mass of the salaried employes of

the nation.

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My own observation is, through dipping here and there into some of the larger cities of the country, that the thing we call bolshevism thrives more in the home of the underpaid employe, by far, than in the home of the ordinary manual wage worker. Just as I found that bolshevism thrives in our universities -- I believe it thrives in Harvard University, right in the faculty at this day -- largely because of the meager salaries that the instructing body is getting, and the rather indifferent attitude or postponement of consideration of the question of adjusting salaries to living costs until this past year.

So that if we do anything here that is well done in supplying a part of the basis for making an intelligent salary adjustment in our Reserve Banks, we will be doing something that I feel confident large institutions that have a considerable salary roll for clerks all over the country will in time, and I am inclined to think rather speedily, take advantage of. The only reason I should see for hesitating on this, is whether we know where we are coming out, and as to whether or not this method of attacking the problem is as good as you can get. There is where I want to repeat

what I have already said: this thing has been through the crucible; it has been tested thoroughly by men who know this thing, and this is about as well calculated to get the minimum amount of information we need to have by methods that are as little intrusive, by methods that are as impersonal as I think you can find anywhere.

This morning I was told the Bankers Trust was going to use it. . . I think they were one of the pio neers in New York two years ago. They are eager; they have seen this; their experience has been utilized by those investigating this problem for the Board, so that we should feel reasonably assured, when we send out a questionnaire designed to get information, that that questionnaire would be as well planned as a thing of that kind can be made.

Now, I repeat that I am interested in this, because I feel dissatisfied, as a member of the Board that passes upon your propositions for expenditures and increases of expenditures here and there, to dismiss what I feel is a very considerable responsibility upon that sort of treatment. If I were a clerical employe I should feel that a bonus, arrived at in that rough way, with so little knowledge of my condition and my needs, was about the least a callous employer could



do. Anyone who felt any real concern, any really enlightened selfish concern, for his employes, I should feel would not take other methods of finding out precisely what the adjustment should be.

I can not help but feel that a fellow who is getting \$1,200 a year and a bonus of twenty per cent, must have every mean, every bilious animosity in his body aroused when a fellow who gets \$5,000 a year and gets a ten per cent bonus, one-third, or almost one-third, of the entire salary of the fellow at the other end of the scale, even after he has got his bonus.

I think this is a responsibility that we ought to accept, and all that I want to say is that I hope that before anyone of you concludes that he does not want to cooperate with the Board in getting this information, you consider pretty carefully what the alternative is, whether this thing has so many objections that it has got to be thrown out as inferior to the rough and ready guess of the employment manager, with approving vote of the directors as to just what ought to be done by way of bonus to adjust salaries to living costs.

I am particularly eager about this because it is my

belief, and upon that belief I should be willing to stake my whole reputation, that living costs are going to get worse and worse. The one thing that I think one is reasonably justified in prophesying at the present time is that prices are going to rise and not fall.

The Chairman. What makes you think that, Dr. Miller?

Dr. Miller. Because we are going to feed out more and more credit, more and more currency, and whether we need it or not, we are going to do an enormous amount of financing for Europe, and that is going to be done in this country through an enormous expansion of credit.

The Chairman. Do you not think we can control it by direct methods?

Dr. Miller. I do not think we will. We ought to, but I think we will conclude six months from now that inflation is inevitable, just as we have been concluding it the last year and a half.

The Chairman. It is a matter of control to the extent that somebody has the decision?

Dr. Miller. Yes. I think, however, we will not control it. When I say control, I mean I do not think we will effectively control it.

The Chairman. Do you mean we will not want to control it, or will be unable to take measures, even if they are available?

Dr. Miller. I mean there will be no methods available that we will not feel are more disastrous and more costly than an inflation of credit. I think, in other words, without knowing it, we will accept the condition that our methods have caused in the past.

The Chairman., Do you think it could be stopped?

Dr. Miller. You mean stopped at this juncture?

The Chairman. Yes.

Dr. Miller. No, I do not.

The Chairman. Do you think it could be checked?

Dr. Miller. Yes; I think it could be checked; I think we could do a great deal to mitigate it.

The Chairman. Then why do we not do it?

Dr. Miller. Well, I do not want to get on that question. That is a different matter.

The Chairman. I am through now. I am not going to say another word.

Governor Van Zandt. On this questionnaire, did the Board say what the full effect might be on the employes, if



they knew they were sending this data to the Federal Reserve Board unknown to the officers of the bank or even to their own board of directors?

Dr. Miller. Oh, not at all. This goes through you.

Governor Van Zandt. You are mistaken. This says:

"Answer the questionnaire, fill it in, place it in an envelope, seal it, and address it to the Division of Research, Federal Reserve Board, or hand it to the Federal Reserve Agent."

The Chairman. That must have been intended to give the clerks a certain sense of privacy about their affairs.

Governor Van Zandt. On the other hand, will it not be very much misunderstood by the clerks? Have you one of the printed copies before you?

Dr. Miller. Yes; I have.

The Chairman. Dr. Miller, of course, a different condition exists in different banks. Some of the banks that are more remote from these centers of disturbance, if you please, like New York, and where they have not the large force and such competitive conditions, I do not believe they feel the difficulties in the same degree.

Dr. Miller. They do not feel it as acutely.

Governor Calkins. I think I can say, without any qualifications, there are no such cases as those the Chairman has described to us in our bank.

The Chairman. The situation in New York is an exceedingly difficult one just now. The congestion of population has really added a great deal to the cost of living, beyond what the people ordinarily suffer. If it had not been for that we might not have had a condition in the bank just now which has got to be dealt with.

I have read this over, Dr. Miller, with very great care, and my impression was it was the most admirable and fine piece of work of the kind I have ever seen, and I have seen a great many efforts of this sort being made in New York by the other bankers. What I should like to do in the Reserve Bank in New York is this: We will speak of three thousand clerks, in round figures. I want to deal with them as intelligently as we can, which I will admit is not as intelligently as I would like to, by the middle of December. We have assembled data from the cost of living in the bank, in our District; we know about what it is; we know the conditions of the clerks; and while it was not done with the scientific accuracy that will result from this question-

naire, I can assure you we will know within a reasonable degree of accuracy enough to know what we ought to do and do intelligently, and what I should like to do with this questionnaire is this: I want to make those clerks a little happier about living costs, and take this weight and anxiety off of their minds; then I should like to send this questionnaire to them, and tell them that it is the belief of the office of the bank that it would be preferable that they turn these questionnaires over to the officers of the bank, so that the information may be directly available to us for use, and those that will do so, turn them in confidentially in a certain way, those who prefer to have them go directly to Washington, to send them through the Reserve Agent, and those who do not want to answer, them need not do so. But I think you would find they would all come to the bank. We would have them for analysis by capable men who have been making a life work of this sort of thing, and the information would be made the basis of our next step, which, Dr. Miller, I should like to describe as the result of the organization of the bank's force, as expressed in the chart we recently got out, by which we can grade everybody in the bank roughly according to those levels, beginning with the lowest level.



We would have, first, the apprentice clerk, then the clerk, then the senior clerk; then we would have the assistant supervisor of the department and the supervisor; then we would have the assistant manager of the division and the manager; then we would have the assistant teller and the teller, the deputy governor and the Governor. That is the grade classification of all the employes of the Federal Reserve Bank.

In a class like clerks, not apprentice clerks and not senior clerks, but just clerks, there might be three levels of salary, and once those salary levels are established, from the bottom to the top, then a system of promotion, grading, will gradually be evolved that will enable us to do what every well managed bank, I believe, should do, have a regularly salaried organization, as they do in the big English banks, and every week they have a meeting, and they review the work of every clerk whose employment anniversary falls in that period, and every week one fifty-second of the clerks, in the bank, roughly, will be reviewed for regarding salary, or increase, promotion; then this check-off once a year, having all the force at the bank subjected to comparison and change, or no change, as the case may be, will all be

swept away.

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This questionnaire will be of great value to us, if we can have the information and analyze it right there on the spot. I am afraid if it comes to Washington it will be regarded as of a confidential nature and we can not get it, or if we should get it, without the clerks' knowing it, they will regard it as a violation of confidence.

What I should like to do would be, first, to treat them as I have suggested this year; then send this questionnaire to them, with a little urging that they fill it out and deliver it to the properly designated officer of the bank; if they prefer to send it direct to Washington; if they do not wish to answer, do not answer it. I think they would all answer it, that they would all turn it over to the officers of the bank; furthermore, they will just have felt the relief of that salary readjustment and special compensation which we recommend, and they will be very much freer to answer it than they would be under the pressure of existing conditions.

Governor Seay. Having in mind the concrete instances which Governor Strong has presented, and what he has said, and what you have said to us, is it in the back of your

mind, ultimately, to devise some system or method by which you will compensate the employe according to the measure of his necessity, or provide a special compensation to provide for a special necessity?

Dr. Miller. I think I can say this with a great deal of positiveness, that the Board has nothing in mind beyond getting this information. I myself have been more interested in this than any other member of the Board, and about all I can say in answer to your question is that I should like to postpone judgment on that until I see what this thing reveals, what it discloses. It is a good deal like asking a physician to prescribe before he has had a chance to make a diagnosis. I want to see what we get by way of data that discloses a very serious encroachment of high prices on the living conditions of any considerable part of your employe staff.

I am inclined to think that the Board will never do anything with it beyond, perhaps, digesting the information, classifying it, making it more easily available for the twelve Federal Reserve Banks, and any other institutions that might care to profit by it, if we should conclude that the material is such that can be made public in its results,



at any rate.

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The Chairman. May I take the liberty of making the only two criticisms that occur to me in connection with the questionnaire?

Dr. Miller. Certainly.

The Chairman. I do not believe that any of the Reserve Banks have yet been successful in working out a systematic classification of positions, grades, in the bank, or a systematic treatment of the salaries in those various grades.

My fear is that unless each questionnaire is dealt with by the men in the bank who have charge of these matters, with regard to some gradation of work, that the whole point of it will be lost. We must get at the cause. One of the chief results of a questionnaire like that is to disclose men who are attempting to support families in an occupation where their natural aptitude is such they can not do it. Now, in justice to them, they should be sent out. For instance, we may have a man there doing clerical work who should be in a brick yard or driving a grocery wagen.

Dr. Miller. Yes; no doubt.

The Chairman. And it is up to us to discover that,

and you can not discover it from questionnaires unless you have it alongside the information in the bank.

Dr. Miller. Let me say this questionnaire is not a policy or a substitute for a policy at all. It is no more, as I used the simile, than the record sheet that a good nurse keeps for the use of the physician. That is not intended for treating the patient. That is a record of temperature, hours of sleep, nourishment taken, and a great many other things that the physician has got to know when he comes to treat the patient intelligently. This is simply one kind of information, that we have got to have in a process of framing up for the individual banks a simple salary policy, the point being that without this I feel that you will never get better; you are just guessing. It may be you can not do anything better than a guess. These difficulties you point out are unquestionably genuine, and I think are already going on in the Reserve Bank in New York. I understand you have kept a series of cards, with a good deal of data, and our division is working on those now.

The Chairman. But, Dr. Miller, another defect in that is this. You know time is passing ---

Dr. Miller. That is not a defect in the questionnaire, because it has nothing to do with it.

The Chairman. Quite another one is this. I hope you do not mind my stating it.

Dr. Miller. Not at all.

The Chairman. Because I think this is important. I believe it is going to create the impression in the minds of a great many of the clerks in the Reserve Banks that there is a court of appeals in the Reserve Board.

Dr. Miller. Then you have got to explain it to them. I want to tell you exactly the position you are going to be in in the Reserve Banks. Other banks are going to use this.

Governor McDougal. They are not going to use it through the medium of a third party.

Dr. Miller. They are going to use it themselves, because they want precisely this sort of thing, and they get the expert part done as well as it can be done without any expense to themselves.

The Chairman. I will undertake to get that information, but we will get it better and it be more useful, everything that is there will be available to the Board,



and, in addition, it will give us a line on the one thing we need to know, and that is the adaptability of a system of gradation of work and salaries and living costs, so that we are not encouraging people to endeavor to try and fight a losing fight with the cost of living in a job they should not occupy. We have got a lot of people in the bank in that position, and this will disclose it if put alongside the employment record.

Dr. Miller. You have got to have a very complete and a very unusual employment record in order to do that.

The Chairman. We have. We have got a very wonderful one, I think, Dr. Miller, on the whole.

Dr. Miller. This is not a matter of the next six months or the next year or the next two or three years. It probably would not be worth while for either the banks or ourselves or the clerks about it, unless there was a distinct outlook that we will have it for a great many years to come. I think we shall <sup>be</sup> very lucky if we get out of it in fifteen years -- we will have a very disturbed price situation. My own belief is that prices are going to rise for some considerable time to come; that we are going to

have a slow downward movement, but it is going to be a very much checkered movement, and the question will be a live question all the time. Is the clerk who is getting \$1,500 a year at any one time getting the equivalent of it to-day-- if prices have gone higher or if they have gone lower? And if you get your salary scale very much higher, as prices rise, you have got to have some method by which you can finally get them adjusted when the inevitable decline comes.

Governor Seay. If the Chairman please, I shall have to ask to be excused.

Dr. Miller. What I would ask of you is to consider this, give us your judgment as to its value for your purposes, whether you can or whether you can not use it. If you can not use it in its present form, in what form you would suggest it? I should like to be in a position, when the show down eventually comes, at least with the condition today, as far as the board is concerned,--- our banks, with their tremendous earnings, their tremendous growth, and with their public prominence, in my opinion, are going to be in a very bad case, unless they can show they have tried to do something that is a little better than guess work in the matter of developing a salary policy, and, above all, the matter of adjusting salaries to changing conditions.



If this is not the method to get at it, let us have something better.

Governor Passmore. It is your hope to get this in time?

Dr. Miller. It is my hope. This was started a year ago, but I had no idea how slow the experts would be in finally getting this in shape where they felt it was absolutely satisfactory. I am afraid you can not use it as a basis for any adjustments in this coming year, but next July; and, I repeat again, this is not an automatic device; this is merely a first step. If this goes through I suppose the next step will be that each one of the Federal Reserve Banks will be helped, a way will be devised by which you can get an index of the cost of living. That is the important and the most difficult thing. This is simply an attempt to ascertain how a man distributes, how he spends, his income; how much, we will say, the man who has got an income of \$2,000 a year spends on food, how much on fuel, how much on clothing, how much on recreation, and health and so on, so that, supposing he spends forty per cent on food, and you find in the next six months that food prices have risen five or ten per cent, you know how much increase should be made in salary to cover the cost of food.



The Chairman. You do what we are contemplating in regard to that. As soon as we establish the base salaries of the banks and get our costs that you refer to, so we can figure out the fluctuations, we were thinking of using those envelopes, that I believe Professor Fisher was working on, for special computation to cover the costs, and this envelope, which will be a fairly large one, will be handed to each employe, with an amount of money in the envelope, which will be expressed by a calculation made on the outside of the envelope showing just how it is arrived at from the base salary, or fluctuations of costs of various items that enter into these items here, to an adjustment of it in pay; then every clerk knows when he gets his envelope how it is arrived at.

Dr. Miller. Yes, the possibility, if you carry it out, your clerks are the best people to get up your cost of living; that goes beyond anything.

The Chairman. That is what we are going to do also. I have got a great string of topics here, as you will see. I do not know whether it is worth while discussing them. I put them down merely as suggestive. But I want to fly at this thing before we have a break down.

Dr. Miller. Before it flies away with us?

The Chairman. Yes.

Deputy Governor Peple. I should like to say just one word. Our bank, after consultation with the officers and the heads of departments, has written a letter to the Federal Reserve Board with reference to this questionnaire. As we understood it, the questionnaire was intended to be distributed immediately. This is our time for the consideration of all salaries in the bank. We have, since the organization of the bank treated the whole salary question very much more systematically and very much more sympathetically than I would suppose you thought we had done from your statement as to the difference between a flat bonus and this kind of an investigation. We felt that the distribution of this questionnaire just at this time, while this salary matter was to be considered, would be absolutely disastrous.

Dr. Miller. You are the best judges of that, of course.

Deputy Governor Peple. It had not occurred to us, as it occurred to Mr. Strong, that we might be able to use the questionnaire in some modified form, or in some modified way, after the first of January, and after this crisis has been passed over; but in our opinion, and our opinion was



unanimous on the subject, we felt that the distribution just now would make half, if not more, of the clerks think that the answers to those questions were to be the basis of whether or not increases were to be given and the measure of the increase that was to be given.

Dr. Miller. Let me say I have not paid very much attention to the details of presenting this, and have not seen the letter that went out, but if I am rightly informed, the banks ~~were~~ were requested to do this -- not instructed -- and I think it was assumed that such banks as would heed the request would do it, not simply to cooperate with the Board in a formal or perfunctory way, but to cooperate in making a plan of attacking the salary question effectively; and that in doing so it would present the thing to its clerks in a way that would disarm them on any suspicion, and make them feel that it was an attempt really to understand their condition with a view of treating their needs more intelligently.

Deputy Governor Peple. I think that can be far more effectively done, as Governor Strong suggests, after the first of the year, and after the increases go into effect.

The Chairman. We hope to make our whole salary revi-



sion and special compensation and everything complete by the 15th of December. We believe the effect of that will be of great value.

Deputy Governor Peple. We are trying to do that, too.

The Chairman. Then we would send these out immediately afterward, to get the most favorable opportunity of getting them filled out.

Governor Wellborn. It seems to me now is the proper time to get these questions answered, so we can base our salaries on the answers. Can you get that in time, do you think, Doctor?

Dr. Miller. I should say that any of the banks that act promptly on this ought to get the returns in within ten days. Those who can do this and who are going to do it, can do it in a couple of hours in one evening.

Governor Wellborn. I remember the morning I left Atlanta I told my secretary to have it attended to. I thought we would get that information, and upon it base our conclusions.

Governor Van Zandt. You do not get that information.

Governor Wellborn. We receive that from headquarters later on. If there is any objection to that, and we

want to change it, I should like to wire them.

Governor Van Zandt. I should like to say, covering this change, the questionnaire is fine, and will be of untold value to every Reserve Bank Governor in the working out of details of his organization in getting that data, but I really think that employees should be requested, if they so desire, to fill it out and put it in a sealed envelope, addressed to the Governor of the Bank.

The Chairman. I doubt if that information can be prepared in time for this raise.

Governor Van Zandt. I do not think it can be done.

The Chairman. You will find most of the clerks will say "I shall have to keep a careful track of my expenses."

Governor Van Zandt. I think it ought to be changed to December 31, 1919.

Dr. Miller. The people who are my advisers about this thing, who know, tell me there will be no difficulty at all, that most of them have got the information where they can fill this out in a couple of hours; that most of these people, as a matter of fact, keep budgets, and they can show you at the end of the month pretty closely just what the month's income has gone for.

Governor Van Zandt. Would it not be well, then, to change this date, and make it cover the full year 1919?

Governor Passmore. I think the clerk that would have all that information would be the exception, and most of them would have to do some figuring on it to even approximate the proper division. They do not keep records of what they spend for lunches and movies and that sort of thing; they may know it by a process of elimination, by knowing what their coal bill is and so forth.

Governor Morse. I think those that have families might have the information, but a great many people employed in the bank have no families and no responsibilities but themselves, and perhaps hardly that; that is to say, they are young people living at home.

On the report which was to be made on that was raised last meeting, of your 3,800 members of your force, it was shown that about 700 were 18, 19 and 20 years old.

The Chairman. Those were young girls?

Governor Morse. Yes; the probabilities are they have no responsibilities to speak of, and probably spend their money pretty freely, and they would not have any of these records whatever.



Dr. Miller. The information we did not get from them would be of the least value of all. The more important thing, of course, is those who have family budgets.

There is no doubt that an investigation of this kind is far less satisfactory in the conclusions it yields than an investigation among wage earners, where you have far greater uniformity of condition; where the matter of promotion, change of status, and so forth, do not constantly interfere. And it may be -- I am not unduly optimistic about this for myself -- it may be that if we get pretty comprehensive returns in response to this questionnaire, that we may conclude that it does not reveal information of a kind that you can use methodically in forming a salary adjustment policy. I hope and I believe it will.

The Chairman. What we should like to do, Dr. Miller, -- we happen to have a very competent man in the bank on these matters. I should like to use him, with some special paper during the entire business day, to give instructions to clerks as to how the questions should be answered; and, where they have not the data, show them how to get it. That means there would have to be a thousand or more clerks interviewed; and after, say, a month, when

they are really keeping a record and investigating their affairs, we would get a record of value; but it would necessitate a little education. I would like to take time to do it right.

Dr. Miller. If you find that is the case, of course, that is a reason for not doing it at all now, when a little time would give better results.

Governor McDougal. I am inclined to agree with Governor Van Zandt that the problem would be simplified and the results more satisfactory if we could eliminate this last paragraph on page 1 and have the returns come to the Banks for their use; and then for passage on to the Division of Research for analysis.

Dr. Miller. It may be a very good change.

Governor McDougal. If we could settle that point, I think, and have the date changed ---

Dr. Miller. Well, I suggest that you consider this among yourselves, and my desire would be that you give it such consideration as you can and make a recommendation upon it; that is, treat it as a matter of policy among the banks, and if you do that and your recommendation is affirmative upon the general plan of trying to assemble data of this kind, then make any specific recommendations for a

change of date and so on that you think advisable to be included.

The Chairman. The people who made that were in the bank and studied it?

Dr. Miller. Oh, yes, it has been taken up with two or three of the experts of the Government's wage commission here, so that it has been pretty thoroughly overhauled.

Governor Welborn. These questionnaires have not yet been sent out in Washington, have they?

Dr. Miller. I think so. I think they have gone out. But if that change is made, you can just stamp that out with a rubber stamp, or paste something else on, or cover it by general instructions.

Governor Biggs. If these reach the various officers they will be turned loose right away.

( Whereupon, at six o'clock p. m., the conference adjourned until tomorrow, Thursday, November 20th, 1919, at 9:30 o'clock a. m.)

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