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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.

APRIL 12-15, 1921.

ASSOCIATED SHORTHAND REPORTERS
SUITE 18-23 APPEALS BUILDING
426 FIFTH STREET, N. W.
WASHINGTON, D. C.

Box

CONFERENCE OF GOVERNORS OF FEDERAL RESERVE BANKS.

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SECOND DAY.

Washington, D. C.,

Wednesday, April 13, 1921.

The Conference of Governors reassembled pursuant to adjournment at 9.15 o'clock a.m.

Present: The Governors of the twelve Federal Reserve Banks, as previously indicated.

PROCEEDINGS.

The Chairman (Governor Strong). Gentlemen, we will come to order and proceed with the program.

At the conclusion of the meeting last night we were considering the question submitted to us by Governor Harding as to the status of the finances of the office of the Comptroller of the Currency. It occurred to me after leaving the meeting that it might be desirable to ask Mr. Crissinger to join us at this meeting in order to discuss the action to be taken on his suggestion, that the Federal Reserve Banks might make it a part of the deficit. What is your view?

Governor Morss. Mr. Chairman, we had three requests

2

here yesterday for assumption of expenses on account of one Department of the Government or another. Not many months ago, we were not requested, but we were told, to assume the expense of a printing plant; but we had three put nominally in the form of requests yesterday and I have begun to think that it would be better policy for the Federal Reserve Banks to refuse any request of that sort, all of them and if anybody has authority to impose this expense onto the Federal Reserve Banks, let them exercise that authority, but on the question of the Federal Reserve Banks voluntarily acquiescing in an expense being thrown on them, I think it is about time to stop. The first thing you know you will have these things thrown in your face, that you accepted these things, accepted these expenses, and when you are loaded up with expenses, so that you cannot live, then you may find them very burdensome. It will be very convenient to say that they were imposed on you and you could not help it. I would be inclined to vote against anything of that kind. If there were three requests yesterday there may be three today and three tomorrow. I would be glad to throw the whole

thing out and begin all over again.

The Chairman. Are there any other views on this matter?

Governor McDougal. This matter of the Comptroller's expense is now open for discussion, Mr. Chairman?

The Chairman. It is the item of business that was being considered last night when we adjourned, which was brought up by Governor Harding, and that is an existing deficiency in the accounts of the Comptroller of the currency.

Governor Fancher. As I understand it it is suggested in this communication that we pay an amount covering the reports which have been furnished us during the past year, and it is then suggested that we pay an amount for future reports which will include the full report. I rather hold to the views Governor Morss has expressed, but it rather seems to me that if it is an expense to prepare these full reports, because it does mean a larger office force, and we can be furnished with a complete report now, something we never had before, I think that I would favor the matter of compensating the Comptroller's office for that report.

It may cost a nominal amount, five or ten dollars; but on the other hand I am opposed to going back and helping out in a matter when we have not had past cooperation with the Comptroller, have not had the information that we have asked for and that we have asked for repeatedly, and I am opposed to going back and paying for something that we have not had, to amount to anything.

Governor McDougal. I believe in our district we do, to some extent, reimburse the state departments for the service and for the expense involved in furnishing us copies of the State Bank Members' Examination Report. I wired to ascertain to what extent we pay for them, if we pay for them at all, and I am satisfied that it is a nominal amount. I can see no consistency in the Department asking us to reimburse them for last year's service of reports, nor can I see any valid reason why the \$124,000 deficit, or whatever it is, existing in the Comptroller's Department, should be met by an assessment against the Federal Reserve Banks. My impression is there might be a question as to our right to contribute to a fund when the law provides, I believe, that the expenses involved in making national bank examinations

is to be borne by the bank examined.

I feel, however, that if it is simply a matter of reimbursing the Comptroller's Department for his services and for the expense involved that we should be willing to pay a reasonable price for the reports they furnish, provided they give us the complete report. I do not think I should under any circumstances make it apply to last year's report, nor do I think that a fee of \$15.00 or \$10.00 is justifiable for the reports we receive. There are only carbon copies of the report that they have to make anyhow.

The Chairman. What is your view in regard to the suggestion of having the Comptroller consider the matter with us?

Governor McDougal. I think it would be a very nice courtesy to show the Comptroller.

Governor Morss. But why is it necessary?

Governor Seay. I think it would be well to arrive at a consensus of opinion here on the part of the Conference before we discuss it with him.

Governor Morss. If the Comptroller has a mind to say that we cannot pay for these reports unless we pay

\$10.00 apiece for them, let him say that. Then we will take them or go without them.

The Chairman. I am sure that is not Mr. Crissinger's attitude at all.

Governor Morss. It ought to be. That is the point. He ought ^{not} to ask us to compromise ourselves and the policies of our banks for his benefit. If he has authority to do this why does he not exercise it and not ask us to give it to him. That is my only point.

The Chairman. I do not think any question could be raised---and I say this subject to correction of counsel---as to the propriety of our paying a reasonable amount for a report which does cost something to prepare.

Governor Morss. I do not either, so far as that goes.

The Chairman. The cost is not simply the type-writing of it, but it covers the services of the men in the preparation of the report. My point is, or someone has raised the point, which I think is well taken, that the National Bank Act provides a method for paying for bank examinations and that the method

now suggested to us as a possible means of relief to the finances of the Comptroller's office really is not justified upon the ground that we are paying for the cost of the report, because we are specifically paying for a deficit in the Comptroller's expense account which should have been met out of bank examination assessments upon member banks. The objection to the proposal did not apply to payments which we might care to make for future reports to be furnished, but to payment of a lump sum, say \$5.00 for the last set of reports, just in order to make good a deficiency. If we pay \$5.00 for the last set of reports, why not \$5.00 for the set before that, and so on indefinitely?

There is another consideration involved. The Comptroller has left his office in a frame of mind which is distinctly antagonistic to the Reserve Board and the Reserve Banks, or some of them; he has criticized, publicly criticized to a certain extent, and it seems to me if he has gotten his accounts into a mess he ought to go to Congress to get relief, or his successor should, and not ask us to afford him the relief that he wants.

Governor Biggs. What would have been the policy had there been no change in the administration. Suppose Comptroller Williams had remained in office. He would never have presented this to the Board. What method would he have taken to overcome the deficiency.

The Chairman. It was indicated yesterday that this was a temporary measure in order that time might be afforded to increase the assessments upon the banks examined so as to make good the deficit. I presume that is the course that would have been pursued. I am very certain that the Comptroller never would have gone to Congress and asked for an appropriation to relieve him of this embarrassment.

Governor Biggs. He never would have come to the Governors.

Governor McDougal. I think the underlying purpose goes a little beyond the point to which you have referred and the feature of the situation that appeals to me is that the new Comptroller has awakened to the fact that they are short of examiners, and they have no funds with which to employ additional examiners or even to pay the

salaries of those now employed. The condition in that respect is deplorable, certainly in our district. The examinations out there have been conducted in such a way that they have not disclosed to us, for our guidance, the real condition of affairs. As an example, the bank that failed a few days ago, after one of our men went in with the national bank examiner and made an examination, the reports which we had received over a period of years indicated that that bank was in fairly good condition, but their capital was entirely gone; the bank was closed and they owe us \$174,000. That is what happened. The examinations have not been as thorough as they should have been and that department is suffering for lack of good men, or lack of the right number of men, because they are not permitted to devote sufficient time to the examinations. They do need help, but they ought to get it from Congress. They want to get it by increasing the percentage charge against the New York and the Chicago Bank or other banks which are examined.

The Chairman. Governor McDougal, my point was really this; That the Comptroller of the Currency, has made a

request, through Governor Harding, and we have not heard from him directly as to the program of his department, what plan he has in mind and it seems to me a little unfair to close the discussion on a matter of this sort without hearing from the Comptroller.

Governor McDougal. I agree with you on that, Mr. Chairman.

Governor Calkins. In the last analysis, have we any right to pay a sum sufficient to make good a deficit in the Comptroller's office?

Governor McDougal. That is the point I raise.

Governor Morss. I raise the point whether you have the right to pay anything more than you are obliged to pay. If you can get it for \$5.00 instead of \$10.00 is it not your duty to do so. If you can get it for nothing instead of \$5.00 is it not your duty to get it for nothing in order to protect your bank. Why should we pay more for a report than we have to pay any more than we pay for any other expense, rent and so forth. I must say that to acquiesce in that is to put a responsibility on us that I do not see any reason why we should accept. If the Comptroller is

11

going to say to us that we cannot have the report unless we pay \$10.00 for it, then we will consider whether we will take it or not. Doubtless we will take them all, of course.

The Chairman. Suppose we invite him over and ask that question?

Governor Morss. If he should put the price at \$25.00 it would be the same way as with \$5.00. If he would come in and tell us that he is going to do it I would not object to that at all, but I am not going to acquiesce in any price if I can help it.

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Governor McDougal. I would suggest that the Comptroller be invited to come over here at the right moment.

Governor Wellborn. This strikes me as being only a temporary affair and a very modest request of us to assist the Department. I say it is a temporary affair because I think very likely that the McFadden bill will pass Congress and become law and the Federal Reserve Board will have charge of all of these examinations and this will just save the Comptroller the trouble of going to Congress and asking for an appropriation or making an assessment against the banks. While we are

making these abnormal profits it is all in the family anyway.

Governor McDougal. I assume some of the other banks at least have had the same experience we have had. During the last two or three years we have made heroic efforts to have the law stretched so that we might do something to aid the Red Cross, the Y. M. C. A. and so forth, but we have always been referred to the law which, we are told, states specifically in what way the profits can be used. If this fund asked for is a fund to make up a deficit existing in the Comptroller's Department, I would like to concur in the suggestion that it is a matter for Congress to take care of and not for the Federal Reserve Bank to take care of.

Governor Seay. I do not know whether all the Reserve Banks hold the position we do,---although I imagine they do---that it would be advantageous to have the examination of the banks under the Federal Reserve System. The Act, it seems to me, contemplates that the Federal Reserve Board shall have the benefit of the examinations made.

The Chairman. By the Comptroller?

Governor Seay. By the Comptroller. The Act reads that the Federal Reserve Board, upon recommendation of the Comptroller of the Currency, shall fix the salaries for all bank examiners and make report thereof to Congress, and the expense of the examinations herein provided shall be assessed by the Comptroller of the Currency upon the banks examined. Then any additional examinations that we may conduct shall likewise be assessed against the banks. It does not say so specifically, but I think the clear inference is that the expenses of such examinations, and I think the furnishing of such reports as may be required by these examinations, is clearly directed to be assessed against the banks. I do not know whether any of you observed it in yesterday's Times or not, but some reporter featured an article, referring to Governor Harding, and he points out that the recrudescence of the report that the office of the Comptroller of the Currency shall be abolished, is not taken seriously as such action would necessitate the creation of an additional Secretaryship in the Treasury Department, and I feel sure that there is going to be some objection on the part of some people to the consoli-

dation of the Comptroller's Department with the Federal Reserve System. If we believe it would be advantageous to do that, to have it consolidated with the Federal Reserve Banks, then I think in this situation we possess a lever to bring about the consolidation. Clearly the Comptroller's office has been involved in expenses, provision to meet which has not been made, and if we want to bring that about, it is clear to me that here is an illustration now for the benefit of those who are likely to object in Congress. I think it would be a very forceful one to bring about the consolidation of these offices if we want it done, and I think we are entitled to take advantage of the situation.

Governor Van Zandt. In our district we pay the State Banking Department of Texas, which is the largest part of our district, \$1.00 a copy for copies of reports of examiners, which covers the cost of making the extra carbon copy, and would we not be in a rather embarrassing position as regards the upkeep of the State Banking Department if we were to go to work and pay \$10.00 a copy for reports of national bank examinations, some of which we have no more confidence in, and in

some instances less confidence, than we have in our State Examiners' reports?

The Chairman. That is a new question.

Governor Van Zandt. There are some examiners on the national board that we would not want a report from and I would pay no attention to it when I saw it, but would have my own examiner go out and get his report on the bank. With all the failures we have had in our district of member banks, or the national banks, their serious condition has been found by our examiner and not by the national bank examiner.

The Chairman. I would like to ask Mr. Harrison, who knows this situation from the standpoint of the Federal Reserve Board and the Comptroller and the Reserve Banks, if he has some views to express.

Mr. Harrison. I would be rather inclined to disagree with the statement made by Governor Seay that the Act contemplates that the Comptroller's office should furnish the Federal Reserve Board or the Federal Reserve Banks with copies of all of these examinations. It is not very clear in the law, but I should think that the

inference was the other way, for the reason that the law provides two classes of examinations, one by the Comptroller's office and another class of examinations which may be made by the Federal Reserve Bank upon request of the Federal Reserve Board; so that it would seem that if the Board wanted copies of examinations or wanted reports on particular banks, the way the act contemplates they shall get them is by an examination made upon their request by the examiners of the Federal Reserve Banks. I mention that merely to clarify the situation with reference to the right of the Comptroller subsequently to make charges when he does present reports. I feel if, therefore, there is no requirement in the law for the Comptroller to furnish reports to the Federal Reserve Banks it is very possible and proper for the Federal Reserve Banks to pay a charge or any charge that the Comptroller may assess for furnishing reports.

Governor Seay. But he does not furnish them to the bank; he furnishes them to the Federal Reserve Agents. He furnishes them to the Board, or the Federal Reserve Agents, employed by the Board, and the bank has access to them.

Governor Van Zandt. Sometimes.

Governor McDougal. Some of the officers of the bank have.

Governor Seay. That is the theory upon which we are acting. A discussion took place and it was held that these reports should be in the custody of the Federal Reserve Agent and should be furnished to him. Therefore it is not to the bank that these things are furnished but it is to the Federal Reserve Board.

Mr. Harrison. It would be proper, assuming that the Comptroller's office has the right to make the charge, and I think that is a very doubtful question,---assuming that he has got that legal right to make a charge for furnishing official copies of official reports in his office, I think it would be proper for the Federal Reserve Banks upon request of the Board, or even on their own volition, to pay for these reports furnished to them, whether furnished directly to them or through the Chairman of the Board of Directors or the Federal Reserve Agent of the District.

My own opinion is that there is a grave question

whether the Comptroller has the legal right to make a charge and I should think in the last analysis that the only thing this Conference can do with reference to future reports is to agree to pay a charge for them that the Comptroller decides to assess you or charge you for furnishing them, that is if you want the reports. As to the price, I do not think there is any question that you have not the legal right to pay for them. That would be my feeling as to this deficit. It would be a grave question as to the propriety under the law of the Federal Reserve Banks voluntarily making contributions to make the deficit good.

Governor Morss. Does not that bear out my contention that if they are of a mind to make a charge to us for these reports we will pay for them? That is quite different from putting us in the position of throwing the responsibility on us. I do not want to show any discourtesy to the Comptroller of the Currency, as you understand, and I want to help him in any way I can, but this is a responsibility he has, and all he has got to do is to come in and say that he has not

charged us for these reports before, but that conditions are such that he will be obliged to charge us for any reports we get in the future. Then if we do not want them we do not have to take them, but if we want them we have got to take them.

Mr. Harrison. I think the Comptroller merely means in a cooperative way to find out what is the attitude of the Governors with referance to a charge should he decide to impose it. Let us put it in that way.

Governor Morss. We have got to have these reports and we will pay any price that he may put on them. We understand that he puts that price on because of the needs of his office and that he is not trying to make a profit out of it; in other words that he has got to make that charge and I think it is ^{proper} perfectly/if he does not put the responsibility on us, but I do not think we should be asked to assume that responsibility.

Governor Calkins. It has been suggested that we invite the Comptroller over here and tell him we are not disposed to make up the deficit of his predecessor but we are disposed to pay for reports that we desire

in the future. It seems to me that is about the substance of this discussion.

The Chairman. I have a strong feeling of sympathy with what Governor Morss has said, but if we take that position it merely means that a new Comptroller has come into office and made a change of policy, whether warranted by law or not is his affair, -but the Comptroller now offering^{to}/furnish complete reports, including the confidential report, asks that we reimburse the office for the expense of preparing them. As to the cost, the great difficulty in my mind is justifying making good the deficit in a fund which the law expressly states shall be furnished by assessment from the banks examined.

Governor Van Zandt. Wouldn't it be in direct violation of Section 21, or that part of Section 21 which reads:

"The expense of all examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to the assets or resources of the different banks upon the date of examination of the various banks."

The Chairman. But this is not the expense of examination, this is the expense of preparing the report which results from the examination, an additional copy of the report.

Governor Van Zandt. I cannot see that an additional copy of the report would cost \$10.00.

The Chairman. It is \$5.00, \$10.00 for two reports each year.

Governor Van Zandt. Or \$5.00 for that matter.

Mr. Harrison. It is a little different, Governor Van Zandt, because it is a flat charge for copies of reports that may be made. There may be four or five, conceivably.

Governor Van Zandt. But there may be none.

Mr. Harrison. There may be none, although that would be a violation of the law.

Governor Morss. Two examinations a year are required and that would be two reports, but with reference to the policy of other departments of the Government, there are some publications that the Government gives for nothing, and then there are some for which a slight charge is made. It is the same thing, it

occurs to me.

Mr. Harrison. That is what I meant when I said I thought there was some question about his right to make a charge for furnishing a copy of a report which is an official report, if it is a report that he has the right to give you; in other words, if he has the right to give it to you I think probably he has the right to give it to you free; but I think that is a matter for him to determine and not for us.

Governor Morss. He has a right to make a charge. He has his privileges and his rights.

Governor Seay. There is another phase of this. It seems to impose upon the Comptroller who is retired a policy which he himself did not promulgate. He did not charge for the service and he did not advance the policy nor the argument.

The Chairman. This is a question of making a payment simply to cure his deficit.

Governor Seay. I understand that, but that particular point, although it is implied in the other, so far as I know was not raised; but it does put upon the Comptroller who has just retired a policy for the conduct

of his office which he himself did not originate.

The Chairman. He originated the deficit, though. Gentlemen, we have spent quite a little time on this subject, over half an hour and I think we have discussed it enough.

Governor Van Zandt. I move that the Comptroller of the Currency be invited to present his views to us on this question.

The Chairman. Is that motion seconded?

Governor McDougal. I will second it.

The Chairman. Is there any further discussion?

Governor Seay. I think probably we should arrive at some boiled down decision or a consensus of opinion here so that it may be voiced to him and not go over all this discussion again with the Comptroller.

The Chairman. Your motion, having been seconded, has precedence, Governor Van Zandt.

Governor Van Zandt. I will withdraw it for the purpose of allowing another motion to be made.

Governor Morss. Suppose we make a motion something like this: That we say to the Comptroller, in case he sees fit to make a charge for these reports that there is

no doubt that we will be obliged to have them and will pay for them at whatever price he has a mind to put on them.

The Chairman. For the reports?

Governor Morss. For the reports, yes.

Governor Biggs. Would not every man here be willing to do that? Is there any objection to committing the Governors here to that? Would they all not be willing to pay for future reports?

Governor McDougal. It is questionable whether they would all be willing to make it so broad as Governor Morss has suggested, that is any charge the Comptroller sees fit to put upon it.

Governor Calkins. If he puts it too high we do not have to pay it.

Governor Miller. If it is a question of past reports, it seems to be a matter of just raising so much money, and why don't we let him charge \$15.00 for future reports so as to get the Comptroller out of an embarrassing situation?

The Chairman. That arises from the depth of your sympathy for the Comptroller. The present Comptroller

is not under any embarrassment in the management of his office through anything of that sort.

Governor Miller. I thought he was trying to make up a deficit for some reason.

The Chairman. He wants to pay the examiners; he wants to get money enough to pay salaries.

Governor Miller. All right, for that purpose then.

Governor Morss. I would like to make a motion to the effect,---if you will be kind enough to dress it up in the proper language for me Mr. Harrison,---along the lines I have stated.

Mr. Harrison. You would move that the Conference advise Governor Harding that they do not feel it would be proper for them to make any contributions intended to make good a deficit in the administration of the Examining Division of the Comptroller's office---

Governor Calkins. Or any other deficit.

Mr. Harrison. Yes, but that Governor Harding be
if
advised that/the Comptroller of the Currency sees fit to make a charge for providing full copies of reports in the future the Federal Reserve Banks which would take those reports would be glad to pay for them.

The Chairman. Provided the charge was a reasonable one.

Governor Morss. I want to put the responsibility for the size of the charge on the Comptroller. He has explained to the meeting that he is charging what he is obliged to charge and that explanation is all right, but we do not want to get into a discussion of the price to be charged because it will go all the way from one to fifteen dollars. Let the Comptroller fix that. We would doubtless take all of them at whatever price he decides to put on them.

The Chairman. Provided the charge is a reasonable one.

Governor Morss. No, not "provided" at all.

The Chairman. We are not going to pay anything but a reasonable charge.

Governor Morss. We do not want responsibility for the charge at all.

Mr. Harrison. I think Governor Morss's point is that no matter what price he fixes the banks will either take the report or they will not take it. If you do take it you pay for it, and if you do not you pay nothing.

Governor Miller. Would the price for the report be the same?

The Chairman. That is for him to answer. I do not know.

Governor Seay. It seems to me to be not unreasonable, but at the same time it provides a convenient means for meeting in large part the expenses of the Comptroller's office, and it is a very small step for those in Congress, who are so minded, to go further and move that the expenses of conduct of the Comptroller's office is borne by the Federal Reserve Banks, for whose benefit in large part the examination is conducted, without necessarily throwing authority for the examination into the hands of the Federal Reserve Banks.

The Chairman. I think that would be a most extraordinary procedure.

Governor Seay. Yes, but we are doing it in part and if we are doing it in part why not advance a little further and if we let the Comptroller increase his price for these examinations to five or ten dollars, he might say \$25.00.

The Chairman. Governor Seay, the proposal before

Congress now is to abolish the office of the Comptroller and to have the functions of the Comptroller performed by the Federal Reserve Board through the Federal Reserve Banks and have all the expenses of doing so borne by the Federal Reserve Banks.

Governor Seay. Yes.

The Chairman. Certainly a fair discussion of that subject would eliminate the possibility of any fantastic proposal such as you have in mind. I cannot for a moment imagine that Congress would say to the Federal Reserve Banks "You pay the cost of conducting the office of the Comptroller of the Currency and then have no control over it whatever."

Governor Seay. I hope not, and yet there is no reason why the charge for those reports should not be very well advanced. He proposes \$5.00 for the past and proposes \$10.00 for the present. He might just as well propose \$25.00.

The Chairman. Then we would not have to pay it would we?

Governor Seay. I suppose not, unless we chose to if we wanted the reports.

Governor Morss. Mr. Harrison, are you framing the motion that I suggested?

Mr. Harrison. Yes. It is:

"Moved that it is the sense of this meeting that Federal Reserve Banks should make no contribution calculated to make good a deficit in the administration of the office of the Comptroller of the Currency, but that Federal Reserve Banks will pay any charges made by the office of the Comptroller for copies of future reports furnished by him and actually taken by the Federal Reserve Banks."

Governor McDougal. I would like to see the word "complete" in there.

The Chairman. Does that express your idea Governor Morss?

Governor Morss. You would not want to put in that if the Comptroller makes a charge that the banks will be obliged to pay any charge that he has a mind to make.

The Chairman. No.

Mr. Harrison. I almost say that, that the Federal Reserve Banks will pay any charges made by the Comptroller for copies of future complete reports furnished by him

and actually taken by them.

Governor McDougal. I would like to see the expression "Expenses involved" in there. \$10.00 is more than the expense involved for a carbon copy.

Governor Seay. I think that is good principle.

Governor Van Zandt. Any statement with regard to reports which covers the situation as it confronts us. The charge made by the state departments, is very small.

Governor McDougal. The same is true with us. I think a charge is made of one or two dollars, but I hope in a few minutes to know what it is.

The Chairman. We pay nothing in New York.

Governor Seay. I will second the amendment of Governor McDougal.

The Chairman. I will ask Mr. Harrison to read the motion again.

Mr. Harrison. Moved that it is the sense of this meeting that Federal Reserve Banks should make no contribution calculated to make good a deficit in the administration of the office of the Comptroller of the Currency, but that Federal Reserve Banks will pay any charges made

by the Comptroller of the Currency to cover the expense involved in furnishing copies of future complete reports actually taken by them.

(The motion was put and unanimously carried.)

The Chairman. Governor Van Zandt your motion is now in order.

Governor Van Zandt. I will now move that the Comptroller of the Currency be invited to be present and lay his thoughts on this subject before us.

Governor Fancher. I will second that motion.

(The motion was put and unanimously carried.)

The Chairman. I will take the liberty of appointing a committee to convey this action to Governor Harding and ask him to arrange for a meeting at least to get liberty to arrange for a meeting with the Comptroller to join us. This matter was brought to us by Governor Harding or at least through Governor Harding, and at the same time the committee goes over to the Treasury to arrange for the meeting it can arrange with Mr. Gilbert to be present to finish our discussion with him. Is that satisfactory? If it is I will appoint Governor Van Zandt, author of the

last motion and Governor Morss author of the previous motion as members of the committee.

(The committee appointed thereupon left the conference room to carry out their instructions.)

The Chairman. To proceed with the program, under accounting, number 2, we have topic (a) which is:

(a) Uniform reconciliation form for use of the Treasurer of the United States in reconciling accounts maintained in reserve banks.

The report of the committee is as follows:

The Committee on Standardization of Inter-Federal Reserve Bank Forms submits the attached form as a suggested reconciliation sheet for use of the Treasurer of the United States in reconciling accounts maintained in Federal reserve banks.

This form is to be prepared in duplicate, the signed original to be forwarded to the Federal Reserve bank, and the duplicate to be retained by the Treasurer for reference purposes.

Treasury Department
Office of the Treasurer

RECONCILEMENT SHEET

GENERAL ACCOUNT TREASURER U. S.
TO FEDERAL RESERVE BANK OF AS OF

Date of Entry	DESCRIPTION	AMOUNT	DATE ADJUSTED
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TREASURER DEBITS, YOU DO NOT CREDIT

YOU DEBIT, TREASURER DOES NOT CREDIT

BALANCE DUE TREASURER AS PER YOUR TRANSCRIPT

TOTAL
TREASURER CREDITS, YOU DO NOT DEBIT

YOU CREDIT, TREASURER DOES NOT DEBIT

BALANCE DUE TREASURER AS PER HIS BOOKS

TOTAL

Your transcripts of the general account of the Treasurer of the U. S. with supporting vouchers to and including have been examined and agree with the books of the Treasurer with the exceptions shown above.

TREASURER OF THE U. S.

(The above sheet on heavy bond paper, 12 x 9- $\frac{1}{2}$,
punched for binder.)

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Cox's
a.m.
turn.
Apr. 13.

297

PRINTING SPECIFICATIONS.

RECONCILEMENT SHEET -

GENERAL ACCOUNT TREASURER U. S.

PAPER:

Stock - Domino Bond
Substance No - 16
Color - White
Stock Size - 12 x 9- $\frac{1}{8}$
Form Size - 12 x 9- $\frac{1}{8}$

PRINTING:

Color - Black
Style of Type - Gothic

RULING:

Color - Black
Kind - Print

PUNCHING:

Binder Holes

NO. IN PACKAGE:

100

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The Chairman. I want to say with regard to the report on forms that there are two forms submitted to the meeting, and that Mr. Rasch, who represents the Federal Reserve Bank of New York in this matter talked with representatives from Cleveland and Chicago, and has really devoted a great deal of time to studying the forms in use by all the reserve banks, has stated that there have been concessions necessary from almost every reserve bank, and he informs me personally that the principal concessions in the matter of forms have been made by our bank in New York, where our form seems to differ more radically from others than the other banks do among themselves. He has asked me and urged me to secure if possible the cooperation of the Governors in insuring adoption of these forms so that progress may be made even if it requires abandoning some little ideas of technique in the use of forms. It would be a convenience to the Treasury Department to have them uniform of course.

Governor Calkins. I move the adoption of the report of the Committee on Forms, under Topic 2 a, "Uniform reconciliation form for use of the Treasurer of the United States in reconciling accounts maintained in reserve banks.

Governor Seay. I will second the motion.

The Chairman. Is there any further discussion?

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

The Chairman. The next topic is (b) under accounting and is:

"(b) War loan deposit accounts.

That topic was suggested by Governor McDougal.

Governor McDougal. That can be disposed of very quickly. It was put on the program for the express purpose of inquiring as to the prevailing opinion as to whether or not we should discontinue the plan under which the banks are permitted to pay by credit, the thought being that because of there being a strong market, or having been for some time, that we perhaps ought to place some in the hands of banks and their investors who have the cash rather than to sell them to banks who have to borrow in doing so. Now I bring that up notwithstanding the fact that Chicago has not been selling its quota and because of the fact that there has been a large oversubscription.

The Chairman. That is a question that would affect

the bank in New York rather more than any other bank because the larger proportion of certificates are taken there, not in proportion to the bank resources, but in proportion to the total issue, and I believe it is the unanimous view of the officers of the bank who are familiar with this type of transaction that the effect of abandoning payment by credit, which is what you have in mind, would be to suddenly turn into the Reserve Banks, and particularly into the New York Reserve Bank, a very large amount of deposits for the credit of the Government, which would cause a sudden contraction and very high interest rates, and then as the old certificates matured and were paid off or as Government disbursements were made there would be a sudden release of funds again and we would expose the banking situation to the current expansions and contractions, or contractions and expansions, but would be disturbing and disorganizing. The fact is the Federal Reserve Bank in New York has effected a very prompt distribution of its certificates. All this does not bear directly upon the success that the subscribing bank has in distributing certificates to investors, but rather upon a transfer of funds,

but I can see in the future with a plan of sale without payment by credit substantially all the evils of the old independent Treasury system when a great mass of money was paid into the sub-treasury on tax days and percolated out slowly, in the meantime subjecting the money market to great strain. That is the point of view held by the bank in New York.

Governor Seay. Another thing is that these certificates are issued with very little advance notice, if any at all. The banks do subscribe, that is undoubtedly, so, and the paying of credit gives them an opportunity and time to dispose of these to their investors. I think it is impracticable, if not impossible, to tell in advance the affect upon the sale of these certificates which such a change in policy might involve. We have subscribed in our district, oversubscribed for the last several issues, and I am free to confess that I doubt---I am sure---that the effect would be unfavorable in the sale of certificates, which is the chief point to be considered I think since we are operating in aid of the Treasury Department.

Governor McDougal. That is as far as I care to go on this subject, except that I would like to ascer-

tain how many banks are still maintaining their independent depositaries and custodianships. We have recently taken steps to abandon them, although we have been carrying them along in five different cities. I think you have a plan that is different from any other, have you not Governor Strong?

The Chairman. We had a very difficult and serious problem to deal with in the early days of the war loan operations because of the vast mass of securities to be handled at one time. We had I think two and a half billions of securities to deal with and our plan was to appoint a committee of directors of the respective banks as custodians in our behalf, but the amount of the account recently has been so reduced that we have reconciled all of those accounts and discharged all of the committee, and have taken all of the securities into our own possession. Governor McDougal, would you like to have each Governor present explain the procedure in the respective banks?

Governor McDougal. I think it is not necessary to do that, but I would like to ask Governor Fancher what they are doing. We established custodians in

each of the large cities, or in one large city in each State and we have had operating independent securities committees which are still working on the patriotic element, but they get nothing for it.

Governor Fancher. At the outset we established custodians in our seven principal cities and securities committees. One of the trust companies was appointed custodian and some time ago, a year or a year and a half ago, we consolidated those securities into three places---we have a custodian in Cleveland, one in Pittsburgh and one in Cincinnati. We still have those committees in existence, although they are not called upon to function to any great extent, and we would take over the securities now if it were physically possible, if we had the vault space. That is the thing now that prevents us from taking the securities into our own possession. The securities held by the custodian, which is in our case a trust company, are industrial securities and commercial paper. All the Government securities which are put up are held by the bank and in many cases the certificates themselves are simply held as security for the deposit and then taken down, and for these

services we pay to each of the trust companies a fee in proportion to the total amount held.

Governor Young. Mr. Chairman, are there any of these industrial and municipal corporation bonds that are eligible as collateral now?

The Chairman. Oh yes.

Governor Young. We do not find any in our district.

The Chairman. I think we have quite a list still.

Governor Fancher. We have quite a list.

Governor Young. The last Department Circular, No. 92, was changed and it is market value and not the value of April, 1917.

The Chairman. Yes.

Governor Young. I had in mind---I do not know how it affected the other districts---we would come to the time when we might eliminate these securities and only have Liberty bonds, Victory notes and Treasury certificates as eligible paper. It has caused a great deal of trouble in our district, and none of them are eligible that we have now.

Governor Calkins. I am theoretically strongly

in favor of abolishing payment by credit, but I realize the difficulty in the New York District. I would like to inquire as to what the opinion of the Governor of the New York District, and the other Governors is, as to the policy of cutting out all securities except Government securities.

The Chairman. Would you also cut out commercial paper and eligible paper?

Governor Calkins. Yes. Under the present conditions it simply affords opportunity for the banks which make payment by credit to borrow large sums of money on very favorable terms, much more favorably than by rediscounting.

Governor Young. I think they are entitled to do that.

The Chairman. Would it not have the effect, Governor Calkins, on the one hand of either slowing up the sale of certificates or on the other hand of developing a tendency of the banks to hold the certificates rather than to distribute them?

Governor Calkins. I should think not, but then that is only my own opinion.

The Chairman. The ideal situation to develop, from our point of view, in the handling of certificate sales, is to have the Secretary of the Treasury fix a rate at such a level that it will be unprofitable for the banks to continue to hold the certificates and yet nevertheless that will be sufficiently attractive to induce investors to buy. As to the deposit account it is more desirable to make it attractive to the bank to secure deposits by use of its normal assets/^{as collateral} rather than to induce the bank, if you please, to borrow or buy or subscribe for Government securities for the simple purpose of securing a deposit account. We want these certificates to be distributed to the public and get them out of the bank assets.

Governor Calkins. The real question is whether one procedure adds to the facility of distribution or whether the other does. It seems to me that permitting the banks to make payment by credit and to put up commercial paper as security decreases the distribution of certificates, or tends to at least.

The Chairman. We have one institution in New York which has been borrowing continually almost between forty and fifty million dollars secured by

certificates of indebtedness, simply because it found it profitable to do so. Taking that one bank as an illustration, as an example, if the rate can be made so unattractive as an investment for the bank on that type of security, so unattractive as to secure them as Government deposits, then we will secure distribution. We have not quite succeeded in doing it, but we are pretty close to it now. They figure that the account is profitable to them so long as the certificate sells upon a basis which returns more than 5.14 per cent. I do not want to urge the situation in New York as an influence upon the other reserve banks, but after all in varying proportions the same principle applies to all the reserve banks. That has been our experience.

Governor Calkins. It is more acute and a much larger question in New York than it is elsewhere.

Governor McDougal. We have one institution in our district Mr. Chairman, that subscribes regularly to each issue and the bank invariably sells to the public a large proportion of their subscription through our investment department, as there is a market through that department, and they use the certificates for borrowing and they have

been borrowing continuously and we have not been able to stop them. They have made a beautiful profit. I would say they could make on that basis, borrowing say three or four million dollars, fifty thousand dollars. Of course if we could stop that it would help our situation.

Governor Calkins. Why should they stop as long as they can do it under the regulations and make a profit on it. They wont stop.

Governor McDougal. They can buy these certificates, pay for them by credit, sell them immediately on delivery and have a beautiful deposit, and pay when the deposit is withdrawn.

The Chairman. Governor McDougal, this is your topic, and what disposition do you wish made of it?

Governor McDougal. I only wished to have the matter discussed and since there seems to be a varying opinion I would like now to have the question brought to a vote as to whether we should continue or discontinue.

The Chairman. Isn't it a matter that is controlled by the Treasury after all and such action as we might take would probably be in the form of a recommendation to the Treasury.

Governor Galkins. The Treasury has expressed a very positive opinion in the matter and I do not believe there is any possibility of their policy of payment by credit being abolished and we are just talking against the wind so far as that is concerned.

The Chairman. Then what is your last wish, Governor McDougal?

Governor McDougal. My last wish is that we proceed on the program to the next topic.

The Chairman. Then we will enter on the minutes that the subject was discussed and that Governor McDougal asked that no action be taken.

The last two topics on page 1 of this program under item "II Accounting" are "(d)" and "(e)".

"(d) Assistance to be rendered to Treasury Department in connection with improving procedure relating to transactions with Federal Reserve Banks."

"(e) Progress made by the Treasury Department in the speeding up of operation of paying its checks."

Those two topics were suggested by the New York Bank and I would like to explain the reason for putting them there.

From time to time in connection with our various contacts with the Treasury Department we find that delay arises in matters like the reconciliation of accounts and return of checks which for one reason or another are rejected for final payment by the Treasury, and we have had men in the Treasury Department from time to time endeavoring to effect revision in the accounting procedure in the Department in order to facilitate this work.

Some time ago I suggested to Mr. Gilbert that we would be willing, and possibly other reserve banks would be willing, from time to time to contribute a very small staff of men, to periodically come to Washington and take up these matters, work into the routine with the various Bureaus with which we had dealings and endeavor to simplify their methods, improve them and bring them up to date a little more. He was rather sympathetic with the idea and I would like to ask if the other Governors feel disposed to adopt such a policy, particularly those of the nearby reserve banks where travelling expenses and time would not be wasted, to see whether we cannot get occasionally a good man from one or more of the reserve banks to come over here and take up these specific matters.

I would like to give two illustrations of what happens..

We pay Government checks and they are sent through with the accounts in the usual course and at the end of a week or a month or a year or more---we had one case where a check came back that had been paid twenty-three years previously to its return, with the claim that the indorsement was forged and we should cover or the bank which last indorsed the check should repay the amount to the Treasury. We have, as indicated on the program under topic e worked out a plan by which these checks shall come back immediately and it must then be determined in the Reserve Bank of New York whether the circumstances of their rejection or payment by the Treasury Department justifies, on the one hand giving immediate return of credit to the Treasury, or, on the other hand, sending them back for collection, if collection can be effected. I am exceedingly anxious, for the protection of our bank in New York, that the other Reserve Banks should operate upon the same principles in the matter and in the matter of reconciliation of accounts that we are endeavoring to establish. This practice cannot be established

except as the result of considerable inquiry in the department.

For the second illustration, we have the general difficulty of reconciling accounts of disbursing officers checks. We are now at work upon a plan which I hope the Treasury may be willing later to adopt, for a revision of the whole scheme of accounting between the Treasury and the disbursing officers so that they at once have a check upon the items drawn by the disbursing officers. There is now no general accounting which originates with the disbursing officer. It is all based upon checks which we pay, as I understand it. I do not know that I can ask you to take any specific action on this matter, but if we can get cooperation among the Reserve Banks I think we can make good progress in improving the practices of the Treasury.

Governor Fancher. I might say for our bank that on all occasions in the past we have offered to loan one or two of our men to do some work down here, to work out any scheme of closer contact in the matter of accounting, and I understand from you now that the Department is rather in a frame of mind to cooperate with that idea

of having some of the men from the banks come down and endeavor to work out some better accounting system and closer contact.

The Chairman. That is what I have in mind.

Governor Fancher. We will be very glad indeed to furnish a man or two, very glad to and will do so.

Governor McDougal. Chicago has been doing so and will be very glad to do it.

The Chairman. We have a man in the Treasury working on these matters now.

Governor Deay. Directly?

The Chairman. Yes, he has been there for months.

Governor Calkins. We would be very glad to send a man or two from San Francisco if it would bring about any results. We have accomplished one thing, by hammering away at it. We have been called upon to cash disbursing officers warrants for very large amounts for the Pacific Fleet and we have succeeded at last in getting the Treasury Department to certify by wire, which is a tremendous concession. We have been working at that for years without much success. We had the disbursing officer of the fleet draw \$2,000,000 at one time and he

was very strongly of the opinion that it wasn't any of our business whether the draft was good, whether it would be paid or not, but that we should pay over the money and take our chances.

The Chairman. As this topic was suggested by the New York Bank my suggestion is about 2(d) that the conference adopt a resolution indicating to Mr. Gilbert that the Federal Reserve Banks would appreciate the opportunity to furnish men temporarily and from time to time to the Treasury Department for the purpose of investigating the procedure in those bureaus of the Department with which the reserve banks have contact in accounting and other matters for the purpose of perfecting and simplifying the procedure or assisting in perfecting and simplifying the procedure where changes of the character desired can be brought about by Executive order.

Governor Fancher. I will so move Mr. Chairman.

Governor McDougal. I will second the motion.

The Chairman. Is there any further discussion?

(There was no further discussion.)

(The motion was put and carried unanimously.)

The Chairman. As to the second matter, topic "(e)",

"Progress made by the Treasury Department in the speeding up of operation of paying its checks," I would like to read an extract from a letter written by Comptroller Rounds of the Federal Reserve Bank of New York, addressed to Mr. Allen, Acting Treasurer of the United States. Mr. Rounds is Comptroller of Accounts of the Federal Reserve Bank of New York:

"There is one matter with relation to the handling of your checks to which you may wish to give some thought and that is the desirability of having all disbursing officers furnish the Treasurer's office promptly with a schedule of all checks issued, giving the date, number, name of payee and amount. If such schedules could be obtained it would be a comparatively easy matter to compare the checks as paid with the schedule. It is only in this way that your office could secure absolute protection against the possibility of a cleverly raised check passing completely through the work and not being discovered until some time afterward. Your Statement Section requires a month or more to prepare and mail out to the disbursing officers the statements of checks

paid, and under your present procedure it is not until the disbursing officers have received these statements and checked them to their records that they are in a position to notify you of any raised checks not discovered by your examiners. The fact that many of the disbursing officers are not experienced in the handling of checks and do not appreciate the necessity for prompt action in such cases, adds a further element of danger to this situation. I understand it is frequently three or four months before some of the disbursing officers get around to checking up the statements of their accounts.

"I appreciate that any changes in this respect would be quite revolutionary. It would not only affect your own office but also that of the Auditor for the Treasury and for this reason it may be rather difficult of accomplishment. I did not, therefore, mention it in the attached memorandum. If it were possible, however, to maintain such a register of all checks issued by the disbursing officers, the work of examining checks could be done with less experienced clerks and much more rapidly. If your office could be

52

placed in the position of paying these checks against a schedule of their issue, there could be no question regarding raised checks or other alterations, or indeed the signature. I believe this would be a very desirable thing to do if it could be accomplished. In any event it would require considerable time to bring this about, but in the meantime need not prevent the expediting of the work in other respects. "

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The Chairman. I have attached to this a long memorandum in relation to the actual procedure in the department in dealing with these checks, which Mr. Rounds indicates to me could be very much shortened, expedited and simplified and the cost reduced. I do not know that any action is required in this matter. The previous resolution covers the previous item, because it is an illustration of what the work would accomplish. Is there any discussion? If not, we will pass it without action.

- (a) As the issuance of Treasury (war) savings securities is an exceedingly expensive method of procuring funds and such securities accomplish very little toward the encouragement of thrift and as Liberty bonds of later issues are readily available in denominations of \$50. and \$100. at market prices, yielding an interest rate much in excess of War Savings securities, and as redemptions in the latter class of securities appear to be heavy, should the War Savings Organization activities be continued.

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The Chairman. Governor Fancher, you and Governor Calkins are the proposers of Topic III - (a) in relation to the issue of war savings securities. This matter was discussed quite fully last night. Do you wish any further discussion of this matter?

Governor Calkins. There is just one situation that I think should be discussed. I think we are all convinced that the war savings organization is past revival, but we are now about to undertake to carry out the operations of the fiscal departments at the expense of the Federal Reserve Bank, and it is proposed to make the war loan organization a part of the fiscal departments, in other words, we are to pay from the income of the Federal Reserve Banks for carrying on the work of a propaganda organization, and I do not think we have any right, moral, legal or otherwise, to do it. I think that ought to be ironed out in some way.

The Chairman. Governor Calkins, in a talk which I had with Mr. Gilbert before the meeting, he rather indicated to me that what he had in mind was to arrange that the fiscal agency departments of the Federal Reserve banks, after June 30th, should act really in three prin-

3 ciproal capacities only, one was to distribute the securities to the organizations which had been created through the Treasury Department, the war savings department, to simply issue and deliver them; second, to make such sales of the war savings certificates as seemed desirable directly by the Federal Reserve Bank to existing organizations which were regularly buying these securities in the respective districts. Now as to those two points it seems perfectly clear they are not different from the ordinary, normal fiscal agency functions which we are performing. The third rather ministerial duty he wanted us to perform was simply to distribute in the respective districts the literature prepared in Washington, which I gather would be a rather small matter, and he seemed to indicate it would be a rather small matter, and it is that particular part of the work that you think was ultra vires possibly?

? Governor Calkins. I am afraid, Mr. Chairman, that is the very small item to which I object. My opinion about literature furnished by the Department in Washington here is an unfavorable opinion. The question really is shall Federal Reserve Banks continue to dis-

4 tribute that at their own cost, believing as most of us do that it is useless--"useless" is a mild word in that connection. Mr. Gilbert indicated last evening, in a conversation with me, his belief, his expectation, perhaps,--I do not want to quote him here, but only the substance of what I understood him to say, that it was the expectation that the War Loan organization would finally expire in the near future. It seems to me that the time for it to finally expire is when the appropriation is exhausted; that would be June 30, 1921, and I should like to see it discontinued as of that date, as far as Federal Reserve Banks are concerned.

The Chairman. You would not go so far as to abandon the actual distribution of the securities issued?

Governor Calkins. Oh, no.

The Chairman. Simply the propaganda work?

Governor Fancher. It is the third point you bring up, Mr. Chairman, that we object to, and our bank. I think in the matter of distributing propaganda, might it not be possible for a mailing list to be furnished to the proper officer here, or one in charge of this work, and let the literature which they want to be distributed be distribu-

ted direct from here? That was a suggestion I made in answering Mr. Gilbert's inquiry some six or seven weeks ago. Why pass that through the fiscal department of the Federal Reserve Bank, where we simply act in the distribution of the securities, in the distributive certificates.

The Chairman. Was a resolution offered to express these views?

Governor Norris. I would like to ask a question on that. In the distribution of that literature do we have the franking privilege?

The Chairman. I am not sure.

Mr. Harrison. At the present time it is distributed under the letterhead of the Government loan organization, which is franked, and the understanding was that if we should take over on our fiscal agency functions of this war savings propaganda work, we would continue to use the letterhead of the Government loan organization and thereby obtain the frank. I think that in the New York district there would be considerable feeling against having all of this propaganda literature distributed direct from Washington, because there is certain of it we

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want to weed out.

Governor Calkins. If we are not responsible for it, we are not responsible for weeding it out. We are not handling it, do not want to be responsible for it at all.

Governor McDougal. In order to get this matter before the Conference, I would move, in view of the fact that Congress has failed to appropriate the necessary funds for the conduct of the war savings activities beyond the period of June 30th next, that if the enterprise is to be carried on beyond that date, the Federal Reserve Banks undertake only to act as distributing agents for the securities sold.

Governor Calkins. I second that motion.

Governor Seay. Do you think the Secretary gathered a definite impression from our discussion yesterday? It was rather in my mind that he did not.

The Chairman. Well, it was rather an inconclusive discussion. We did not agree on anything here, Governor Seay, as I recall. Mr. Gilbert expressed himself as having gotten some information, and seemed satisfied to leave it that way, but it is rather more indefinite than is usual in our proceedings in these meetings.

57

Governor McDougal. That motion would of course leave the matter of the character of the propaganda work to some distributing department in Washington, which of course I had in mind yesterday.

The Chairman. You have heard the motion. Is there any discussion?

(The motion was put and unanimously carried).

(b) Should the Government Loan Organizations in the several banks be transferred to Fiscal Agency Functions.

The Chairman. We took no action of like character as to Topic III (b). Governor McDougal has just received the following telegram from Mr. Heath:

"Indiana, Iowa and Wisconsin are paid \$10.00 for reports of each examination of State members. Michigan charges 30 cents per page where two copies are furnished, and 20 cents three copies, one of which is for the Detroit branch. So far Illinois has assessed each bank examined whenever charges made for furnishing copies to this office."

(At this point the Comptroller entered the Conference room).

18

The Chairman. Gentlemen, shall I state to the Comptroller the matter that we have been discussing? Mr. Comptroller, Governor Harding yesterday conveyed to this meeting the substance of your letter to him, dated April 7th, and the contents of Mr. Davenport's memorandum in regard to reimbursement of certain expenses of the Comptroller's office, and the matter has been discussed at length. We wish you could have been here when the discussion started, but possibly the result of the discussion will explain the substance of it all.

We find that the Governors of the Reserve Banks feel quite strongly that the payment of any fund, of any money by the respective Reserve Banks, simply for the purpose of making good a deficit in the expense account of the Comptroller, who has just retired, would be difficult to justify from the standpoint of the provisions of the Federal Reserve Act.

The Federal Reserve Act, as you know, contained a rather mandatory provision that the expense of conducting examinations shall be borne by assessment upon the banks examined, and this would appear from the information which we have to be a reimbursement of

expenses of examinations which we have conducted in the past, which have already taken place and for which assessments have not been provided. The meeting did feel, however, that if the Comptroller felt that the work involved^{and} the expense involved in preparing copies for the Reserve Banks of reports of examination justified a charge, that they were willing to pay whatever charge was assessed by the Comptroller for the report which they actually received. Of course, there is a very strong feeling, and has been for a good many years, that the reports furnished heretofore by the Comptroller, being incomplete inasmuch as the confidential portions of the report were almost misleading, that is to say, a report that was so incomplete as to conditions brought to the attention of the Reserve Bank, they were in the position of being deprived of notice of conditions which it was essential they should have, and with a view to all of these facts a resolution was adopted, and the meeting strongly expressed the view that anything in our power that was feasible to do to facilitate your purposes we wanted to do, and yet there was this reluctance of dealing arbitrarily with an existing deficit in the

510

past, and we thought we should not express our views finally and conclusively without first having an opportunity of a conference with you with a view to mutual aid, if you please.

Mr. Crissinger. I am quite willing to state the position we have taken, if you will give me a moment, Mr. Chairman and Governors. I came here rather unexpectedly, by the command of the President. When I arrived to take possession of the office I found a good many things confronting me, and a situation that, the way we do banking down where I come from, that is appalling in a great many places. I find that this fund that ought to provide examiners, when I tried to put in examiners, was approximately \$100,000 short. That is, we are that much involved without any money to pay, and the fact is that the examiners have not had their expense accounts paid, as I understand from the examiners' bureau, since the 1st of January. We have succeeded in keeping up the salaries, but the expense account has not been paid. That condition came about because Mr. Williams, through one cause or another, failed to make about 1700 examinations last year, which, if they had been made,

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would have furnished a fund to have taken care of this situation.

I understand, and it is only an understanding that I have from the examining department, that the result of the failure to make examinations grew largely out of the fact that a great many of the best examiners were taken to Europe, South America and foreign countries for the purpose of examining branches of a New York Bank, which materially cut down the productive work here at home. They did not have examiners to take their places, and these examinations largely were not made. We are going to be short of examinations this year unless we can put on more examiners. I think the Chicago District is very much back, away behind, something like 400 examinations now. There is only one district, the Ohio report district, which seems to be out of the woods and in good shape. Hence it is important that if these examinations are to be made as they ought to be made, and we are to have any benefit from them, they ought at least to be kept up so that we shall have at least two examinations a year.

I do not know personally, except what I have heard

from Governor Harding, but I understand that you have not had the full reports from my department. I want to assure you gentlemen that so long as the department lasts and I last with it--I do not know how long that is going to be--but I want to furnish you men with all the information I get. That is the only way, if these examinations amount to anything to you and you are expected to help out in the situation, I want you to feel that anything I get over in my office pertaining to any bank is going to be furnished to the Governors of the Regional Banks for information, whatever we have.

Of course, I recognize the legal phase of this application that was made up by my examiner. I simply sent it over because our examining force thought that something ought to be done, and I wanted to get it before the Federal Reserve Board, and this Board of Governors. I think we are probably quite right in taking the position, from a legal standpoint, that you have no right to go back into last year to make up some deficit in that department. But I do feel that if, as I contemplate, these reports are furnished to you, everything that we have in our office is furnished to you men, your Board,

013

that it will be of some value to you, and that in that respect there ought to be a fair remuneration fixed for the services rendered in order that we may not only give you what we have now, but that we may better the service. I hope, if I may be permitted to stay here long enough, to really get up a service that will be worth something, not only to our own department over there, but to the various Federal Reserve Banks. What that ought to be I am not prepared probably to say definitely, except this, that whatever is arrived at it is not the purpose of our department to shoulder something on to the Federal Reserve banks that we ought to take care of ourselves, but if we arrive at something that is more than we receive, or will furnish more money than we ought to have, why we would be perfectly willing to reimburse and cut down the charge so as to at all times keep it fair and in proportion to the information that is furnished. The examiner said \$5.00 a report, but that probably is manifestly unfair to the small banks, as compared to the large banks, so Governor Harding suggested a sliding scale, and I think perhaps I had better read what he thought about it. It is as follows:

"Banks from \$25,000 to \$50,000, \$5.00 a report; banks from \$50,000 to \$200,000, \$10.00; banks from \$200,000 to \$500,000, \$20.00; banks from \$500,000 to \$1,000,000, \$30.00; banks from \$1,000,000 to \$5,000,000, \$40.00; banks \$5,000,000 and up, \$50.00".

I submitted this to Mr. Kane, the deputy ^{comptroller}, just a few moments ago, and he thought those charges were probably a little excessive, that is, that they are carbon copies and it possibly is not worth that much to make a carbon copy. In this way it would be justified, or rather the only way it would be justified would be upon the theory that you are jointly interested in the information that is to be obtained, and that in that respect you are paying not only for the carbon copy, but you are paying something toward the services of the man who is making the examination.

Now I do not know what that plan would yield, I have not any idea, I have not had it long enough to tell you what that would yield, but I think the department could figure out about what it would yield during the year. If you would like to have that information, I will have the Department figure it out and bring it or send it over for

b5 you, but that is the notion of the Governor. That may have to be scaled down. I want you, however, to feel that whatever we get out of this examination will be turned over to you, and in that respect it might save you from making a good many examinations yourself if you had the real information that we have. I looked over some of the other sheets, and some are rather interesting and some do not contain much information. I am at your service, whatever you gentlemen would feel was right about it.

Governor Van Zandt. May I offer a suggestion? You made the statement the charge would cover not only the preparation of the carbon copy, but would pay in part for the service in getting it. Would it not be a little bit better to say that it pays not only for the carbon copy, but in part for the information contained therein, rather than for the services of an examiner.

Mr. Crissinger. That probably would be better. I probably should not have stated it exactly as I have here.

The Chairman. Mr. Comptroller, I think in order that the particular attitude which has developed in this matter in the minds of the Governors may be understood, I ought

to explain a little about the history of some of these matters. The Federal Reserve Act provides, as amended from time to time, that after the earnings of the Federal Reserve banks are divided and a dividend of 6% shall be made, as you know, to the stockholders, and the remainder of the profits divided, 10 per cent retained as surplus and 90 per cent paid as franchise tax. That raises this unescapable question--the extent that expenses are incurred by the Federal Reserve banks, other than in the conduct of normal business contemplated by the statute, to that very extent of course the amount of the tax paid to the Treasury is reduced, even in cases where we are acting as fiscal agents and incur expenses or liabilities which the Treasury, under the rules or under the statute, finds itself unable to reimburse to us, nevertheless if we start them off under our profits they come out of the revenues of the Government just the same. That great fund of earnings of the Reserve Banks naturally appears to be an easy escape from these difficulties of disbursement, and we have relied, in conducting the fiscal agency operations of the Treasury, upon the brief language of the statute, which in effect is that the

17 Secretary of the Treasury is authorized to require Federal Reserve Banks to act as fiscal agents of the United States. There is nothing said in the statute about compensation for the work done, nor even about reimbursement of the expenses incurred. Just now this wave of economy is sweeping over the country and affecting Congress somewhat, and we have been confronted by this. Last summer there was a deficiency in the production of Federal Reserve notes, and there was no appropriation made by Congress to increase the facilities of the Bureau of Engraving and Printing, consequently Reserve Banks expended over \$500,000 for that purpose. This last Congress failed to make appropriations to reimburse the actual out-of-pocket expense of the Federal Reserve Banks, and it is evident that after the present appropriation, which expires on the 30th of June, that we shall be called to pay, without hope of repayment, some \$3,500,000 next year for expenses of that character. It has been discovered that there have been some thefts in the Bureau of Engraving and Printing of incomplete Federal Reserve notes that have been put into circulation. The amount is estimated at possible \$20,000.

The legal question as to whether they are notes of the Federal Reserve Banks or not, whether they constitute a liability on them, has not been determined, but the attitude of the Treasury is that we shall have to assume liability for those notes, and we have no fund out of which to make good the loss. There are now bills pending in Congress, as you know, to cut off your head, and the plan contemplated by that bill is that all expenses of examination shall be paid by the Reserve Banks, and this question has a cumulative effect upon the minds of the officers of the Reserve Banks.

We went through some lean years when we were hard put to to earn our expenses, and that situation may arise again and we may some day have to go to Congress for relief, and there is naturally a concern in the minds of all the Reserve Banks as to the extent to which their earnings may indirectly be appropriated without their being able to control them.

On the other hand, I can assure you, Mr. Comptroller, from my knowledge of the attitude of the men who attend these Conferences, that in this situation, where you need additional examiners, for instance, we in our bank, and

19

every Reserve Bank, will furnish you with men from the banks to the extent of our capacity to do so, to assist in examinations. There is ample authority in law for doing that. For relief of the situation in New York, where, for instance, no bank examination has been made in the City of Buffalo for eight months, according to my information, we would much prefer to have those examinations made at this particular time, even though it involved the assigning of a lot of our men to that work, and I have no doubt Governor McDougal, where a similar situation exists, would be glad to do that in Chicago. In fact, that is the attitude of this meeting. We desire to do everything possible to facilitate the working out the bank examinations. The question of dipping into the earnings of the Federal Reserve Banks to pay an existing deficit, which the law provides shall be assessed upon the member banks examined, is the difficulty we are confronted with.

Mr. Crissinger. I think you are quite right on the legal point.

Governor Norris. There is one other point entered into to which you have not alluded, although I have no doubt

b2 the Comptroller has it in mind. I share to the fullest possible extent the desire to help the Comptroller's office in any way that is possible, but there is this point, that in so far as these expenses are put on us, that have been or ought to be defrayed by Congressional appropriation, that is in relief of the general funds of the Treasury, but at the same time that it is relieving the general funds of the Treasury it is diminishing our earnings, which go not into the general fund, but are specifically appropriated to a particular purpose, the reduction of the public debt, so that the use of our earnings for any purpose that is not legally or morally justified is not only affecting those earnings, but it is diverting money which under the existing legislation is specifically pledged to a particular purpose and using it in relief of the general fund of the Treasury and in relief of Congressional appropriations.

The Chairman. Mr. Comptroller, we have passed a resolution. I do not know whether it has been brought to your attention or not.

Mr. Crissinger. Yes.

The Chairman. Is that agreeable to you?

21

Mr. Crissinger. Yes.

The Chairman. Is that attitude going to make it possible for you to work out the plan you have in mind?

Mr. Crissinger. I have raised, I might say for the benefit of the Board, the percentage 2-1/2 to 3 per cent in the hope that would help us out, and it will to a certain extent.

The Chairman. Three per cent on the thousand?

Mr. Crissinger. Yes. You know the assets are kind of slipping away, they are not as much as before. I have not that resolution at hand just now. Whatever it may be, I do not ask this Board of Governors to do anything that is not absolutely proper for them to do.

The Chairman. There is one point which we have not covered in the discussion, and that is when these payments should be made, and this is a running account, so to speak. As far as we are concerned in New York, I have no doubt it could be arranged for us to have a confidential report of examination made, say since the 1st of January, or any recent period. We could make a substantial payment at once, and in advance, so as to relieve the situation.

Mr. Crissinger. You may have any reports we have.

p22

The Chairman. Is there any objection on the part of the meeting to working out the plan which is contemplated by the Comptroller's suggestion and by the resolution by which he may be put in funds more promptly than the rate at which examinations are made? That is an important matter with you?

Mr. Crissinger. Yes, that is really important. These men really ought to be paid.

Governor Calkins. Mr. Chairman, if the confidential reports, which should be applied to the reports already delivered to the Federal Reserve Banks, are forwarded, it could be paid for immediately.

Mr. Crissinger. I would be glad to furnish them. Of course, that will take quite a little clerical work, to get them out, and if there are any reports in particular that you want right away, if you would make a list of such reports I would be glad to have them gotten out in advance; that would facilitate the matter and it would also help us in the department in getting only such as we really require and want. We will give you any and all of them that you want.

Governor Fancher. Are these reports held in the

23 office of the Chief Examiner?

Mr. Crissinger. Yes.

Governor Fancher. I mean in Cleveland our Chicago examiner has a copy of the report, too?

Mr. Crissinger. I suppose so.

Governor Fancher. I have been told there was a little bit of difficulty.

Governor Seay. You do not think they keep them?

Governor Fancher. If that is true, we could assist and go back to the 1st of January and very soon get that data and complete our reports that have been furnished us since the 1st of January, and then pay for them.

Governor Seay. It is my understanding the examiners have to forward those confidential reports and not retain a copy.

The Chairman. That is not the case in our district, because the Comptroller's instructions to the Chief Examiner in New York is that all we have to do to obtain access to the confidential report is by sending someone to the office.

Governor Fancher. If they were instructed to furnish those, I think the information, so far as pertaining to

24 our bank, we could assist and readily get and bring out reports that have been furnished us since the 1st of January complete to date.

Mr. Crissinger. That would facilitate the matter, I think, very materially. We could make that kind of order.

Governor Miller. Why might we not let the Comptroller estimate the amount of our actual contribution to the office under this plan and pay it to his office six months from January 1st to December 30th at once? That would relieve the situation.

The Chairman. I am not sure that it would.

Governor Miller. Well, that depends on how much it would leave.

? Mr. Crissinger. Well, almost anything would help. I am bankrupt.

The Chairman. So far as I am concerned, I would be quite willing to leave it entirely to you to work out the program, the amount of payment to be made, what period of year it should cover, and assist in getting the confidential reports copied, if that is necessary, by sending men for the purpose to the examiner's office, and

25

let the plan of procedure as to the rate of payment depend upon your necessities rather than upon your necessities rather than upon our convenience.

Governor McDougal. Is that for the current year?

The Chairman. For the current year.

Mr. Crissinger. I will then have order made to the Chief Examiner.

Governor Fancher. We could very quickly bring our reports up to date.

Mr. Crissinger. I will have my examining department figure out about what this yields, then we can tell and let you have the benefit of that information by this afternoon.

The Chairman. We shall be very glad to have you stay, sir, if you have time.

Mr. Crissinger. I really have a full man's-size job over there now. I have two failing this morning.

GRANTING OF NATIONAL BANK CHARTERS

? The Chairman. Governor Calkins has raised a question that has been agitating all of us for a good while past. You will recall the procedure in authorizing National banks, as a matter of routine, heretofore has called

for a report, supposed to be preliminary to the granting of the charter by the Federal Reserve Agent of the respective districts as to the wisdom of granting it, and Governor Calkins has frankly asked the Comptroller if he would explain his attitude in regard to the charter of National banks where some disapproval is expressed by the Federal Reserve Bank as to the wisdom of granting the charter. Is there any discussion preliminary that will elucidate the question, preliminary to asking the Comptroller if he feels willing to make a statement on that question?

Governor Calkins. I should like to cite one case, an extreme case, to lay the ground for the discussion. Application was made for charter for the First National Bank of Bay Point, California. The investigation was made by the Federal Reserve Agent, which showed from every possible point of view the undesirability of granting the charter. The report was made accordingly, and the charter was granted, and an examination of the bank a short time before I left disclosed the fact that practically all of the loans made by the First National Bank of Bay Point, California, were to borrowers in the

b27 State of Montana. I think that, briefly, is enough to afford ground for discussion of the advisability of that procedure.

The Chairman. I should like to cite another illustration, which is a more extreme case than that, Mr. Comptroller. Application was made for granting of charter for a National bank in the section of what we call The North Woods, the Adirondacks. We investigated it, and recommended that the charter be not granted. The enterprise was granted by a New York man, who had been a merchant, who went to the Adirondacks for the benefit of his health, and the bank was actually being organized at that time in order that money might be deposited with this bank, principally from New York, as I recall, and the money invested in turn in commercial paper which bore a high rate of discount, and the entire amount of that commercial paper immediately discounted at a profit with the Federal Reserve Bank of New York, and they did get a charter, and the operations of that bank were conducted for some time. The only fly in the ointment being that the paper proved to be bad paper and they were subsequently closed. There was no more justification

b28

for the granting of a charter of the bank up in the woods there than there would be for a bank in the Sahara Desert, and we have had more than one report of the granting of charters which did not appeal to us and to other Reserve Bank managements as wise or sound or justified, and it is that type of cases that we are anxious to deal with, if possible.

Governor Calkins. We have a similar case, Mr. Comptroller. In the particular case I have in mind, our Federal Reserve Agent recommended very strong^{ly} that application for charter be denied, and gave his reasons. His recommendation was not acted upon, the bank was started, and the conditions which we prophesied developed, conditions under which it was pretty clearly demonstrated that the bank was organized for the direct benefit of the promoters, and that they were borrowing from the inside and from the outside both, and conditions are very unsatisfactory at the present time. There are other cases.

Governor Seay. It might be appropriate to say to the Comptroller, too, that the Reserve Bank of Richmond is having some trouble which approaches the critical

b29- with certain small banks, whose organizations they opposed. That is the real trouble.

Mr. Crissinger. I want to say that that feature of the office presents probably the most difficulties that I find in it. I had on the desk last evening a bank that I had declined to charter; I do not mind telling you where it is from, it is up at Boston, a \$600,000 bank. They want a charter. I declined to grant that charter the other day, and it was on the recommendation of the Federal Reserve Agent, our chief examiner up there, and some outside information, but they immediately sent down a list of stockholders. I declined to grant the charter because of the reason that it was and is an out-and-out borrowing affair, probably; a man by the name of Mitchell, who had caused the wreck of half a dozen State banks and trust companies up there, was to be interested as a stockholder, and we thought maybe he was going to do the same thing again. But this bank was recommended by a prominent capitalist, and last night or yesterday they had a delegation down from Boston asking that this business be opened up and renewed, and they presented a list of very, very substantial stockholders, who were

to take part in that bank. We have advised against it, and all I could do in that matter was to send out our Federal Reserve Agent and our Chief Examiner to make another report on it. So far as the list of responsible people is concerned, it look rather ridiculous to turn it down in a place where they have so much available capital as they have in Boston. That is one illustration.

We have one now from Anchorage, which I am going to be free to say I granted over your objection. I am going to tell you why I did so. They have two banks at Anchorage, two \$25,000 banks . They have very liberal deposits, but in the record which I have appears this statement from very substantial people, that these banks are not trusted, and I look^{-ed}/at a statement and I find they have been running with the amount of deposits they have and have no surplus. In other words, they are taking out of the bank everything they can all the time, and it is enough to make the criticism that they are not to be trusted more than substantial with me for that very reason, so I looked over the record and it has been held up for a year, I guess,

b31

or something like that, and I find John Barton Payne, and a great many very good men who say that money is being held out of these banks because they do feel that they are not what they ought to be. That being the case, I granted the charter even over the objection of the Governor. I just wish to be perfectly frank to say why I do these things, but I also wish to say that it gives us the most concern of anything we do over there. Then I had the further reason for granting that charter, because Alaska is just in the opening. Really if the Government can be of any assistance in lending its aid through a National bank, some substance, some force in the community, it looked at it as a matter of encouragement in that neighborhood, this charter should be granted. Now I may be entirely wrong about it and it may develop that it will be wrong, but behind Anchorage is a great mining country and prospects of great improvement, and for that reason I thought we ought to grant it.

Governor Wellborn. Are those State banks?

Mr. Crissinger. I think so.

Governor Calkins. No Alaskan banks are members of the system. I think, Mr. Comptroller, your reasoning is

b32

beyond criticism in this case. I am not familiar with the report that was made in that case, at least I do not recall it. I think your information to the effect that those banks are not trusted is possibly correct, and that the reason which you have suggested, but not stated, is that they have been milked up to the last drop, one of them at least.

Mr. Crissinger. I want to feel this way about it, and I should like to entirely cooperate with suggestions, but very frequently I see these applications coming in, with everybody else wanting the bank. Now I am frank to say that with the Boston bank everybody was against it. I am going to have to open it up and have another hearing about it, with just the feeling that there may have been some injustice done to the parties, who probably were not going to have this man in the bank at all; he may be a stockholder of the bank, but probably will not have anything to do with the management. I think a better way to handle it, when we do not agree with the Federal Reserve Agents, that we probably ought to again take it up with them with the view to try to iron out, if possible, what is the proper thing and what is fair

to do. I would be very glad to do that. I notice that has not been the practice.

I want to call your attention to one small bank down in, I think, in the Kansas City District. I want to give you my reasons for granting it, and I think it was against your recommendation, Governor Miller.

Governor Miller. Yes sir.

Mr. Grissinger. It has not gone out yet, because the Secretary of the Treasury has to pass on it, and I am frank to say the Secretary of the Treasury and I, in the first instance, did not agree about it. He did not approve my recommendation. It is this kind of a situation. It is down at Boley, I think, I believe they have an entire colored town down there, every citizen in the community, as I understand it, and they have a bank down there of \$25,000, a State bank, and that for the present, to open another bank there just at the present time probably would not be the proper thing to do. I agreed, and I so stated to the Secretary of the Treasury, but if you will remember, if you looked over the list, there was a list of prospective stockholders that was a marvel to me, that a lot of colored people should accumulate that

14 much money, should be so prosperous. I guess about thirty of them were running up in the neighborhood of \$200,000 in the value of their property, their holdings, and we had the examiner go down there and look them over and he comes back and says the report, or their claim of what they are worth, is very conservative, that they are all worth a little more money than they are giving out. As I say, it was a colored bank, here were a lot of colored men wanting to get into business, who had been prosper^{ous} and who really needed encouragement, and I approved it solely on that ground. Here was a lot of fellows who claimed they were not doing their business with this other bank, and here was a lot of fellows that had enough money themselves to make a good bank, and they needed the encouragement, so I granted that over your objection, Governor.

Governor Wellborn. Was the other bank owned by white people?

Mr. Crissinger. No, by colored people, but they apparently did not have the confidence. The cashier in the other bank is to leave the other bank; that is the theory of the organization. For some reason they are not prospering. That bank has not a very big deposit, only about

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\$100,000. They claim they are taking their money to other institutions.

Governor Miller. Without referring to this particular case, our records will show that our Federal Reserve Agent has, out of 17 applications to start small banks, reported unfavorably on about 15 of them, and every one that he has reported on unfavorably has been granted.

Mr. Crissinger. I am giving you the position that the Comptroller finds himself in. That just happens to be one in your territory.

Governor Miller. And further, Mr. Comptroller, nearly every one of the banks that he recommended that charter be denied was organized in communities that could bring nothing more to the two or three banks, including itself; it would simply bear down and make mediocre two other banks, or one other bank, that was doing a pretty good business in the community. That is the difficulty in the organizing of a multiplicity of banks, it simply divides the business and makes three weak banks instead of two reasonably good banks.

Mr. Crissinger. We have turned some down since I

have been over here. But I am telling you the reasons that come to our department that make it almost impossible sometimes to turn them down. I think very likely, however, where there is a disagreement of that kind, it ought to be further discussed.

Governor Miller. have you any further negro banks?

Mr. Crissinger. I do not know. There was one in Alabama that failed.

Governor Miller. The records show that there never has been a negro bank which has succeeded.

Governor Seay. You have alluded once or twice to the substantial nature of stockholders in certain institutions. I think I am right in saying that we find that the trouble arises in the character of the promoters, the organizers, the operators of the bank. Some men who are who are incapable in that respect and who have experience somewhat of the character that you mentioned in the Boston case are very able persuaders, and we lay greater stress upon the promoters of the institution than we do upon the character of the shareholders.

Mr. Crissinger. That is gone into very carefully, whether the promoters are just going to organize the

37

bank to try to sell it. I turned one down yesterday which I rather suspected was just organizing to try to unload it on somebody, to sell it. Of course, they do not all get through, but some of them do get through. There is a great demand for banks just now, for some reason--maybe they want to get the money themselves, maybe they are borrowers, maybe there is something to that. I should be very glad, of course, in a case of that kind, where there is a disagreement, to take it up and see whether we can work it out, and that is what I did in this Boston bank, sent back and told them to look into it again. I can readily see in many places there should be no new banks started at all, because they are liable to do more harm than good, and where banks are over-extended they should have help rather than more banks.

The Chairman. Mr. Comptroller, if we can establish, as we can, the most intimate relations with your office in these matters, there will not be many cases where there will be disagreement in the last analysis, I am sure.

Mr. Crissinger. I want you to feel that way about it, because I really do feel there are a lot of things

that have happened that ought not to have happened, and it is just by lack of confidence, or lack of cooperation between the two departments. That is very true, and I personally feel a great National bank system cannot be as successful as it ought to be without having complete confidence and cooperation of the Federal Reserve System.

Governor Van Zandt. In that connection, I want to say that some of us are very, very pleased to welcome you as Comptroller for the reason that we have several members of the office of the Comptroller, examiners, that are not friendly at all to the Federal Reserve System. That has come to my notice on more than one occasion.

Mr. Crissinger. That possibly is true, and that may have grown out of the manner in which they were appointed, something of that kind, favoritism, or something of that sort. I do not know. Of course, I do not encourage anything of that kind myself. I think we really need cooperation and need it very badly just now. We have got to do something, there has got to be a lot done, and you men have got to help do it. There has got to be a lot of watchful waiting in a lot of these situations.

b39

Take these farm situations. They will work out if the Federal Reserve Banks will give them only such help as they really have to have, and wait. That is just the way it looks to me, otherwise I do not know where it is going to end. If the Federal Reserve Board puts its foot down on this firmly, a lot of banks will go to the wall. That is the way it looks to me after a month's time in looking it over.

Is there anything further, Mr. Chairman?

The Chairman. Are there any other matters, gentlemen, you would like to discuss with the Comptroller?

Governor Calkins. There is one further question, Mr. Comptroller, which you may not be prepared to answer, and that is as to whether the Federal Reserve Banks may hand down information received from the Comptroller's office to their branch managers. The former Comptroller, I think, always took the position that that information could not be furnished to anyone. We have five branches in our district and it is essential that the managers should be as well informed regarding the condition of the banks in their district as anyone else.

Mr. Crissinger. My holding about that would be

540 -

that if the information is furnished at all it is furnished for the benefit of the whole bank.

Governor Calkins. We should like to have permission to furnish the substance and not the information.

Mr. Crissinger. That would be my notion about it. It would not be worth anything if you kept it in your vest pocket.

Governor Seay. The position is the Federal Reserve Board is held responsible for the Federal Reserve Banks. That opinion was given to me yesterday, a repetition of what we knew to be their position.

Mr. Crissinger. We expect to hold them responsible.

(c) Informal discussion on Subtreasury functions as they affect Cash and Fiscal Agency Departments, so that the banks which have not yet assumed Subtreasury functions might have the benefit of those banks which have.

The Chairman. The last item on the program, relating to fiscal agency functions, which is item III (c), was suggested by Governor Van Zandt. Will you elaborate on it, Mr. Van Zandt?

Governor Van Zandt. The elaboration that I de-

b41 sired when I asked that that topic be put on there is pretty well shown by the topic and the title, that is, in so far as the Federal Reserve of Dallas is concerned, and it may be the same condition on other banks that have very recently assumed subtreasury functions; we should just like to know what the duties are that they have to perform that are outside of the former activities of the fiscal agency department, and the manner in which those duties are performed.

The Chairman. Who will answer that inquiry of Governor Van Zandt? In New York, Governor Van Zandt, I believe the principal function which we have assumed over those, or in addition to those which we were formerly performing, is in the matter of handling coin. That is probably the largest amount of work.

Governor Van Zandt. You mean handling coin for the Treasury?

The Chairman. Yes. We handle the coin now as a part of the general fund on deposit with the Federal Reserve Bank. There is not a very great change involved in the handling of paymasters' checks over those that formerly prevailed. We were paying most of the checks

b42

anyway.

Governor Van Zandt. This point occurred to me. The subtreasuries carried the accounts of some of the disbursing officers. For instance, the reserves of National banks, their drafts in payment of dividends and so forth are all drawn on a subtreasury.

The Chairman. On a specific subtreasury.

Governor Van Zandt. Were formerly drawn on the subtreasury of New York, in two instances in which I was receiver of a National bank, and I was wondering whether arrangements had been made with the National banks as fiscal agencies to carry accounts of reserve National banks, or other disbursing officers of the Federal Government.

The Chairman. Not in our district.

Governor Calkins. I think all those accounts have been transferred to the Treasury of the United States.

The Chairman. That is my understanding.

Governor Calkins. That there were no disbursing officers' accounts elsewhere except in the office of the Treasury.

Governor Seay. Is not that fact set forth in the circular in respect to their duties?

43

The Chairman. I think you will find it all specified in detail, Governor Van Zandt, in that circular.

Governor Seay. Inasmuch, Mr. Chairman, as there is possibly some similarity in the conduct of the sub-treasury between Richmond and Dallas, I would say that the operations conducted by our branches are very fully set forth in our circular letter on subtreasury functions, which the Dallas Branch has. If you ask for exchange of experiences, you will find a detailed description of the obligations which we assumed which we did not conduct before.

Governor Van Zandt. You took over a subtreasury. We had no subtreasury to take over in our district.

Governor Seay. You will find what the duties to be performed are, set forth in that circular, and inasmuch as we were given to understand it was desired that the Federal Reserve Banks perform the same duties which subtreasuries had performed for the public, we assumed to do the things which the subtreasury in our district had performed, and I suppose you would be called upon to do such things as subtreasuries in

b44

other districts have performed.

The Chairman. Might I inquire, Governor Van Zandt, without embarrassing you, if your question is asked with the possibility of getting a little additional deposit down there in Dallass?

Governor Van Zandt. Why, of course.

The Chairman. I do not believe you will get any deposits except some chicken-feed coin.

Governor Van Zandt. Not for the reason of the deposit, but because I want to have my hands on some money, which
?? I am trying to establish a preference against.

The Chairman. I see. Mr. Harrison called my attention to the fact that our deposits were increased \$3,000,000 by minor and subsidiary coins.

Governor Seay. Which you would not be able to count in your reserve.

The Chairman. You would not be able to count it in your reserve, but it adds to our deposit liability.

Governor Van Zandt. It does count in your reserve against deposits, does it not?

The Chairman. No, I believe not.

Governor Seay. Subsidiary coins.

45 Mr. Harrison. Subsidiary coins are only lawful money upon coinage. Silver is not lawful money except in very limited amount.

The Chairman. It is only legal tender for small amounts.

?? Governor Morss. We got so much it was breaking down the vaults and cluttering up the street.

The Chairman. Does Governor Van Zandt wish some action taken on this topic?

Governor Van Zandt. No. I will send a man around to some of the bankers that have been operating.

The Chairman. Come up and look us over.

Governor Van Zandt. Your experience would undoubtedly do us very much good.

Governor Wellborn. You had better send somebody down to the New Orleans branch. They have been running a sub-treasury down there for years.

The Chairman. Gentlemen, Governor Van Zandt desires no action on this topic, but Mr. Harrison calls my attention to the fact that we have not actually and finally disposed of topic III (b), raised by both New York and Chicago, as to whether it is desirable that the Federal Reserve

546

Banks should transfer the remnant of the Government loan organization to the Fiscal Agency Department, or departments, of the Federal Reserve Banks.

(Several members responded "no".)

The Chairman. Our feeling is that within a very short time, if the resolution passed in relation to III (a) becomes effective, the only business left for the war loan organization will be to deliver the war savings stamps and the war savings certificates, and that we could well absorb that into the present Fiscal Agency organization and get it under better control.

Governor Calkins. Mr. Chairman, the action taken under III (a) is in effect a recommendation that the functions of the Federal Reserve Banks be reduced to that of distributing agents. If they reduce to that extent, there is no objection to their being transferred to the fiscal agencies.

The Chairman. That is the point I make.

Governor Calkins. But if it is proposed to transfer the Government loan organization "as is" to the Fiscal Agency, I am very much opposed. I think everyone else is.

47

The Chairman. That could be covered by the resolution to dispose of this, if that is the form in which you would like to present it. I believe the motion should come, in order of our form of procedure, from Governor McDougal. He brought up this topic.

Governor McDougal. I think the subject has been disposed of.

The Chairman. It has not specifically as a topic of the program, Governor.

Governor McDougal. The motion was that we act after June 30th only as distributing agents for war savings. We did not bring this question up in Chicago with the view to the question of disposal of our own war loan organizations. That was disposed of or abandoned immediately after the use for it was over.

The Chairman. This program was prepared with the effect of dividing the subject into two separate parts, the first, which we disposed of by a resolution, was strictly the function to be performed by the Reserve Bank, the second was the type of organization to perform the functions. We recommended in New York that when the functions are reduced to those of simply being distribu-

b48 tors that we transfer the remnant of the war loan organization to our Fiscal Agency Department in the Bank, believing that that is the best way to get control of it.

 Governor McDougal. You are also discussing now III (b), I think, and that is your question, that was the attitude of your New York Bank?

 The Chairman. I understood from the program you had also raised that.

 Governor McDougal. Not that point, no.

 The Chairman. Then you do not want to press this for conclusion. We will do it anyway, I think. It is a matter of interior organization only.

 Mr. Harrison. It is the only authority, I may say, of the Federal Reserve Bank to distribute securities of the Treasury Department, that is authority to act as fiscal agents. We felt, therefore, when the time came, that the Federal Reserve Banks should directly act as distributor of securities, of these war savings securities, we should act in the capacity of a fiscal agent and not in some sort of capacity such as we are acting now, where the organization is simply called a Government loan organization, but where, as a matter of fact, all

b49

the employes of that organization are Federal Reserve Bank employes, and where the officers in control of it are Federal Reserve Bank officers.

Governor Morss. Is not the distribution of stamps a fiscal agency function that we are performing now? The distribution of the stamps is propaganda now, is it not?

Mr. Harrison. The Treasury Department does not think so, because when they asked us to absorb the overhead charges of the fiscal agency functions they specifically advised us they did not include the overhead charges of the Government loan organizations, but so far as it involved distribution of the war savings securities. Our feeling was, therefore, when it comes to the point, we do act only as distributors of securities, we should act with reference to the war savings securities in precisely the same capacity that we do with reference to Liberty Bonds or certificates of indebtedness, that is, as fiscal agents of the Government. That was the only point involved.

The Chairman. I am responsible for that topic, so I offer as a resolution that it is the sense of the meeting, in order to conform to good practice and to the

letter of the statute, that when we become simply distributors of securities that those functions be conducted in our capacity as fiscal agents of the Government, rather than as managers of the war loan organization.

Governor Morss. I second the motion.

(The motion was put and unanimously carried).

The Chairman. This disposes of the portion of the program relating to subtreasury functions.

Governor McDougal. Before we proceed further, may I introduce again the subject of claims against the Treasury Department for bonds lost in mail robberies?

The Chairman. Is that on the program?

Governor McDougal. It is not on the program, but I think it is perfectly proper for us to discuss the subject at this point. The fact is, generally speaking, without going into details, are that we have been involved to a very large extent through daylight robberies of mail at Chicago depots on January 18th and again on April 6th; that there are a large number of banks involved, for the reasons that the bonds were enroute to them, and that notwithstanding the Treasury Department's statement that they

51

would waive the six months' requirement in regard to the registered bonds that were lost, three months have elapsed and no progress has been made, and I simply offer as a suggestion that under those circumstances it might seem advisable for the Treasury Department to organize an insurance division of the Treasury Department, whose duty it would be to handle claims for bonds lost in transit to and from Federal Reserve Banks, in accordance with well recognized practices in insurance companies.

You know, of course, at least as I understand it, the Treasury Department carries its own insurance on shipments of coupon bonds, and no insurance is carried in connection with the registered bonds, but the difficulties with which we are confronted come from the embarrassment which ensues to these member banks, whose bonds were stolen and which bonds, to a large extent, belonged to their customers, and they cannot make good, and it is liable to create serious difficulties.

The Chairman. It is the delay in dealing with registered bonds?

Governor McDougal. Registered bonds and coupon bonds also.

52

The Chairman. What action would you like to take?

Governor McDougal. I should like this Conference to consider suggesting to the Treasury Department that they organize a division of insurance with the view to handling these questions promptly and more in accordance with the customs prevailing with the independent insurance companies. These losses, if they had been incurred in connection with insurance under policies with outside companies, would be settled within forty-eight hours. As it is, we do not know when they can be settled, and I think there are perhaps other banks involved at the present time to a certain extent, and more may be the way things are going.

The Chairman. Would the establishment of an insurance section in the Treasury cure the difficulty?

Governor McDougal. I understand, I have a memorandum here, that under the present arrangements, the cases covering shipments of bonds lost in transit are handled by what they call the claims division of loans and currency, which is a section which handles claims for lost or stolen bonds. It would perhaps be beneficial if they would establish or organize a separate insurance

53 division to treat with and handle just such cases as we
are involved in. Something, however, should be done to
expedite the settlement.

viz The Chairman. Isn't this one of those cases
ols where the presence of a representative of the Federal
11 Reserve Bank of Chicago for a week might work out a plan
1145 with the Secretary of the Treasury to deal with the
4-B matter?

Bw Governor McDougal. I think very likely.

The Chairman. Governor McDougal, do you offer that
as a motion?

Governor McDougal. I do, yes.

The Chairman. Governor McDougal's motion is that
this meeting recommend to the Treasury that they estab-
lish a separate insurance division in the Treasury for
dealing with claims filed by reason of the loss, theft
or destruction of bonds, so that they may be dealt with
more promptly.

Governor McDougal. Loss, theft or destruction of
bonds in transit, including, of course, mail robberies.
That is where they have all come from.

The Chairman. And the suggestion of this resolu-

54

tion is accompanied by the further suggestion that the Federal Reserve Bank of Chicago would be glad to furnish a man or men to work out a plan in the Treasury Department for that purpose.

Governor McDougal. We will be very glad to do that.

The Chairman. What is your pleasure about this resolution, gentlemen?

Governor Norris. I move its adoption.

Governor Van Zandt. I second it.

The Chairman. Any discussion?

(The motion was put and carried unanimously).

The Chairman. We now come to that portion of the program relating to more or less routine matters, including reports of committees appointed at previous meetings. The first item is the pension fund. You have all been furnished with the summary report of the committee appointed to consider the pension fund plan, and in this connection I want to say that I have been informed that Governor Harding, together with representatives of the committee, has met with Senator Smoot and I believe with one or two other Congressmen or Senators, and they have indicated a willingness to promote the passage of the

55

bill which has been drafted to give effect to this pension plan, but they have raised certain questions as to one or two features of the plan which are included in the report which you have, and the matter is now in shape for discussion. The report of the committee is here, but I believe, Governor McDougal--aren't you a member of that committee?

Governor McDougal. I am.

The Chairman. Governor McDougal is prepared to discuss that first.

Governor McDougal. I have really nothing to present here. The report of the committee, as I understand, Mr. Chairman, has been handed to each bank. I was rather in hopes that Mr. Kenzel would be over here when we took this up, if necessary.

The Chairman. We can get him over later, if you desire.

Governor Seay. There is one point not alluded to, Mr. Chairman, in the preparation of the report. It is, as you will recall, recommended that employes under 21 years of age will not participate in the benefits of the fund. It does not state, so far as I am aware, or remember, whether or not the contributions of the various banks are based on the total number of their employes, and it does not recommend any action with respect to those employes who are under 21 years of age. There are two hundred, or practically a little more than a third, of our employes, for instance, who are under 21 years of age. It is presumed that the group insurance plan would still be continued to apply to those employes, probably. The amount of the premium would be very small against employes of that age, but it is not stated whether in figuring the liability, the annual contribution of the employes, the employes who will not participate in the benefits of the fund have been included.

The Chairman. Doesn't it go without saying that if they are not included in the benefits that they are not included in the figure or contribution?

Governor Seay. It may be, but I find that sometimes things which apparently should go without saying, nevertheless are sometimes not taken into account. I do not know that the matter is of any vital consequence to the adoption of the plan, but as a matter of information I should like to ask that question of the pension committee.

The Chairman. My understanding, Governor Seay, was that the plan is predicated upon the inclusion of only certain employes of the Reserve Banks.

Governor McDougal. That was the understanding.

The Chairman. And that is, employes of 21 years of age or over.

Governor Seay. That may be.

The Chairman. I think that is the fact.

Governor Calkins. Mr. Chairman, I am particularly desirous of avoiding any inquiry that might lead to further consideration, but I would like to ask one question of the members of the committee, two of whom are here, and that is, is this plan, as devised, subject to amendment after being adopted, or once adopted, is its operation as devised to be continued without amendment?

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58

Governor Fancher. I understand not. I understand that there will be provisions for revising the plan as we go along.

The Chairman. Governor Calkins, I have just read the bill which has been drafted, as possibly you have, and so far as the law would control after that bill is passed, it appeared to me to be very flexible. The question would arise, however, it seems to me, as to whether some contractual relationship had been entered into between the bank and the employe which would make it difficult to modify.

Governor Calkins. Exactly. This is one point which I have in mind, as an illustration--not that I am urging objections at this time, although I have objections. It is provided that the age of retirement shall be optional at 65 and compulsory at 70. I personally disapprove of that provision of the plan. The embarrassment which it is sought to avoid by the setting up of a pension organization which will persist; that is, that when a man reaches 65 years of age, someone would have to determine whether his service should be continued until he was 70 or not. There should be a definite date of termination.

9

I am only mentioning that as an illustration, not because I want to raise any objection at this time.

The Chairman. Then the question is whether the age determined by this class is possibly too old, whether it should not be mandatory at an earlier age?

Governor Calkins. The plan, as I understand it, contemplates retirement at 65 upon the option of either the employe or the directors of the bank by which he is employed. Is that correct?

Governor McDougal. The retirement age is 65, with a provision that the employe may remain in the service for an additional five years if mutually agreeable to the employe and to the directors of the bank. So your statement was substantially correct.

Governor Calkins. That puts it up to the board of directors of the bank as to whether he shall be retained or dismissed, and that is what it is sought to avoid in the whole plan. That is, it is sought to set up rules which will not put upon the board of directors of a bank to require a man to retire when he does not want to.

The Chairman. But, Governor Calkins, doesn't it afford relief to the directors of the bank, in that

60

the man who retires will get a substantial pension at that age, and the degree of injustice is very much less than in the case of a man who is required to retire who has no means of support?

Governor Calkins. Quite so. I agree with that.

The Chairman. Then your point would be that compulsory retirement at 70 might be better changed to 65?

Governor Calkins. Exactly.

The Chairman. On that point, of course, it is a fact that many men have good service left in them when they are 65, and my belief is that this provision was arrived at as a sort of compromise, which is the period of five years for mutual choice as to whether the man on the one hand wanted to continue to work, or on the other hand whether the bank wanted him to.

Governor Fancher. Exactly, Mr. Chairman.

Governor Calkins. I understand that.

Governor Wellborn. I would like to know if we could determine or terminate the service at any year between 65 and 70, or would the service continue on the whole five years?

Governor Fancher. It is entirely mutual. It might

61 be that the man would go out at 66 or 67. It is a matter between the employe and the bank.

Governor Norris. If a fellow was 65 and wanted to go on and the directors agreed to it, then when he got to be 66, could the question be considered again?

Governor Fancher. I would think that would be a matter of making a very flexible arrangement. After a man has reached the age of 65, we could impose conditions; a man could perform certain duties, and things of that sort, if willing, or if he could not perform or render the service that he had been, that he could be called upon to retire.

Governor Norris. Letting him stay on after 65 would not commit the bank for five years.

Governor Fancher. No.

Governor Calkins. I think the compulsory age should be 65, but I do not want to argue about it.

Governor Seay. There is one other point which, as I recall, remains indefinite. Those present employes are given one year within which to determine whether they shall participate in the plan. Suppose they do not elect to participate, does that mean that they may nevertheless

262

remain employes?

Governor Fancher. Remain employes, but outside of the participating pension plan. In other words, it was felt that we could not probably make it absolutely compulsory on present employes.

Governor Seay. I assumed that.

Governor Fancher. But try to bring them in during the year and sell it to them and the new employes, make it compulsory.

Governor Seay. I assumed that.

(At this point Mr. Gilbert, Assistant Secretary of the Treasury, entered the Conference room).

The Chairman. Gentlemen, let us discontinue the discussion of this matter and proceed to finish up with Mr. Gilbert. Mr. Gilbert, we have taken the liberty of concluding the discussion of some matters which were considered to be rather routine in the portion of the program relating to Treasury Department business. I can report briefly what action has been taken, and you may desire to comment on it. The meeting has adopted a report under section II (a) of the program, recommending the use of uniform reconciliation forms in recon-

b63

ciling the accounts of the Treasury of the United States with respect to the reserve banks. Those forms, I believe, have been submitted to the Department and meet with the approval of the Department.

Mr. Gilbert. I think so. I think that is a routine matter, about which there will be no question.

The Chairman. Yes. Under topic II (B), war loan deposit accounts, the question was raised as to whether the time had not yet arrived to abandon the plan of paying off certificates of indebtedness by credit, and I think it was the sense of the meeting and the action of the Conference that that was a matter entirely in the hands of the Treasury Department, but if the plan was abandoned, there was the possibility of it having unfortunate results in the money market.

Mr. Gilbert. And the sale of Treasury certificates.

The Chairman. And the sale of Treasury certificates. On the subject of reimbursement of fiscal agents expenses, that was discussed yesterday when you were present, and no further action was taken. Under topics (d) and (e), it appeared to be the sense of the meeting that assistance might be rendered to the Treasury Department in

t64

matters of routine procedure in the various bureaus of the Treasury with which the Reserve Banks have direct contact, if opportunity were afforded to have men from the different Reserve Banks make a little study of this routine, and possibly suggest more workable and better procedure. That of course has been done in the past.

Mr. Gilbert. It has been done for three years, at least, to my knowledge.

The Chairman. We would like very much to continue that, and Governor McDougal brought out a case in point where possibly some advantage might be obtained by doing that at once. The Federal Reserve Bank of Chicago has suffered the inconvenience, and a number of banks in that district have suffered the inconvenience, of loss of bonds in transit due to these daylight mail robberies. There are a large number of banks, about forty, affected by these robberies, and it developed that no insurance being carried on the registered bonds, nevertheless delay occurs in the investigation and trying to locate the stolen bonds, and of course there is a delay in handling the reimbursement for stolen coupon

p65

bonds. The action of the meeting was to recommend that, if possible, a separate division or section be created in the Treasury for handling specifically these insurance matters--that is, insurance questions arising from the loss, theft and destruction of bonds in transit, and, if agreeable to you, that the Federal Reserve Bank of Chicago would send a competent man over here to study the procedure and see whether it could not be speeded up.

Mr. Gilbert. There is already a separate section, although it is not organized as independently as it might be. Of course, most of the losses have occurred in the Chicago District and some delay is inevitable. For instance, under the statutes there is an enforced six months' delay on registered bonds, except in those cases of original delivery where we assume the risk. There we have always waived the statute. So far as I know, the difficulties have all been difficulties of proof, and I think some of the requirements have been very technical. I haven't any doubt of it. We have been using the dynamite down there liberally lately, but there is no objection at all to them sending someone. I think

66

it would create a mutual understanding of the difficulties on both sides, and it would be helpful.

The Chairman. I would like to ask Governor McDougal, if that course is pursued, if he would be willing to have his man make a detailed report and send to all of the Federal Reserve Banks of the result of the work?

Governor McDougal. I would be very glad to do it. The action we took, however, was to suggest to the Treasury Department, first, that they establish a separate division to handle these matters, with a view of injecting into the operation of that department as much of the policy as possible, that policy which is followed by the insurance companies, and getting immediate or very prompt settlement rather than delay, and if you are willing to undertake to establish such a division, we should be very happy to render any assistance we can by sending a man down.

The Chairman. Mr. Gilbert, in dealing with a program like this, we endeavor wherever possible to pass a resolution which is as final as it can be to dispose of the matter, and in going over the topics discussed with you yesterday, in order to get our record complete, we

567

have passed a resolution, subject, of course, to your approving that form of action, indicating the belief of the Conference that as promptly as possible the functions to be performed by the so-called government loan organization should be reduced in the case of war savings securities to the mere delivery and distribution of the securities and the keeping of the necessary accounts in connection with it, and that the distribution of the propaganda material, if it is possible to do so, may be made directly from Washington. Now, pursuing that thought, it was the sense of the meeting that as soon as that was accomplished, say at your pleasure, the so-called war loan organization should be disbanded as such and the remnants of the functions should be performed as a part of the regular work of the Fiscal Agency Department of the Reserve Banks.

Mr. Gilbert. I think that is acceptable. I mean, that is in the nature of a recommendation?

The Chairman. Yes.

Mr. Gilbert. And I assume that some distribution of publicity material could be made through the Fiscal Agency Section, if it is thought desirable. I mean,

668

there is no rigid rule against that.

The Chairman. You indicated yesterday, Mr. Gilbert, that there was some other matter or matters that you would like to discuss with the meeting.

Mr. Gilbert. Yes. I have one important suggestion, which I would like to discuss with you quite confidentially, and I think it is unnecessary to take any record of the discussion.

(Whereupon discussion followed which was not recorded, until 1:10 o'clock p m, when a recess was taken until 2:30 o'clock p m of the same day).

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386

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AFTERNOON SESSION.

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The Conference reassembled at 3.20 o'clock p.m. pursuant to the taking of recess, Governor Strong (Chairman) presiding.

The Chairman. At the time of the adjournment of the joint meeting we were discussing the pension fund and certain suggestions had been made in regard to the fund, the plan of having a pension fund. The action to be taken by this conference, I presume is to act specifically upon the report and to act specifically upon the two items suggested by Senator Smoot, which involve a modification of the plan.

What are your wishes, gentlemen, about the pension plan? We have two members of the Committee here---Mr. Fancher being present for the moment. What do you recommend, Mr. Fancher?

Governor Fancher. Well, Mr. Chairman, I was not able to go to New York to the meeting which was had with our Advisory Committee after a conference which Mr. Curtis and Governor Harding had with Senator Smoot. I really am not informed as to how the Committee feels on that matter. Let me see if I have a letter which will

clear it up. I rather feel, Mr. Chairman, that if it were possible for Mr. Kenzel to come over here he could throw some light on the status of the matter. I do not think Governor McDougal was in New York on the 28th. I understand that Mr. Kensel, Mr. Sayre, Mr. Moore and Mr. Buck went over this situation, and I am not advised as to how far they concur in the suggestions that Senator Smoot made.

I think the one outstanding suggestion that appeals to me as having a bearing on this plan is the matter of the contribution, not favoring the bank making a full contribution of the accrued liability to date, but rather suggesting that the present employees and the bank make an equal contribution, and that some arrangements be made whereby the employee can make that contribution over some length of time.

Just how popular we can make the plan on that basis I do not know. It presents an entirely new phase.

Governor Calkins. Whose suggestion was that?

Governor Fancher. That was the suggestion of Senator Smoot. He did not favor the plan whereby the

banks made the entire contribution at the outset.

Governor Seay. Is that a positive position on his part or a tentative one?

The Chairman. I do not think it is final.

Governor Morss. I would say that we think this plan of making the plan popular is the most difficult thing you have to deal with. A good many people in the banks, especially if they have any responsibilities, already having a life insurance on which they are probably committed to pay their premiums, no doubt feel that to add another set of premiums that they would have to pay would put quite a burden on them, and many of the members are very young, without responsibility, and it is pretty hard to make them appreciate the desirability or necessity of subscribing to an insurance. That leaves it down to how much the bank should do. If you do one-half, will that be attractive, and if you do that and they have to pay three or four per cent of their earnings they may say that their salaries should be increased to that extent to enable them to do that. If that is the case you might as well subscribe the whole

4

thing almost.

Governor Fancher. I might read from Mr. Curtis's letter to Mr. Kenzel.

Governor Morss. Which Mr. Curtis?

Governor Fancher. J. F. Curtis. This is the particular point we are discussing.

"The Senator felt that the provision authorizing the Federal Reserve Banks to make an initial contribution to cover the accrued liability both in their own behalf and in behalf of the employees was too liberal and should not be permitted to the banks. He also felt that it was unfair to the new employees to permit the old employee to get the benefit of his prior years of service without making any payment on account thereof. He suggested that he would be willing to have the banks authorized to pay a sum sufficient to cover the accrued liability to the extent which the banks would have paid had the employee entered the pension plan at the time of the organization of the banks, provided, the employee undertook to pay the sum he would have paid under the same circumstances. He

also thought it would be reasonable to permit the employe to pay this in a lump sum or by adding it on to the annua amounts which would otherwise be payable by him. "

And then Mr. Curtis suggested a change in that section of the proposed bill.

Governor Seay. That position was voted down, however?

Governor Fancher. That was voted down at the meeting, I understand.

Governor Morss. Your committee voted it down?

Governor Fancher. Yes. This was a meeting of Mr. Kenzel and Mr. Curtis with the three experts.

Governor Seay. That is contrary to the spirit of the plan presented for consideration and it is also contrary to actual results as worked out in the plan.

The Chairman. The suggestion is made that this be discussed with Mr. Kenzel present. I suppose we can get Mr. Kenzel from New York in time to be here certainly on Friday.

Governor Fancher. I simply suggest that for the other Governors to express how they feel about it.

The Chairman. Well, Governor Fancher, you are the member of the Committee here to see this thing through or to be defeated on it.

Governor Seay. I think that is a very important matter, Mr. Chairman, one of the real fundamentally important matters, and that it would be well to discuss it with the Chairman of the Committee present, to have him give us the benefit of the accumulated discussions of the Committee and his judgment.

Governor Fancher. Mr. Kenzel writes me he could come over and bring Mr. Sayre over with him if it is thought desirable.

Governor Biggs. I move that Mr. Kenzel be invited over and include Mr. Sayre if necessary.

The Chairman. To be here on Friday?

Governor Biggs. Yes sir.

Governor Seay. Do you concur in that?

The Chairman. Yes, I concur in that.

Governor Morss. I second the motion.

(The question was taken and the motion was agreed to.)

PERSONAL AND WELFARE

The Chairman. The next thing, gentlemen is "(b)

Personnel and Welfare."

Governor Calkins. I would like to ask now as to whether you have any information as to the time that it will take for the meeting tomorrow with the Class B Directors.

The Chairman. Governor Harding said that he would try to have the joint meeting concluded at the end of the morning session, but there is no pledge to that effect.

The Committee on Personal Activities, of which Mr. Kramer, Deputy Governor of the Federal Reserve Bank of Chicago is Chairman, is not prepared to submit a report. They have handed to me a published report. It will accomplish nothing to read it, and if you are willing to take action authorizing that this be filed I think that is a suitable disposition to take on it.

Governor Fancher. I so move.

Governor Biggs. I second the motion.

(The question was taken and the motion was agreed to.) (C) SECURITIES LEFT IN CUSTODY.

The Chairman.
/ The next is item "(c)" which consists of three parts.

It is a legal question very largely, that is the responsibility for securities left in the custody of the Reserve Banks.

We have made an exhaustive study of the matter in New York and I believe the subject has also been considered by Mr. Logan, Counsel for the Federal Reserve Board, and we have submitted, I believe in a bundle of papers handed to each Governor, a form of communication prepared as a suggestion, and a form of circular, which explain themselves---if you have had opportunity to read them.

Without going into the legal aspects of the matter, which I am going to ask Mr. Harrison to discuss, the Federal Reserve Bank of New York is now receiving repeated inquiries as to the extent of responsibility assumed by the Federal Reserve Bank for the security of these securities, and as to whether that responsibility is of such a character that it is desirable for a member bank to take burglary or other loss policies of insurance against possible loss or destruction of the securities.

The circular prepared to be sent out, which we probably will send, is designed to point out the legal situation and particularly to emphasize the fact to the

member banks that our relation and responsibility in this matter is no different than that of any other bank with which they may have had securities on deposit for safe keeping, and such as their New York City correspondents in the past had, and we felt it was a matter of such importance to us that if it had not been considered by the other Reserve Banks that they might take it up now as having very great importance in the operation of the respective banks and possibly adopt a circular, after getting the information of counsel that would carry out the purpose of our circular.

I think Mr. Harrison is better prepared than I am to discuss the question of legal responsibility involved.

Governor Van Zandt. Before you call on Mr. Harrison I would like to ask one question. That is I notice that your letter refers jointly to securities that have been placed in custody of member banks for safe keeping as collateral for loans or rediscount as security for Government deposits, as security for principal or interest or otherwise.

The Chairman. Yes.

Governor Van Zandt. Do you think the Federal Reserve Bank's liability is the same in all cases there?

The Chairman. Well, it is so nearly the same that it is hardly distinguishable. The two extreme cases would be in the one case of securities which we hold for safe keeping as a voluntary custodian, without compensation, without profit in any way, and the other would be where we hold securities as collateral to a loan upon which we receive compensation. The law has been very carefully examined by Mr. Hart and Mr. Harrison is familiar with it, and while in theory the courts do distinguish between a bailee of one character, that is where you are simply acting in a voluntary and accommodating relationship with a member bank, and a pledgee, there is a theoretical difference, in actual fact when these cases come before the court there is very little distinguishing difference so far as the liability of the bank is concerned in case loss arises. Am I correct in that Mr. Harrison?

Mr. Harrison. I think that is a very correct statement of the law as expressed in the decisions of the various courts at the present time.

I think the difficulty we have encountered in our district is one that has arisen out of ignorance on the part of a great majority of the bankers as to the liability of any bank for collateral pledged for security with that bank. There is quite a general impression I think, that the liability of the lending bank in such a case is absolute. As a matter of fact, if you will examine the decisions you will find that the relation of the lending bank to the borrower in such a case is one that we call bailee for mutual benefit, and the courts have, as Governor Strong has just said, made only a theoretical distinction between the responsibilities of a bailee for mutual benefit, that is the bailee of collateral for a loan in this case, and a gratuitous bailee such as a bailee of securities for safe keeping.

The responsibility of a gratuitous bailee is that he shall not be guilty of gross negligence in the handling of the securities. The courts go on to say, however, that in case of a bailee for mutual benefit, gross negligence is not the test; it is a stricter test, that of reasonable care.

In the case of a bank, however, as distinguished from any other kind of a bailee, the courts have generally, as a matter of practice, maintained that the banks must keep a higher standard of care over the safe keeping of all securities, whether for mutual benefit or whether as a gratuitous bailee, than in the case of any other kind of a bailee.

We have felt that in these circumstances no court could or would attempt to make a distinction between the two kinds of bailees, and that in any case, whether we lost securities pledged as collateral or whether we lost securities that were given to us for safe keeping, we would be held to the strictest test of reasonable care.

Now, in an effort to explain away the doubts that are in the minds of a great many bankers, we thought it would be well to send out a circular defining what the courts have held to be the responsibility of a bank in these cases.

The benefit of such a circular would be two fold. It would operate as a protection to us, in that it would remove any question of bad faith on our part, and it

would operate to give the member bank a chance to insure itself against the loss of securities which they have pledged with us either as collateral or for safe keeping.

I discussed it with Mr. Logan. He felt that our conclusions as to the law were right. He expressed some doubt, however, as to the advisability of expressing those conclusions in a circular, on the theory that it might throw terror into the hearts of a great many member banks needlessly, and that we might accomplish our purpose better by more carefully expressing our liability on our receipt ticket.

I feel that if we do only that we are doing no more than we are doing now, and under the present procedure there is no question that a majority of the banks have not protected themselves by getting insurance either for the securities we are holding in safe keeping or for the securities that we are holding as collateral.

Governor Norris. Have you made any inquiries as to what the rate would be on any policy that would give them any sort of full cover?

Mr. Harrison. The insurance that they would have

to get would be the same insurance that many banks do get now for securities delivered to their city correspondents for safe keeping. We made many inquiries from the insurance companies in an effort to ascertain what it would cost us to get out a policy to protect our own member banks, and we found it was prohibitive.

The Chairman. The volume was so big that it was prohibitive?

Mr. Harrison. Yes. The result is that we thought the only satisfactory way was to put the member banks on notice of their own liability in the matter and give them an opportunity to procure this insurance over their own securities which we hold.

Governor Norris. Well, do you know what the rate is?

Mr. Harrison. No, I do not.

Governor Norris. We have made some inquiries and the best rate we can get is 2 per cent, which of course would be prohibitive.

The Chairman. I am inclined to agree with what I have heard Governor Norris say, that insurance can be

excluded as a factor in the matter entirely and the question really boils down to this in my mind: Have we a sufficient understanding with member banks who have collateral with us, or securities with us for safe keeping, to avoid those unfortunate misunderstandings which arise when losses occur, and where the bailee or depository has to protect himself by asserting his legal rights of protection?

There is such a complete misunderstanding, I believe, in the minds of bankers generally as to what that responsibility is that I would very much dislike to see a loss arise and then have the Federal Reserve Bank put in this position. We are a little different from the ordinary commercial bank in this respect. If we have no legal liability by reason of a loss, if the claim against us is a defensible claim under the law, to settle that claim and pay the loss, which a commercial bank or a private banker might do, is a voluntary contribution. It is a gift paid out of our earnings which otherwise would go to the Government. And it seems to me that whether we wanted to be generous or not, in case a loss arose we are precluded from an act of generosity by the special terms of the statute under which we are organized.

And that emphasizes, in the case of the Federal Reserve Bank, the need of bringing to the attention of the clients of the bank just what the legal liabilities are.

Governor Morss. Are the laws the same, I mean to say are the laws State laws or National laws?

Mr. Harrison. Now these are purely the State interpretations of the common law liability of the bailee.

Governor Morss. Are they alike?

Mr. Harrison. They are quite generally alike, because it is a common law liability defined by the old English common law. I do not believe any of the States have made statutory enactments defining the responsibility of a bailee.

Governor Morss. What kind of losses will be met where they could be defined as not having reasonable care to prevent those losses?

The Chairman. I will give you an example which I think possibly has something to do with this question being raised. Suppose at the time that explosion took place in Wall Street we had had a messenger passing down the street who was killed or incapacitated and who had a sack of securities belonging to a member bank, and

they were picked up in the street and carted away. We might have had three messengers or ten messengers or any number of messengers, or we might have had an automobile truck. Every precaution having been taken to safeguard those securities, yet this explosion might have resulted in their loss. That is the kind of case which the courts might hold to be quite unavoidable. No precaution on our part could have avoided the loss and the loss would naturally rest upon the owner of the securities.

Now, in such a case, if claim were brought against us the first thing for us to decide would be whether the law permitted us to make a voluntary contribution, a donation to the bank that lost those securities, just because they happened at the moment to be in our custody instead of theirs when this explosion occurred.

Governor Morss. That is a very extraordinary occasion and if that is the sort of thing only that the insurance would cover why is the insurance rate so high?

The Chairman. It is not the only case it would cover. I have given an extreme case.

Governor Morss. To cover extraordinary circumstances like that I do not see why the insurance rate should be so high. Such cases are not frequent. Have there been any such cases where that has come up? Take insurance on shipping securities, and there are all sorts of losses, and the rate there is nothing like 2 per cent--- although I do not know what it is.

The Chairman. But the insurance extends over a very short period of time in such a case and this is continuing insurance.

Mr. Harrison. I think the question could be clarified in this way. There is no doubt in the world that the Federal Reserve Bank is liable for loss of either collateral or securities which it holds in safe keeping under certain circumstances. In other words, in the case of the safe keeping of securities if the loss results from gross negligence of the Federal Reserve Bank it will be held to be liable, and under some court decisions it would be held to be liable even if it were guilty only of breach of reasonable care.

In the case of collateral, it would clearly be liable if the loss resulted because of a failure to

maintain reasonable care.

Now, what the member bank wants to protect itself from is a loss that would not be reimbursable by the Federal Reserve Bank. As a practical matter, however, I imagine that the insurance that they would obtain would be not to cover only those losses for which the Federal Reserve Bank would not be liable, but all losses. I don't know that they could split it up. But this is the feature of the matter which I have not really looked into myself. But I imagine that Governor Norris' estimate of insurance covers losses of all kinds.

Governor Norris. Yes, that is general cover. We have had to consider this very carefully because of a thing that you gentlemen probably saw in the papers, and some of the others here perhaps did not see it, a few months ago. A bank just outside of Reading, Pennsylvania was attacked by bandits at noon. They drove up in an automobile, half a dozen men; two or three of them took possession of the doorway and steps and two or three others went in and overpowered the people inside and took about one hundred and ninety thousand dollars' worth of securities out of the safe, and then

put the clerks in the safe and shut the door and got away . Within a few weeks after that we had over sixty million dollars' worth of stuff brought down to us for safe keeping. That is what has compelled us to look into this.

Now, the first question we thought of naturally was this question of insurance. We found, first, that all the companies in the United States could not write us a policy in the amount we would need. So it was out of the question for us to get insurance. The best rate we could find quoted anywhere for insurance by the individual banks was 2 per cent, which was prohibitory.

Governor Calkins. Could the companies write the insurance for the individual banks?

Governor Norris. I think they could, because as I understand it, the limit is the risk on any one policy, and this would be a multitude of policies.

Governor Calkins. I do not think all the insurance companies in the United States could write enough insurance to cover all the Federal Reserve Banks.

Governor Norris. Well anyway, the rate is prohibitory.

The Chairman. May I interrupt there to point out

that the real reason for suggesting insurance is that the member banks might have the choice of trying to get insurance if he wanted to, and probably a very small proportion of them would anyway.

Governor Calkins. This matter is extremely serious and extremely difficult. The liability of the Federal Reserve Bank boils itself down to a question of due diligence, nothing else. Let us see a case in which the Federal Reserve Bank has lost securities of a member bank and is confronted with the question of whether it shall reimburse that bank or not. If it does not reimburse that bank it may, and in some cases undoubtedly would, break the member bank. On the other hand, as has been pointed out already the Federal Reserve bank could not make a voluntary contribution if it was not liable.

Governor Norris. Under the Pennsylvania decisions on this subject the difference practically boils down to a question of the burden of proof. If it is a bailment for hire the onus is on the defendant to show that it did

everything that it was possible to do and neglected nothing; or if it is a bailment for mutual benefit. If it is a gratuitous bailment then, as a general rule, the burden of proof is on the plaintiff to show that there was some negligence.

Now, to get down to the practical part of it, I am free to admit that we had not considered the possibility of a messenger being blown up on the street; it occurred to us that if there was a loss it would only be by what the police call an "inside job," by the dishonesty of one or more of our employees. With our new vaults we have absolute burglar and mob protection, and therefore the only loss that could occur we thought would be by embezzlement or dishonesty of some of our employees. Under those circumstances we felt we ought to pay the loss if it occurred.

Mr. Harrison. I think that Governor Strong's point on that phase of the situation is well taken, that if we have surrounded ourselves with all the reasonable protections against loss, even from an "inside job", and loss does result because of the dishonesty of one of our employees, where you have not been negligent, you are not

legally liable for the loss.

There is some question as to whether you could make a voluntary contribution to your member bank to make it good no matter how much you would like to do so.

Governor Calkins. I do not think there is any question about it at all, I do not think you could.

Mr. Harrison. Well, the only way the question might arise, even in that case, would be negligence in making the employment of the person who was guilty of the embezzlement.

Governor Calkins. Well, I am assuming that there was no negligence to start with; we could not reimburse the bank.

Mr. Harrison. Well, we will assume that there was no negligence in the first place, then we could not reimburse the bank that suffered the loss.

Governor Norris. If our employee steals the bonds you do not think we could reimburse them?

Mr. Harrison. No, we could not. In that connection, there was a loss in the Bank in New York State not long ago which resulted in the embezzlement of its cashier. It was a matter I believe in which the Federal

Reserve Bank was not directly interested, but Chief Examiner Smith told me in discussing that situation that had the question come up to him one way or the other he would have advised the bank that they were not liable and that without the assent of the stockholders they could not reimburse the owners of the bonds who suffered the loss.

Governor Norris. Well, if we said to a bank under those circumstances "we do not feel that we have been guilty of negligence here and therefore do not feel at liberty to reimburse you, but if you think otherwise you can bring your suit in court and if you win we will pay the verdict," would not that be fair?

Mr. Harrison. Of course.

Governor Van Zandt. Well there is no question in your mind Mr. Harrison but what a jury would give a verdict against the Federal Reserve Bank under those circumstances, is there?

Mr. Harrison. As I intimated in my preliminary discussion, I think the jury would hold the Federal Reserve Bank to a very high degree of care; but beyond that I do not believe they would go, and beyond that I do not believe you would be responsible.

Governor Morss. Well, suppose the person who had embezzled the bonds, suppose it could be shown that he had something crooked in his record, do you not think a jury would take hold of that and hold that the bank had not been sufficiently careful and was not free from all negligence? Would they not say that the bank should not have employed such a person?

Mr. Harrison. I agree with you that you can assume facts that would enable a jury to attribute negligence to us.

Governor Norris. Yes, they would not need much. But we are arguing on a hypothesis whereby we are not negligent, and there are many cases where losses might result even though we are not negligent, and in those cases we would not be liable.

Governor Calkins. Let us take Governor Norris' one case. He says a vault has been provided which insures absolute protection against burglary or mob violence. Now after that vault is provided supposing a mob breaks into the vault and removes the contents; how about the liability in that case? That is an extreme case, of course. Would you be liable in such a case?

Governor Norris. Under those circumstances I should think not, because we had provided a vault that was the last word in vault construction.

Governor Calkins. The last word, but it was not absolute protection.

Governor Seay. Would you contemplate carrying any insurance against theft of securities by your employees?

Governor Norris. We do, we carry a million dollars.

Governor Seay. To cover your own securities and those in your custody also?

Governor Norris. Yes.

Governor Calkins. That is a certain amount but it is a negligible amount in comparison to the entire amount of securities.

Governor Norris. It is negligible in comparison to the total amount, but it would be more than sufficient probably to cover any one case.

The Chairman. I would like to suggest to the meeting that this is a type of topic which each one of us will want to deal with by conference with counsel.

at home, as we are doing. I do not suppose this meeting is prepared to pass upon the questions of responsibility involved or even the form of a circular. The topic was put on the program for the purpose of developing, if possible, a uniform practice, the reason for a uniform practice in this case being that if liabilities arise we are not only fortified by having given evidence of uniform practice and careful consideration of the matter, but if decisions result what would apply to the responsibilities covered by the circular of one bank would equally apply to all of the others, and inasmuch as we proposed this topic in New York I would like to propose a course of procedure now that we have had some discussion of this question on liability, and that is that we might pass a resolution, if agreeable to you, that it is the sense of this meeting that the circulars of the Reserve Bank dealing with the subject of its responsibility as bailee be uniform and that the form of the circular should be arrived at by possibly submitting the comments of the counsel of the respective Reserve Banks upon the proposed form of circular to counsel for the Federal Reserve Board, or Mr. Harrison, or to whomever you prefer; but if it is your desire

to have a uniform circular to cover this matter it will then require submission to the respective counsel and having the result submitted to some common center.

Governor Norris. Well, we have not issued any circular and I think we would prefer not to issue any. We do not want to invite these deposits, we never do. People ask whether they can bring them in and then they bring them in. The only thing we say to them is that if they leave their securities with us we will give them the same care as we give our own, and we let it go at that. That is all we say to them. We do not give them a formal receipt, we just write this letter:

"We advise you that we are holding for your accommodation and for your account and risk the following securities, subject to your order."

Governor Morss. We have reached somewhat the same conclusion.

Governor Young. We went into this about a year ago and our attorney came to the conclusion similar to the conclusion Mr. Harrison has reached.

When we discussed the advisability of sending out a circular the question was discussed whether we should

send out a circular to practically every bank in the district and put insurance on the securities we were holding for them, and I may say we hold a good many securities because the vaults of a good many of the banks in our district are very poor. That would necessitate, as we realize, giving to every insurance company in the United States,---and a lot of them are little one horse concerns---a complete description of our vault, which we did not want to do. So we elected not to send that circular out, and we placed a million dollars of insurance on those securities, which perhaps was not enough. But that is the way we handled it, and we would prefer not to send that circular out.

We have the same clause on our acknowledgment, we do the same thing that Governor Morris says he does, we simply acknowledge receipt and put that same statement on that is recommended in the circular. I bring that up because some of the other banks may not want to give a description of their vaults to every concern in the United States.

Governor Calkins. We do not and would not want to.

Mr. Harrison. Governor Young does your insurance policy purport to protect you or your member bank in a case where you, the Federal Reserve Bank, are not negligent?

Governor Young. I cannot answer that. The insurance policy, I know at the time we took it, was to cover anything that was lost in our institution.

Mr. Harrison. We have looked into that carefully and insurance companies have refused point blank to insure us, except Lloyd's, I believe---

Governor Young. I think this is a Lloyd's policy---

Mr. Harrison (continuing) have refused to insure us against anything on which we are not negligent, on which we are not liable otherwise.

Governor Young. We have had the same experience.

Governor Van Zandt. The insurance company would not insure us against anything that we are not liable on.

Governor Calkins. We had the same experience, that the company would not insure us on anything we were not liable on; and then did specifically. We have a rider on the policy that provides we are insured on those securities that we hold and have a registered description of, which belong to our member banks, on which it is admitted we are not liable. I think all

the banks have gone into this more or less, but it seems to me it is highly desirable that a uniform practice should be adopted, and I suppose Governor Strong's suggestion perhaps means a committee, and I think it should be carried out.

We have recently had called to our attention by the Treasury Department our habit of giving receipts to depositing officers, officers depositing securities, bonds, United States securities, for which we disclaim responsibility. The Treasury Department asked us to eliminate that ^{from our receipt.} That is another phase of the same question. But I do not see that there can be any question about the desirability of uniform practice by the Federal Reserve Banks in a matter as important as this.

Governor Wellborn. Did I correctly understand you that they would insure you against loss when you were not legally liable?

Governor Calkins. That they would insure us against loss of securities held for safe keeping, for which it is admitted we are not liable..

Governor Seay. There remains in our minds some

doubt as to the expediency of exciting the minds of member banks by the issuance of a circular which recites on its face that we appreciate that the following is merely a statement of the situation as it has always existed and that no new questions are presented. It raises no new question of law. Therefore we have doubted the expediency of exciting the minds of our member banks by the issuance of a circular.

The Chairman. Well, that question of policy is before us very actively. We have not decided to do this. It seems wise, as we are all interested in the same fashion, to consider it here before we send out such a circular. It might spread in its effect. On the other hand, if we are correct in our belief that there is a very hazy and indefinite understanding by banks generally of the extent of the security which they obtain by depositing valuables with the Federal Reserve Bank, it seems rather unfair to them to let them be lured into a sense of security which does not exist.

Governor Seay. I have no doubt that few banks are aware that we are not liable under all circumstances for securities which we hold as collateral for their

obligations and that they can be compelled to pay the obligations whether we deliver them back the securities or not, under certain circumstances. But whether we are called upon to educate our member banks in this way by a general circular reviewing the whole subject is something we are not fully committed to.

The Chairman. Suppose my suggestion, then, be made a little more comprehensive, that reports be sent back to some central place indicating, first, whether it is desirable as a matter of policy to send out any circular; and, second, if it is desirable, what form the circular should take or what practice should be adopted uniformly by all the Reserve Banks. What I am seeking is not so much to secure the adoption of one or another form of circular as the adoption of a uniform practice, and that that practice shall be based on the best information we can get of what is the wise and safe thing for the Reserve System to do.

Governor Van Zandt. I think that suggestion is very good and I would like to offer that as a motion.

Governor Norris. I second the motion.

The Chairman. Is there further discussion on that motion?

Governor Fancher. Shall we refer the matter back to Mr. Harrison?

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Governor Van Zandt. How about having the matter canvassed by Mr. Harrison and presented at the next Conference?

The Chairman. I think that is a very good suggestion, but I hope you will not object to having Mr. Hart take it up instead of Mr. Harrison. He has been doing the work on this particular matter.

Governor Norris. The next Conference is six months off. Most of the deposits that most of us will get will come within the next six months, so that if it is going to be done at all, it seems to me that it ought to be done before six months.

The Chairman. I understand Governor Van Zandt's motion to be that the question shall be submitted to the respective Reserve Banks by Mr. Harrison or Mr. Hart, first as to the practice which we shall adopt, in respect of this particular liability, or to safeguard ourselves against liability, and, second, if it takes the form of a circular, we ought to secure the views of the respective Reserve Banks as to the kind of circular to be employed, and if it is agreeable that the report on that matter be made back before the next Conference,

b2

we can ask Mr. Hart to try to do so, as he undoubtedly will be able to.

Governor Calkins. I think that the matter could be discussed by the Conference, and should be discussed by the Conference, rather than by correspondence.

Governor Norris suggested six months. I hope he is right, but I am not so sure about that. I think that we might get together before that.

The Chairman. One view is that we should proceed more promptly than having it considered at the next Conference, and the other is that it should be held until the next Conference.

Governor Seay. It is no more pressing than it has been during the past two years, and I believe that the course which you suggest is perhaps the only one which is likely to receive general concurrence, and I second the adoption of the proposal that you have made.

The Chairman. To proceed more rapidly?

Governor Seay. No. That you proposed adopting the course whereby it would come up at the next Conference. That was your first suggestion, was it not, Mr. Chairman?

b3

The Chairman. No sir. Governor Van Zandt's motion was not to that effect, but if it is agreeable to him to have it wait until the next Conference, and it is agreeable also to Governor Norris, I will put the motion in that form.

Governor Seay. Didn't you contemplate, Governor Van Zandt, that it would come up for decision at the next Conference?

Governor Van Zandt. I did not know but what we could come to a decision by mail, when I made my motion. I am advised by the Governor on my right that there may be a Conference earlier than six months. If he had any real inside information on that, I am willing to have that inserted.

Governor Calkins. I have no inside information on that, but I have to suggest that it probably will take nearly six months to thresh this thing out satisfactorily by correspondence, and we may not be making any speed by that means. I also think it should be discussed by Conference committee. I have no inside information. I disclaim any inside information regarding anything.

The Chairman. Well, then, how about modifying the

b4

motion that Mr. Hart be requested to proceed with the utmost speed in getting the views for resubmission and leave the question open for decision as to whether we can act or cannot act, until another Conference is held?

Governor Van Zandt. That is satisfactory.

Governor Morss. If there was any unanimity, we could. If not, it would be difficult.

The Chairman. Exactly. That is what I had in mind.

Then, the motion is to refer the matter to Mr. Hart for obtaining these expressions of legal and other views as promptly as possible. This motion, I understand, will dispose of topics I, II and III under (c).

(The motion was put and unanimously carried).

"Review of policy of paying extra compensation in view of the apparently falling retail prices".

The Chairman. The next topic is "Review of policy of paying extra compensation in view of the apparently falling retail prices". This was put upon the program for this particular reason: there are, I believe, but three Federal Reserve Banks that have paid special compensation to cover the increased cost of living, to the employes of

b5

the banks, in quarterly periods; a number of them pay semi-annually, some of them pay that compensation annually, and I think one bank makes no payment of special compensation.

The New York Bank, being one of the banks which pays quarterly, when we came to consider this subject in March, it appeared that there had been a measureable decline in the cost of living in various sections of the country, which, as it happened, was rather less in New York than elsewhere, because of the situation there in rents, as much as anything else. The rents, we found, had actually advanced still further. We were generally of the impression that the amount of special compensation which we had allowed to clerks to offset the increased living costs had been allowed rather later than the advance in living costs which had taken place, and it never compensated them for the maximum advance which had taken place, but inasmuch as this was the first quarter in which a re-adjustment was apparently indicated as possible by the cost of living index figures, we thought it would be a little harsh and hasty to take advantage of the first moment where this could be reduced, and we secured the

06 consent of the Federal Reserve Board to pay the regular extra compensation that had been formerly paid, with a definite notice to the employes that it would be reduced by at least a certain amount at the end of the next quarter. Now, we find that when we submitted the recommendations having to do with compensation to the Federal Reserve Board, naturally comparisons are made between the different Federal Reserve Banks, and I am interested, not that any action is desired, but I am interested in general to get some expression of the views of the Governors of the banks as to what policy ought to be adopted from now on, in paying this extra compensation.

Governor Van Zandt. Might I ask if Dallas was the one bank that you said was not paying any extra compensation? We are not paying any extra compensation. We did pay quarterly. We are paying none now.

The Chairman. I think there was one bank. I am not sure I knew which one it was.

Governor Van Zandt. We adopted the graduated scale plan that was proposed by the Federal Reserve Board.

Governor Wellborn. We, too, made up our minds in Atlanta that we will pay semi-annually, and in July we

b7

would like to pay just about half of what we have been paying heretofore, on account of the reduction in the cost of living. As you say, rent is the one thing that has not gone down. Probably not until next fall will it go down, when the new leases are made. We think 50 per cent of what we have been paying would be about correct.

The Chairman. I did not want to suggest that it was our view that the rate of compensation or extra compensation should be uniform. That was not what I had in mind, but in general that the treatment of the scheme by reducing extra compensation might well be considered together, because otherwise some of us might be continuing it and others reducing it or discontinuing it, and it might cause embarrassment.

Governor Seay. Are there any cost of living index figures, based upon retail prices?

The Chairman. The Bureau of Labor Statistics in the Labor Department does get out such information, I believe.

Governor Fancher. We are one of the three banks that is making payments quarterly, of bonus. In discussing the matter in March, preparatory to the April 1st payments,

b8

our managing committee and our executive committee gave this matter a good deal of thought, with the result that we cut our percentage 20 per cent. We were paying 20 per cent to employes whose wage was \$1500.00 and under; 15 per cent on \$1500.00 to \$3000.00, and 10 per cent on \$3,000 to \$6,000.00.

The Chairman. We have the same, except that our limit is \$5,000.00 instead of \$6,000.00.

Governor Fancher. We just cut that 20 per cent and paid 16, 12 and 8, leaving the breaks the same, as to divisions of salaries, and with a notice that there has been some decrease in living costs. It has not been marked, but we felt that the time had come to make some reduction, and we were making the start with the notice that the probabilities are that during the year, if living conditions showed a further reduction, the bonus might be entirely removed, so that our employes are on notice that perhaps by the end of the year we will discontinue entirely the payment of the bonus.

The Chairman. Have you contemplated adding any part of the bonus to the permanent salaries?

b9

Governor Fancher. We are adjusting the salaries on the anniversary date of employment. We set up a certain schedule of adjustment which prevails from June 1st, 1920, to June 1st, 1921. What we may do beyond that, and to what extent we may take into consideration the abolishing of the bonus in increasing the wages and salaries, has not been determined. That is a question that will be before us.

The Chairman. Governor Morss, what do you propose to do about extra compensation?

Governor Morss. Well, we made a statement when the bonus was paid the 1st of January, to give people notice, that conditions were changing; that when the next bonus time came around, the bonus might be reduced, circumstances might come around so that we should abolish it altogether, so that they could have those possibilities in mind. We take it up every six months, and we have paid a smaller bonus the 1st of July than we did the 1st of January. We take it at the end of six months entirely on the conditions obtaining at that time. Our basis is primarily what is being paid by banks in Boston for similar service. Our salaries are not the highest nor the lowest.

b10

They are about in the middle. We take it up as a separate question every six months, how much we pay them, and if it seems necessary we pay more, and we are prepared to abolish it if we think conditions are proper.

The Chairman. In this connection, I think it is going to be obvious to all of us that the clerks cannot be relied upon, particularly in so large a bank as ours, where you get all varieties of personalities, to readjust their scale of living with the change in living costs, and the change in compensation. They have spent the money that they have received. They will increase their living standard; they will find difficulty in shrinking with the reduction in the extra compensation. Now it has been discovered by a little cautious inquiry in the New York Bank that cases of distress arise; some of them absolutely unavoidable. I suppose all of you have had experience with this thing, where a clerk unavoidably gets in debt. Doctors' bills, illness, fires,-- all sorts of things happen to them. We were dealing with quite a number of cases of that sort. I am sorry to say that we had one defalcation, a small one; it did not result in any loss--that was directly attributable to the

b11

fact that this man had illness in his family and got in debt, and got in a panic, and stole two or three bonds, which were returned. After a good deal of study, we decided to charge out of our earnings, in the case of the New York Bank, the sum of \$10,000.00 to be administered as a separate sort of relief fund, without anyone knowing anything about it in the bank. The Federal Reserve Board, when I brought it up and recommended that only \$5,000 be so employed, suggested that it be increased to \$10,000. They seemed to heartily approve of the plan, and we are now in a position so that the head of the department of personnel, where these extreme cases of difficulty arise, has got a fund to draw upon. No advances are made to any employe without it receives my personal approval. The facts are investigated and submitted to me, and if it seems justifiable a note is signed by the employe for the amount of the advance. It is taken out of his salary, a little sum of money, and subsequent repayment is made by these deductions from his salary if that is the feasible thing. It has the effect of keeping these people out of the hands of loan sharks, and we feel that it is a protection to the bank, against the breaking

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down of morale here and there. I do not want to urge that you do the same thing, but it is an experience that is worth considering.

Governor Biggs. That is very desirable. We had three cases in six months, where employes have gone to the hospital for major operations, where they only had their salary, with nothing else to pay for them. When they were assured that they would be taken care of, it was helpful to them. Just imagine the effect that it has on anyone who is going through an illness, lying there worrying, if you can relieve them of that, they will recover much more speedily. They have never asked for relief, but the officers went so far, at least I did, with the others, to agree to be responsible for a thousand dollars to that extent, if we can get the Board to permit us to do it.

The Chairman. Well, we have had various things happen in the bank. We found in the course of the investigation that the department--some of our departments have two or three or four hundred people in them--a member of a department would be taken ill and they would club together and each of them put in a dollar to take

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care of this individual. After all, that is rather an unregulated way of doing it. The spirit is all right, but it seems sort of a cold-blooded attitude for the bank to take. It throws the burden of doing that on these employes who are living on small salaries. I think the plan which we have adopted is going to be a wholesome one. On the other hand, we have not made it generally known to the clerks, else it be an encouragement to improvidence.

Governor Biggs. Yes, I think that is right. I would like to see a recommendation go to the Board that all Federal Reserve Banks be permitted to have a relief fund, something along the line that you have mentioned, and that no money be expended without the O K of at least the Chairman or the Governor of the bank.

Governor Seay. Wouldn't it be better that each Federal Bank take the matter up privately with the board? There would be less probability of the matter becoming known to the employes generally.

The Chairman. I think it might be interesting that you should know the attitude of the Board. I am not asking that any action be taken. But, now that you

b14

do know what has transpired in New York at least, you will not charge me with having concealed it from you.

Governor Beay. Since the subject of this discussion is the review of the policy, I would like to state that it is our practice to adjust the salaries upon the anniversary of employment; semi-anniversary and anniversary of employment, and that we gave notice at the last period-- it seemed that the bonus was liable to a reduction commensurate with the discount in the cost of living, and we so notified them.

The Chairman. Does anyone else care to discuss this question of special compensation any further?

Governor Young. Mr. Chairman, last June we notified the employes that the bonus might be discontinued. They just assumed that they would get it the same as they always have, so that last December, by a resolution of our directors, they were notified in very specific language that the practice of paying bonus would be discontinued with the Federal Reserve Bank in Minneapolis, so that there is no argument about it from now on. We are through with it.

The Chairman. We did the same thing. We did not

b15

discontinue it, but it was reduced.

Governor Young. We said it was not going to be paid.

Governor Calkins. We made an adjustment of salaries the 1st of January of this year, and notified the employes that it was our expectation at the end of the half year that the bonus would be paid only to those employes whose salaries were \$1300 or less, and that from that time on the line would be decreased until it disappeared altogether. We also notified them that there might not be any bonus paid hereafter. I think there is justification for continuing the bonus to the lower-paid employes longer than to the higher salaried employes.

In regard to this relief fund, I think that inasmuch as the Board has authorized the Federal Reserve Bank to do a very laudable thing, it ought to authorize the rest of us, and undoubtedly would. I believe it is for the benefit of the service to take care of every case of that kind that we have, not to miss one. We have done it, but not by such means.

The Chairman. I am frank to say, Governor Calkins, that I started in a modest way to do a bit of this job myself, but there were indications that might involve

p16

a salary increase application for the Governor of the Bank, and there were quite a few cases arising, and that was in any event an irregular way to do it. I do not think the relationship of debtor and creditor should exist between any two employes of the Federal Reserve Bank, either a department or between the officers and employes. It certainly might have the effect of modifying one's attitude towards a specific case in the bank.

This discussion has brought out all that I had in mind, and unless someone wishes to continue it, I have no action to propose to the meeting.

Are you ready to proceed to the next topic?

The Chairman (continuing). I want to call the attention of the meeting to the fact that topic (e) is one of a character which must be considered by a committee. It is not a matter that could be worked out at this meeting, and if there is any disposition on the part of the Governors to develop a system and these different matters upon a basis of classification of salary compensation by measured service and so on, it might be well to suggest the appointment of a committee to deal with it, but I do not feel competent to deal with it here. It

7

is an exceedingly complicated matter.

Governor Seay. Could you briefly explain what you mean by that?

The Chairman. In general, I would like to read a brief portion of a memorandum that I have here on that subject.

"Object to be accomplished by a measured service is to make a salary study instead of by relating it accurately to the quantity and quality of work performed", where it is possible to measure the work. It is upon the basis of output. That is, it approaches that basis. As a matter of fact, I believe the Federal Reserve Bank of Chicago has a basis of compensation in its transit department that is measured service, according to the amount of work and the quality of work performed.

"Steps to accomplish the object. First, establish as a standard^a/fair day's work in any routine activity which lends itself to measurement."

"Compilation of statistics as to the quantity and quality of output.

" Second, to establish rate of pay as commensurate with the standard day's out^{-put}/determined upon." That is

b18 the base rate, so to speak.

"C: Share equally with the employes the value of the output accomplished in excess of the standard set".

It is a distinct incentive of course, if possible of application in a bank. I was hoping that Governor McDougal would be here to explain the results that have been accomplished in Chicago by applying compensation upon the basis of the measured service. I understand that it is good, and as our problem is three or four or five times as large as theirs in that single department, we are studying it with a view to possibly adopting it.

Governor Norris. That is piecework with a bonus for excess output, isn't it?

The Chairman. It is a little different from that, Governor. It establishes a standard of work for every employe who desires to remain in the service of the bank; then it establishes a basis of promotion in the various classified salary standards adopted by the bank. It is quite impossible generally in a bank to apply the system of a measured service without having to classify the service as well as the salaries.

Governor Norris. We have adopted that in a

19

classified form. We made three classes, junior, intermediate, and then we have what we call senior employes. A new employe starting in as a junior, and when he demonstrates capacity above the average, he goes into intermediate, and when he demonstrates exceptional capacity he goes into the senior class.

The Chairman. How do you demonstrate it?

Governor Norris. By comparison of his or her work with the standard.

The Chairman. Yes. Well, that is the principle that applies. The only question is whether the measure of work in the bank is extended beyond the personal observation of the head of the department, or whether an actual measure is applied.

Governor Norris. We try, as far as possible, to make it a matter of measurement.

Governor Biggs. You can do that very easily in the transit department, by the number of items handled and the number of errors.

Governor Norris. You can do it with the money counting also.

Governor Biggs. You can do it also with the steno-

b20

graphic department. You can check up in a great many of the departments, but there are a great many others that you cannot.

Governor Seay. I should like to ask, if it is agreeable to the Federal Reserve Banks, that their periodical reports or recommendations to the Board relating to salaries of employes could be open to inspection by other Federal Reserve Banks, in Washington. Ours would be--for the purpose of getting comparisons of salaries paid to employes performing the same work.

The Chairman. That is going back to a different subject. Suppose that we dispose of this first. It will only take a moment.

Governor Seay. Very well.

Governor Fancher. It seems to me that this matter should be referred to some committee that might be appointed, to report back to the next Conference.

The Chairman. We have a committee on efficiency of personnel, or we were supposed to have a committee, and I believe they have never materialized. The action of the last Conference, as I recall it, was to refer the question of efficiency of personnel to a committee

21

which would be composed of the four groups of Reserve Banks that were formed for the purpose of conference and joint meeting. I have not heard of any such committee getting into existence or functioning.

Governor Seay. Is that different from the committee on personnel and welfare?

The Chairman. No. It is not the same committee. The committee on personnel and welfare has had some meetings at Chicago. That committee submits a report of progress. It has not any final report to submit on the personnel efficiency, Now, what is your wish about this matter of measured service? I do not want to urge it. We are struggling with the subject, and we aim to get something out of it in time.

Governor Fancher. I move you, Mr. Chairman, that the sense of this meeting be that this topic be referred to a committee of three to be named by the Chairman, for study and report back at the next Conference.

The Chairman. Will it be satisfactory to you to have it referred to the committee on personnel welfare?

Governor Fancher. Yes sir. Let them work with that committee, do you mean, or to refer it to that

b22 committee and let them take care of it?

The Chairman. Yes, refer it to that committee.

Governor Fancher. Yes, that is satisfactory.

Governor Seay. I second it. I think it very desirable not to multiply committees having the same matter to consider.

(The motion was put and unanimously carried).

The Chairman. Governor Seay, your question about securing this information--

Governor Seay. That refers, I suppose, to standardization of salaries, and would come up under topic G. I did not notice it at the time when I asked the question.

The Chairman. Well, we have the question of measured service to leave to the committee on personnel and welfare, and I suggest that the efficiency question be likewise so referred.

Governor Norris. I move that it be so referred.

Governor Fancher. I second the motion.

(The motion was put and unanimously carried).

The Chairman. Governor Seay's question comes up under the next topic, discussion in progress of standardization of salaries in the several Federal Reserve

b23

Banks.

"Standardization of Salaries in the several
Federal Reserve Banks."

Governor Seay. I ask/^{ed,} Mr. Chairman, if it would be agreeable to all the Federal Reserve Banks that their periodical recommendations relating to the salaries of employes should be open to the inspection of any other Federal Reserve Bank for the purpose of arriving at some standardization. I do not see how we can do it unless it is done by comparison. As far as our own recommendations go, I am willing to see that they are open to inspection by any other Federal Reserve Bank, but we would like to know, as a basis for the determination of salaries in our bank, what similar employes are receiving in other banking institutions. These problems are somewhat local and we feel that in establishing salaries for our employes they should have some relation to the salaries paid in the city in which the Federal Reserve Bank is located. That has been one view in our consideration of the matter, but if we are to arrive at a standardization of salaries, I cannot imagine how it can be done except by comparison with what is being paid

b24

by each Federal Reserve Bank.

Governor Morss. Standardization of salaries all over the country is something like standardization of salaries with the railroad people, isn't it? It seems to me it is purely a local question.

Governor Seay. That is the reason I remarked it was a local question. I hope that you heard my remark, Governor Morss.

Governor Morss. Yes, I think that you inferred it was desirable to have the standardization the same all over.

Governor Seay. I do not believe it can be effective.

Governor Calkins. If it could be effective, it would be entirely unjustified. It would work for inequality and inequity rather than for quality and equity. You cannot compare conditions in Boston and Dallas or New York and San Francisco or Minneapolis. No attempt to standardize the salaries of the system, if successful, would be of benefit to the system.

Governor Wellborn. We ~~try~~ to standardize the salaries with the local banks in our community--to keep them in harmony with those, and I think it was like

General Hancock said when he was running for President, about the tariff, "It is a local question entirely".

The Chairman. I think that this topic was not suggested with regard to standardizing salaries in all Federal Reserve Banks upon the same standards, but simply the standardization of salaries within each Federal Reserve Bank, with regard to conditions in each locality. We find in the bank in New York, where we have employed people so rapidly, that occasions arose where the head of the department did not receive as much pay as some of those who were working under him in the department. We have had cases where clerks, I think, doing identically the same work in two different departments received quite different pay. This was due to the fact that we absorbed the Government loan organization in toto. Those that we were not able to place--we really had more clerks than we needed for a time--we had to let them go and eliminate the surplus. But it left inequalities within the organization, and this went on to the program not with any thought that the same standardization of salaries should prevail in New York as in Richmond, but that there is a big problem of salary standardization

b26

within each Federal Reserve Bank.

Governor Norris. Intra and inter-district standardization.

The Chairman. That is correct.

Governor Seay. Does that mean that the salary in any given locality, for a specific class of work, should be fixed at a certain sum, and that that fixed sum should be regarded as the salary for that position, and that the clerk receiving such salary need expect no more for that particular work, but can look forward to increased salary only by advancement or change of employment to some other department? If that be so, there is some conflict between that view of the case and the previous topic here, which speaks of measured service. So I quite agree with you that we are getting into a complicated discussion.

Governor Morss. I fancy most of the banks have some system or policy on which they arrange these salaries, and we have that. We do not publish it, however. It is not known how we arrive at our conclusions, for the use of the officers and the salaries.

Governor Seay. We have quite an elaborate system ourselves of arriving at that. It is a matter of con-

27

tinual comparison and study.

The Chairman. How many employes have you?

Governor Seay. We have about 550 in our bank at Richmond and nearly 200 at Baltimore, but I am a little puzzled to know what the word "standardization" means there, when compared with the other topics under the same number.

The Chairman. Well, these salary sharks will give you a sufficient list of reasons.

Governor Fancher. We have been working in our bank for several months on this very problem, trying to standardize salaries, that is, trying to determine that a certain position in this department bears a relative value, in point of service, to a position in this department, and trying to arrive at a standard.

Governor Seay. You mean practically the same as I have just described.

Governor Fancher. Our committee has been working for three or four months. They are also giving some thought to this measured service too, in our transit department, and in our money department, but have not as yet made a report. They are in the midst of arriving at some con-

b28

clusions.

The Chairman. I infer that there are a few banks here that are progressing towards this standardized basis of salaries. That is what we are trying to do, and it would suit me quite well if this topic can go over to the next Conference, as it was suggested by our bank, and possibly the matter will develop further, if that is agreeable to you gentlemen.

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"(h) Should there be direct pouching of mail in the several Federal reserve banks?"

The Chairman. The next is also one of our topics. We have been told that the Federal Reserve Bank of Dallas has a classified postoffice in connection with the bank. Is that correct, Governor Van Zandt?

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Governor Van Zandt. A lettered sub-station in the bank, yes sir. There are different sub-stations. Some handle one thing and some handle others. A lettered sub-station handles all character of business of the postoffice. The mail on the train is pouched direct to Station K and goes right into the bank there. It never goes through the postoffice substation, or through the general postoffice. The mail in our bank is pouched

b29

directly to the trains, and we have succeeded in getting the pouch on our bank on to trains that carry nothing except pouch mail. For that reason, all of the banks use our postoffice facilities in their New York and Eastern remittances, and it saves them just twenty-four hours between Dallas and New York to use our postoffice.

Governor Seay. How near are you to the local postoffice?

Governor Van Zandt. Three or four blocks, three blocks, I believe.

Governor Fancher. Do you accord any of the facilities to any other people besides your local banks?

Governor Van Zandt. The postoffice is on the third floor and they take the employes' elevator and go up there and buy registered letters and buy postage stamps.

Governor Fancher. You have to deal with the public?

Governor Van Zandt. Oh, yes. You have to have a lobby for them, to deal with the public.

The Chairman. Are the clerks subject to the civil service rules of the Postoffice Department?

Governor Van Zandt. The clerks are postal clerks. We have nothing to do with the clerks at all. We do

b30 not even have a key to their door.

Governor Seay. Do you also use the postoffice?

Governor Van Zandt. Do we also use the postoffice?

Governor Seay. Yes.

Governor Van Zandt. Oh yes, at times.

Governor Seay. Along with pouch mail? Do you use the regular postoffice too?

Governor Van Zandt. In what way?

? Governor Seay. Do you handle all mail that comes to your bank through the station in the bank?

Governor Van Zandt. No. Station K closes at 7 o'clock. Everything after that has to be handled through the regular postoffice.

Governor Seay. We have in our bank a man who was formerly an employe of our postoffice, and he has prepared a synopsis of the advantages and disadvantages, and he thinks that there are advantages in some respects and disadvantages in other respects, as the postoffice in our city is operated. I presume that makes a difference in every locality.

The Chairman. Well, this question arose, gentlemen, by reason of the fact of our experience in New York. We

have a contract station which is not a classified station as in the case of Dallas. We pay the employees ourselves. They are not subject to the civil service rules, and it is not under the control of the Postoffice Department. The mail goes directly to certain trains and is sorted there. In some cases it goes directly to the postoffice, I understand. We find that the volume of mail--particularly the mail going to other Reserve Banks, is sufficient so that if we were permitted in this contract station to cancel stamps and make up a pouch, say to Chicago, we would save a vast amount of time right in the bank, irrespective of any other time that is saved. In other words, we would save one or two or three hours in the time at which we have to close our remittance letters. The matter was studied at some length, and I took it up with the Postmaster General recently, and he has indicated to us that he would be quite willing to have our contract modified so that we could cancel stamps and make up our own pouches to any point where the amount of mail justified it. In that event, if we made up pouches to the other eleven Reserve Banks, or even to the other eleven Reserve Banks and

their branches, those pouches would be handled directly from our office right to the Reserve Bank for immediate delivery, without opening the mail bags, provided the same facilities were arranged at the other end. The Postmaster General has indicated his willingness to consider a proposal that all Reserve Banks do this and that the service be extended to the extent that it is justified by the volume of mail. The study that we made in New York has led them to estimate that, varying according to the day of the week and the volume of business going through, that it will increase the number of checks which we will receive in time for morning clearing, between five and twelve million dollars a day; that it will increase the amount of credit in the balance of the Treasury of the United States at least \$1,000,000, and infrequently, not so often, but as much as two or three million dollars.

Governor Seay. That is, incoming mail?

The Chairman. That is incoming mail. That would be the compensation to the Government and to us, this more prompt credit, in having the mail pouched to us. We cannot estimate the amount by which you would be affected by

b33

getting similar mail pouches direct from us and from the other Federal Reserve Banks, but it probably would be considerable; so that we want to recommend to the other Reserve Banks that steps be taken to consider, first, the establishment of contract stations, if that is satisfactory, in all Reserve Banks where they have not been established, and, second, a plan by which mail may be pouched and routed direct to destination, right from one Reserve Bank to another. We do that now with registered mail. You will be interested, I think, in some figures bearing on that. We have incoming mail averaging 12,000 a day. In the outgoing mail an average of 9,470 pieces a day. We receive every day on an average of 500 registered packages and we ship out over 673 registered packages. We receive 24 pouches every day and ship out 23 pouches every day. The amount of postage on outgoing mail, registered, is \$155.78 per day. Ordinary mail, \$286.51 per day. That is a mail bill of over \$440.00 a day. It is a large postoffice, in point of fact, and if we can pouch this mail direct to destination, we save the resorting and rehandling, and it will go direct from our office in the mail and remain right there, to

p34

the train and through to the other end and will be delivered direct to the bank.

Governor Fancher. Do I understand that the Postmaster General is giving favorable consideration to your application to do this?

The Chairman. Well, he wrote and authorized us to do it, and to take it up with the postmaster in New York, and inquired in his letter why was not this a good thing for all Federal Reserve Banks to do. He is a very progressive individual, by the way, and if there is any way in which these matters can be facilitated, I would suggest that you go right to him and he will do it.

Governor Fancher. Would you suggest that each of the banks correspond with the Postmaster General and put the case up to him?

The Chairman. I would.

Governor Seay. Our expert suggests that some efforts be made with the Postoffice Department whereby we will be allowed to dispatch our letters without the use of postage stamps. That is, by bulk, or by weight. That would avoid the cancellation of stamps. He is a postoffice man. I don't know whether that can be done or not.

The Chairman. I do not know whether the law permits it.

Governor Morss. Mr. Chairman, we have made what we think quite a satisfactory arrangement with the postmaster in Boston, to have a postoffice in our new building. We have it located and planned out for them. I cannot remember just the circumstances, but we have the regular postoffice people there and postoffice authority, though we pay them, I think. We inquired of Dallas what they were doing, and they said they had this lettered postoffice, by which they were obliged to admit the public. We do not like that.

The Chairman. No, we would not want to do that.

Governor Morss. Our arrangement does not leave our postoffice open to the public at all. We have it fixed up so that we have it quite satisfactory. I cannot go into all the details. It is only to show that it is possible to be done.

The Chairman. Well, gentlemen, this can be presented to the Postmaster General in detail, from each Federal Reserve Bank, or if you please we can get the

b36

mail men at the bank in New York to present it as one matter when we hear from them.

The Federal Reserve Board is going to join us in a minute to go on with the joint program. What is your view about the method to be employed in this matter?

Governor Morss. It is all done, so far as we are concerned.

The Chairman. You do not pouch direct?

Governor Morss. I could not tell you what we do on the details.

The Chairman. That is the main thing.

Governor Morss. I suppose we would.

The Chairman. You might pouch direct to a mail train, or you may pouch direct to the postoffice, but the sorting has to be done. What we accomplish by having a separate pouch to Chicago is to hold that pouch back and catch the mail at a later hour.

Governor Seay. You have to have, in the first place, a sufficient quantity of mail for that train. It depends on the volume of mail. That is one of the important points.

Governor Fancher. We are pouching to the train and cancelling the stamps in our substation now.

B37

The Chairman. Of course, that is just a step that we want to cut out. Would it be agreeable to the Conference for me to have one of our men who has studied this matter prepare a description of the whole subject, just how we have gotten it up, and submit it to each bank in order that it may be submitted to the Postmaster General, when we have it rounded up?

Governor Fancher. Yes, I think that is satisfactory.

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(Whereupon Governor Harding, Mr. Hamlin, and Mr. Platt, of the Federal Reserve Board, entered the Conference Room and the following proceedings were had):

Governor Harding. Gentlemen, I wish to present a committee from the American Farm Bureau Federation:

Mr. George A. Mansfield,

President Oregon Farm Bureau Federation,

Medford, Oregon.

Dr. W. H. Walker,

President California Farm Bureau Federation,

and Executive Committee American Farm Bureau Federation,

Willows, California.

Mr. O. E. Bradfute,

Vice President American Farm Bureau Federation,

Xenia, Ohio.

Governor Harding. I will say to the gentlemen of this committee that this is a Conference that we hold every spring, and these gentlemen, the Governors of the various Federal Reserve Banks, come long distances to attend, and they are very busy men. We will try to give you all the time that you want, but we hope that you will be as con-

cise in your statements as possible, because we have a great many things to consider.

We would be glad to hear from you now on any subject that you wish to talk to us about.

Mr. Bradfute. Governor Harding and gentlemen:

I think perhaps rather than coming to you in an attitude of telling you something, we are here more in an attitude of beggars than anything else. I am quite sure that most of you know that the agricultural situation in this country is a tremendously serious one. If you have not lived in the country, as I do, perhaps you cannot see it as I see it; but the farmers of this country are broke, gentlemen. We are seeking relief of some sort, and we hardly know where to turn for it.

We are well aware of the fact that there seems to be money in this country, but the farmers actually cannot secure enough means to finance the planting and growing of the next crop, and we are wondering what attitude the Federal Reserve Banks of the country are going to take toward us; whether or not we can look to you for any aid, or whether or not we will have to look to some other source, and find out whether there is some other

40

means of financing the farmers of this country.

Now, as I say to you, it is a problem that I am frank to confess we cannot solve. We are not bankers, as a class. We are not financiers. We simply don't know how to go at it to solve it. I am a plain farmer myself, living five miles from any city or village, and my business has been to produce, as best I can, various crops. I live in southwestern Ohio, and we have been doing the best we could, but our products have gone down to a place where the money which we can get for them when we can sell them, measured by its buying powers, is almost down to a minimum.

Governor Norris. May I interrupt you with a question?

Mr. Bradfute. Certainly.

Governor Norris. When you said just now that the farmers are not able to get money for making this crop, were you referring to the farmer who is, according to ordinary standards, entitled to credit from his bank, or the farmer who is in the position that the farmers were in a year or two ago, who were unable to obtain credit?

Mr. Bradfute. We are told by men sometimes, in our local banks, when we go to them, men who often have fairly good sized farms, unencumbered in any way--it is not a

b4 question of whether they want to loan to us. They say to us that they haven't any money.

Governor Fancher. Is that true in Ohio?

Mr. Bradfute. We are told that in cases, in Ohio. Some of our people were told that, frankly, right at Xenia, Ohio.

The Chairman. It might interest you members of this committee to know that Governor Norris, who has just been questioning you, was lately Commissioner of the Farm Loan Board.

Mr. Bradfute. Yes sir. Now, whether they are misrepresenting to us, we do not know, but I want to frankly state to you that the question has become so serious that the farmers are in a state of unrest, and I do not know how we are going to smooth it over with them, or how to satisfy them.

Governor Fancher. May I inquire right there, you say this was at Xenia, Ohio?

Mr. Bradfute. Yes sir.

Governor Fancher. You got this report from the banks at Xenia, that they have not got funds to loan?

Mr. Bradfute. I have been told by men who have fair

2 acreage of land that they were not able to get funds because the banks said that they did not have enough to go around. Just how large a sum they asked for I do not know. I am not prepared in this case to give you specific cases and names and things of that kind. I wish I were, but I am just saying that I have been in session with the farmers in this city, members of the Farm Bureaus from nearly all the States of the Union, and we had day before yesterday Governor Harding come over and tell us something of the workings of the Federal Reserve banks, and I understood him to dare to hint there might be some constructive way of planning by which the farmers could be better financed; by which we could find some way out of this hole.

Governor Strong. Has Mr. Strivings been attending those meetings?

Mr. Bradfute. Yes sir, he was at the meetings.

Governor Norris. I just wanted to say to you, in the questions that I have asked and any others that I may ask, do not think I am asking them by way of cross examination or anything of that sort. On the contrary, any questions that I ask, and I am sure any other

343 questions that any of the other gentlemen will ask you, will be intended to help, so that we can get right down to the problem and see whether it is one that we can help or not.

Governor Wellborn. I would like to ask a question at this point. This farmer that you spoke of applied to the bank for credit. Have those farmers on hand now commodities unsold?

Mr. Bradfute. Some of them have; but take the illustration of some of the farmers who are wool growers: Their wool is perhaps in a pool and they have not control of it by which they can sell it.

Governor Seay. May I ask if they are already borrowers at the bank and could not get more, or if they were applying for funds?

Mr. Bradfute. I do not understand so. Now I am well aware of the fact that there are a large number of the renter class, and I will just say frankly, they are broken up. They cannot offer much security. They haven't got it.

Governor Seay. Are they usually financed by their landlord?

Mr. Bradfute. In some cases, yes. I think in most

b44

cases they are, but I think I could illustrate it with a case something like this, that shows something of the distress: I had a tenant who was leaving me and made a public sale. He was trying to buy--had a bargain made for a little farm. He had enough money to pay down a part of it. He made the sale. He had seen the bank before the sale was made and asked them on what terms he should make the sale, in order that he might present the paper without discount. They told him that if he would have the paper drawn from three to six months at eight per cent that they would accept the papers, that is, if the notes were bankable, were made by good people, that they would accept the paper without discounting it. He made the sale on the strength of that. He received his notes and took them to the bank to be told that they simply had so much of that kind of paper that they could not take any more. I endorsed the paper. I don't know whether I am good or not, but I have been mostly with the banks around there. I endorsed the papers for him, but it did not make any difference. He has to hold those notes until they become due. The bank could not use them. Now they were refused by both the Xenia National Bank of Xenia, Ohio, and by the

45

Exchange Bank in Cedarville, Ohio, which is not a National bank and is probably not a member of the Federal Reserve Bank system, as far as I know. I think the Xenia National Bank is.

Governor Harding. I presume you understand that the Federal Reserve Banks have no power to force any member bank to make loans if they do not care to do so.

Mr. Bradfute. I understand that, but I am simply giving you an illustration of the conditions as have happened in numbers of cases.

Now we understand that you haven't any right to say to that bank that it must take this paper, nor do you know whether the papers are good. You are simply accepting my statement, but if I had gathered them up, I think I could bring you a number of illustrations of that kind. However, I am going to say to you frankly that the distress I do not think is nearly so great in Ohio as it is in some of the Western States, and I fancy that these gentlemen here are prepared to give you instances of difficulties of which I do not know, but perhaps they can tell you about that. I am speaking for the territory with which I am acquainted, and will say frankly that

546

I do not think we are in as much distress as the others, but I hope they are not much worse than we are.

Governor Fancher. You say it was a bank at Cedarville, O?

Mr. Bradfute. Yes sir, the Exchange Bank.

Governor Fancher. I am the Governor of the Cleveland Bank, and I am glad to get this information.

Mr. Bradfute. The Exchange Bank I think perhaps ordinarily would have financed it better than the other bank, but the men whose names were on those notes were not patrons of that bank, and I think you understand the situation. They were mostly patrons of the Xenia banks, the farm being in that neighborhood.

Governor Seay. Is any one of your committee from Maryland, Virginia, North or South Carolina?

Mr. Bradfute. No. These gentlemen are both from the West. The member of our committee who was not able to come this afternoon is an Iowa gentleman, but he was not able to come at the time appointed.

Governor Strong. Have you heard expressions from Mr. Strivings in regard to the attitude of the banks in the New York District?

7
Mr. Bradfute. Not particularly. I think he was one of those who indulged in some of the questioning yesterday, but not so much perhaps as others.

Governor Strong. You gained no impression from the discussion in which he took part that there is any particular complaint in the Second Federal Reserve District?

Mr. Bradfute. No. I do not recall that Mr. Strivings called attention to any unusually serious difficulties. Frankly, the western fellows rather feel that the Eastern fellows have put one over on them; that they have been getting what money they wanted but the western fellows have not been getting their just deserts.

Governor Strong. I would like to hear that theory elaborated a little bit, if you could.

Mr. Bradfute. I will frankly say that I cannot do it, but I think these western men could tell their own story.

Governor Biggs. In the event that these banks that you have mentioned, if neither of them had borrowed or used the facilities offered by the Federal Reserve System, where then do you think the fault would lie. I know nothing about either bank. This is a thousand miles

b48 from me.

Mr. Bradfute. I am frank to confess to you gentlemen that my knowledge of banking is wonderfully limited. I am simply here as a seeker for a way out rather than to try to tell you how we can get out, because we do not know. We are at our wits ends. Whether you can go into the matter and find some way that would be helpful or not, I do not know. I will say to you frankly that if you can find a way that will be helpful to the farmers of America, the Federal Reserve Bank System will have an appreciation that they have never had before, to say the least, and I fancy you will have done something for this country that has not been done lately. It is a case of real financial distress, and I do not know who else we could come to to help solve that thing. The Farm Loan Board is trying to help us as best they can. They are working manfully on that job, but there are lots of things that they can not reach.

Governor Fancher. I do not think that either of the Xenia banks are borrowing a dollar from the Federal Reserve bank of Cleveland. I have been away from the bank for three weeks, but the banks of Xenia have never used

b49

us very freely. I do not think that they are borrowing a dollar, so that they have not come to us and made our facilities available to themselves.

Mr. Bradfute. I think ordinarily they do not show much signs of distress. I think they are usually in pretty good shape and they usually have money, but they seem to be short just now.

Those are the only cases that I have heard of, although I cannot just at this minute name a specific case, other than this one. I think perhaps if you will hear from the other gentlemen, that is all I will have to say just at present.

MR. GEORGE A. MANSFIELD:

I want to begin by saying that we do not come here in the attitude that possible some of you gentlemen think we do. We do not come here prepared to show specific cases where the Federal Reserve System has not served the people of Oregon, because I live in Oregon, and I believe that no sane man in the United States of America would question the fact that the farmers had not been served in the State of Oregon by the banks. We are not prepared, therefore, to give you the names of men who have been denied

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50

credit. It is an admitted fact in the state of Oregon by everybody that the farmers have been denied the credit, and have been denied credit on the ground that they ought to be forced to sell their grain. We come here as a committee from the American Farm Bureau Federation, charged with the duty of reporting to that Federation some plan for financing the farming, and we come to you in the hope that we may receive some helpful suggestion along that line.

We take the position in the West that there is no financial system arranged for the farmer. We have been led to that by a number of circumstances. I remember reading an interview by the Governor of the Federal Reserve Bank in which he said that the Federal Reserve Bank was not designed to finance the farmer; that it was designed to handle short-term paper. The farmers feel that they have no financial system designed to meet their needs. The farmers in Oregon feel something like this: they say that during the war they were called upon to get in and raise big crops and help win the war, and they did it. Many of the old men returned to the farms, and they increased production. They were told immediately when

b5

the war was over that they were to help restock war-torn Europe. I joined in that, as President of the Farm Bureau, and advised them to keep all their breeding stock and to put in a large crop, and that we had to feed the world during the period of reconstruction. About that time came what is known in our country as "deflation". We have been told how that deflation was brought about. I had to start in by inquiring of Governor Harding of the Federal Reserve Board certain facts about that, but I have never been able to arrive at any person who wishes to shoulder the entire responsibility for deflation.

Now understand we are not looking at this as bankers. We are not trained bankers. Banking is a business, and I think too often, when a man becomes highly specialized and highly efficient in a particular business, it is barely possible that in some cases he comes to look mostly at that business and does not look very widely over the general field. I know of course that is not true of the Federal Reserve Board, but I say that is barely possible in some cases.

Mr. Platt. We are not all bankers, on the Board.

Mr. Mansfield. I am glad to hear that.

The farmer is not looking at this strictly from
locking at it
a banking standpoint. He is/ from a standpoint that he
has this crop on his hands--he is looking at it from
the standpoint that he feels that we should put in the
banking business the principle that we are all -- all
interests in this United States, in whatever profession,
more or less in partnership, more or less mutually de-
pendent upon each other, and that it is highly important
that agriculture should be helped over. We feel there
could be some permanent means of helping the agriculture
over this period of depression, because agriculture as-
sumes a terrific risk in endeavoring to feed the world
at all. If you take the man who puts in a thousand
acres of wheat in Eastern Oregon, he goes to the bank
and borrows money to pay for his labor during the year,
or at any other time, he assumes, without being held
very closely to the figures, and only designed to ex-
press the sense of a great disparity--he assumes at
least twice the risk that the man does who speculates
on exchange in wheat, because he takes all the inci-
dents of weather and of the many things that may happen
to that wheat and puts into it his personal effort, and

53

still he is betting that that wheat is going to be above the cost of production, when he gets to market. The man who raises beef is betting four years ahead on what the beef market is going to be.

The farmers have been caught at this particular time. The western farmers are caught with a crop on their hands that was raised by very high priced labor and therefore they face a staggering loss. Now, here is what we have been told--as I say, gentlemen, do not call on me for proof, for I am not prepared, but this is just generally what is understood all throughout that country. I will make some statements directly that were given to me by Mr. Frederick Greenwood of the Federal Reserve Bank at Portland. He explained this matter to us, and I will give you his explanation. I will say to you that Eastern Oregon is practically dead broke. A man that raised a hundred thousand bushels of wheat, they cannot pay their last year's labor and supply bills. The banks cannot loan them any more money. I talked to bankers in Eastern Oregon and they said because the Federal Reserve Bank would not rediscount their papers, upon the ground that the farmers should not hold their grain, but should sell

b54

it immediately, they could not loan any more money. Now that is what they tell us all through that country. So, we understood early in the spring, when this deflation was threatened--it was told to us like this: it was said that deflation had been decided upon. We had never been able to understand exactly who decided that, but before I get through I would take great pleasure in having somebody on this Board tell me who decided that deflation was necessary to begin, and who decided that it was necessary that it should proceed at the pace that it did proceed; but we were told that deflation had been decided upon; that it was highly necessary, and that it had been decided to begin first to call the cattle loans and the sheep loans and to follow that up by calling the agricultural loans generally, and then to follow that up by calling the automobile paper and in the other lines of business to restrict the credits less and less, as you went on up, on the ground that that was the proper way to do it. Now we do not know whether that is true or not. We do not undertake to come before this Board and prove that it is true, but that is what we are told, and that is the way it pro-

b55

ceeded in Oregon. They immediately began to call the cattle loans. I know men who had increased their herds--I cannot give you their names and addresses now, but a fellow came up to me and he says, "You fellows" -- meaning the Farm Bureau--"have broke me by urging me to increase my breeding herd". He said "I could have sold out in January, 1917, for \$20,000." He said "I increased my breeding herd, and the bank has closed me out. I have dumped this stuff on the congested Chicago market and the banks hold a judgment against me for \$8,000.00." He said "You fellows are responsible." Those instances are so common that we never thought anybody would question that. Before I get away from that point, Mr. Frederick Greenwood of the Federal Reserve Bank came before the Oregon State Farm Bureau, and he began with the usual talk, from the banker's standpoint, by saying that deflation was highly desirable and highly necessary. He said that our gold dollar had shrunk in purchasing power until it was only worth about 45 or 50 cents on the dollar. I do not remember the exact amount. He said it was necessary to deflate; that it was necessary to deflate as rapidly as possible.

b56

He then said that "we have been accused out here on the coast of not financing the farmer". He said "We have always financed the farmer during what we term, as bankers, the productive period, but as soon as his wheat is harvested we will not loan him a dollar upon it, because it is his duty to sell that wheat in order that the wheels of trade and commerce may move and business may go on. Therefore we wont loan him a dollar after harvest, because then it becomes a marketable commodity." Now I interrupted him at that point and I said "Are you not handling the paper and rediscounting for Mr. Houser of Portland, for hundreds of thousands of dollars, and perhaps millions of dollars, sent in from your member banks all over Oregon, Washington, Idaho and Utah?" I said "He is buying this same grain and you are letting him have the money through the Federal Reserve Bank to buy it. I wish to ask you this question, whether it is now an agricultural product in his case, or a marketable commodity."

Mr. Houser was buying that grain. You ask me to give the names of banks or places, and I am not prepared to do that, but I could get enough proof to satisfy every

b57

man in this room. Mr. Houser went to the very banks that called the loans of the grain farmers, and borrowed money. We can find instances of where the farmer had to sell his wheat crop and liquidate his note at the bank. Mr. Houser comes along and borrows more than the total amount of the liquidation, to buy the same grain. Well, that is all right, from a banking standpoint, but the farmers look at it from an entirely different angle. They look upon it, with the banking system of the country--we do not look upon the banking system as being a money-making institution. It may be an ignorant way to view it, but we look upon it as a system whereby money is made liquid in order to carry on trade and commerce, and that should be its primary function. We do not look upon it strictly from a cold-blooded banking standpoint. We feel that agriculture deserves in this crisis certain consideration. That was Mr. Greenwood's explanation. I asked him this question, and I gave you the basis for that. When I went in there to have this matter out with our banker, he told me what had been decided upon, but I want to say that in the beginning he did not tell me that the Federal

358

Reserve Board had done this. He just said "we have received orders from the higher ups". That is the way he expressed it.

Governor Calkins. May I say right there, he never received any orders from the Federal Reserve Bank on any question.

Mr. Mansfield. Well, I know, but I will tell you, the farmer would like to find out just how that was. But he told us this, in trying to explain the A B C of financing, he took a big statement. He said "I don't suppose you would read the Wall Street Journal." I said "Yes, I will read anything." This is a colloquy between us and the banker, a man who had loaned our farming organization lots of money. He has been very good to us. But I called in to tell him about this, and he told me "You farmers had better begin to get close to the shore, for trouble is coming." That was in the spring of 1920, early in the spring. He says "They are going to call your cattle and sheep loans", and they were called shortly afterward. I protested. I said that it was an outrage, and I went over about what I have said to you gentlemen. He reached over and took a paper--I don't remember

b59 whether it was the National Bank or the City National Bank--and he said "Now, look here. Money is like any other commodity. It goes where they can earn the greatest amounts." He says "Look at the amounts borrowed by that bank from the Federal Reserve Bank." I remember the figures well, and it showed that they were owing the Federal Reserve Bank \$8,874,000, and our banker said to me "Look at the Wall Street Journal and you will see that call money is away up. It has varied from 9-1/2 to 25 per cent." He said "That money is borrowed from the Federal Reserve Banks to be reloaned on Wall Street. It is borrowed at 6 per cent and it is reloaned at from 9-1/2 to 20 per cent". So I asked Mr. Greenwood about it. I am going to show you the state of the farmer's mind out in Oregon. I asked him if that was true, that the Federal Reserve Banks had loaned this money. We are not questioning the fact that the Federal Reserve Bank has a right to loan on good collateral, but we are just simply finding out whether a man, because he had good collateral, could go to the Federal Reserve Bank and have extended to him the credit of the Government of the United States at 6 per cent for speculation purposes, when our

farmers had their wheat stacked along the track there and could not borrow a cent on it. I want to show you gentlemen that it was not a question of the proportion that they would loan. They would not loan anything on it in Eastern Oregon. Mr. Greenwood's explanation was that they had no means of knowing whether the banks were using this money for speculative purposes or not, and had no power to inquire into it. Now, this may sound very peculiar to you gentlemen, from a banker's standpoint, but I want to tell you further that just after I got on the train in Chicago Mr. Hunt, who is County Agent of Morrow County--Hepner in Morrow County, I think it is--he lives at the town of Hepner--he told me that they had a case in which one of the banks at Portland had returned paper sent up from one of their banks in that county by a man who did not owe a dollar. He had sold his wheat and paid off his indebtedness, and he tried to borrow money for next year, and they returned the note and said that they would not loan any more money in Morrow County until our grain was put on the market, and liquidation was more extensive in that county. They returned the note and told him that this particular man had

b61

paid his indebtedness. He wanted this put to his credit. He says "I can send you a letter in which they said that until Morrow County had more largely disposed of the wheat crop that they did not feel like extending any more loans to Morrow County." Now I say to you gentlemen that I have traveled all over Eastern Oregon, and I have talked to men in every walk of life. I have talked with bankers, and I am going to give you simply the result of my observation there, for what it is worth. These conditions being as we believe them to be, the farmers have appointed this committee that you see here, to try to erect some sort of a financial system so that they will operate more efficiently. Now, if you do not care to tell us who decided on deflation and why it could not have been carried out more equitably, or to bring forward some system--I want to wind up by saying that I have stood up in Oregon and made speeches defending the Federal Reserve Bank until the thing got so hot for me that I could not do it any longer. I have made probably ten speeches defending the Federal Reserve Banks. Now we are here to gather information to report to the body of the American Farm Bureau Federa-

b62

tion some plan whereby the farmer can finance himself,
and as my friend here said, we will be glad of some
suggestions from you along that line.

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Governor Harding. I know that while you gentlemen are here you want to get some constructive suggestions, and in order to remove any misapprehensions which you may have I would like to show you this chart. It is not as complex as it looks and I can easily explain it to you.

We will take this line here, which represents invested assets of the Federal Reserve Banks, that means bills bought in the open market, the amount discounted for member banks and everything they put money out for; and I will call your attention to this sharp drop here, which are merely bookkeeping entries, because they occur every three months when the Government collects income taxes and when the banks get temporary deposits that put it up, and consequently the lines go down again when the Government withdraws money, and then go right up again and so forth. (Indicating on chart.)

Here in September of 1919, for instance, the banks had total loans and investments of all accounts to the extent of \$2,350,000,000. Then the thing went up during the fall of 1919, with just a little dip for Christmas time, and it went up again until the 23rd of January

when it reached \$3,300,000,000, when we had a curve of about 45 degrees. Now, suppose it had been kept up on that basis. It would have blown out through the top. Now, all in the world that the Federal Reserve Banks did was, about the 23rd of January, to advance their rates of discount and instead of charging $4\frac{1}{2}$ per cent they commenced to charge 6 per cent.

Now, you talk about the deflation that happened during the year 1920. You will notice that the general curve was upward, that while the total loans and investments of the Federal Reserve Banks on the 23rd of January was \$3,300,000,000 that on the 22nd of October and the 3rd of November it was \$3,400,000,000, and all that was done was just to regulate the rate of expansion. Then after the 4th of November there was some little liquidation and, as usual, in the fall of the year the loans began to go off; business had slowed up, and I want to call your attention to the fact that the great break in prices took place during the late summer and early Fall while the loans were still going up.

Mr. Mansfield. Yes, but that would be more

interesting if you could analyze and show us just who were getting those loans?

Governor Harding. It would be impossible to tell you; it is not known.

Mr. Mansfield. What the farmer contends is that there were enough loans made in Wall Street---

Governor Strong. I think I can answer the question with regard to Wall Street, because that is my particular bailiwick. During this period that you refer to the deposits of the New York banks declined about a billion dollars and the alternative presented to the banks in New York City was either to effect a contraction of credit or call their loans, which would have been disastrous to the country in any such volume, or borrow from the Federal Reserve Bank, and the loans which your informant refers to were loans which were made to enable that money to be withdrawn from New York for your very district.

Mr. Mansfield. I want to say in reply to that that if it was withdrawn for our district it never got there.

Governor Harding. Let me show you the chart with

reference to Federal Reserve notes, which represents Federal Reserve notes outstanding on the 1st day of January, 1920. On that day the Federal Reserve notes outstanding were \$3,000,000,000; about the middle of January they went down to about \$2,840,000,000. Then they commenced going up again and they kept going up steadily all during the year 1920 until on the 26th day of December, 1920 they reached the high point, which was over \$3,400,000,000, and since then they have been going off again. The gold reserve stood steady pretty well, and commenced last fall to go up a little bit. Now, we have a gold reserve, gold and lawful money, of \$2,400,000, and that gap between the Federal Reserve notes outstanding and the gold reserve is as big as it was before.

Mr. Mansfield. That is very interesting, but that is like the famous surgical operation in which the operation was a success but the patient died, and it does not help us much.

Governor Harding. The Federal Reserve Banks discounted during the year 1920 for their member banks about three times as much agricultural paper as they did in the year 1919---three times as much.

Mr. Mansfield. Yes sir, but we were told by Mr. Day of the Federal Reserve Bank of San Francisco about the credit that agriculture had received, but I think an analysis of those figures will show that they counted in there manufacturers of farm implements, manufacturers of plows, grain buyers, millers, and classed them all as agriculture.

Governor Harding. I will give you another index that cannot be wrong. You know the law says all paper of Federal Reserve Banks must have a maturity of not longer than 90 days, except agricultural paper and paper based on live stock which can run as long as six months, so the Federal Reserve Banks all keep a separate account of live stock and agricultural paper. During the year 1919 the Federal Reserve Banks carried on an average of about fifty-six million dollars of agriculture, six months paper. It reached the peak in September of 1919 and ran off steadily all during the fall of 1919, a little less in October than there was in September and a little less in November than there was in October, until in December, 1919, the total amount of agricultural paper carried by the

Federal Reserve Banks was about \$48,000,000.

Now in 1920, what do you find? You find that the amount kept on advancing. In September of 1920 the Federal Reserve Banks had \$256,000,000 of agricultural paper; in October they had \$258,000,000; in November they had \$260,000,000 and in December they had \$262,000,000 in other words they had over five times as much as they had the year previous, and instead of falling off in the fall of the year the amount of agricultural paper on hand kept steadily increasing a little bit. So, as you see, there must have been some accommodation extended the farmers through the Federal Reserve Banks during the fall of 1920. I have always thought that there was accommodation extended to the farmers and I believe the other gentlemen here think there was.

Mr. Bradfute. I am wondering if it is not something like this---and this is one of the things that makes a farmer think a good deal---and that is that we think that the manufacturer has been pretty well financed, he seems to be taken care of, but we discovered this Spring that if we wanted to buy a corn planter

that it takes four times as much corn to buy a corn planter as it did a year ago.

Governor Harding. I will tell you what I think is one of the great troubles with the farmer. As I told you gentlemen the other day, and Mr. Mansfield quoted me substantially, I guess, but not exactly; but I told you gentlemen the other day that I did not think that the Federal Reserve System could ever entirely satisfy the farmers because it is substantially a commercial system and it deals with the commercial banks, that is bank with bank; the law does not allow the Federal Reserve Banks to go out and make individual loans. I presume you are all familiar enough with banking customs to know this, that no bank can afford just to loan out its own money. If a bank has a capital of \$100,000 and has to pay for the services of a president and cashier and other services, and taxes and so forth, and attempted to loan out that \$100,000 the stockholders had better keep the money themselves and loan it out. The bank reaches around and gets deposits; and it takes the money which is put on deposit with it, and you will find that most banks

in the conduct of their business make a habit of deferring to people who carry balances with them. In the case of the merchant getting credit and the manufacturer getting credit, the situation is this. In some seasons of the year the merchants will carry five or ten or fifteen thousand dollars in the bank without owing the bank anything, the manufacturer will carry from five to fifteen thousand dollars with the bank without owing the bank anything, and when the manufacturer comes in to borrow ten or fifteen thousand dollars he feels that he is entitled to that accommodation on account of the balance that he carries and is in the habit of carrying with the bank. Unfortunately the farmer is not got any capital ahead as a rule; he has no money to put on deposit with the banks. You ask a farmer "How much balance are you going to carry with me?" and he will say "I am not going to carry anything with you. If I had money I would not be borrowing it from you;" so that the loan to the farmer is a net loan, everything that the farmer gets goes out. The banker is looking at it as a

9

business proposition. If he has got the spare money he will let the farmer have it, but he always feels his obligation to take care of the men who carry balances with him. The man who carries a balance up to ten or fifteen thousand dollars is more sure to get consideration when he goes to the bank than if he goes there and puts up good collateral, but never carries any balance. A man is in that position, whether he is a farmer, a doctor, a lawyer, or what not. If money is easy he can get it, but the banks take care of the person who carries a balance with them. For that reason, as I told you the other day I do not believe that the Federal Reserve System as it stands now, and I do not see how it can ever, be worked around to afford the farmer just exactly the facilities that he wants, and I suggest to you gentlemen to look around and see if there was anything else that you could use to supplement.

Mr. Mansfield. Under the present banking system, Governor, it does not meet the needs of the farmer entirely, unless we can re-educate the bankers.

Governor Calkins. You would probably be interested

to know that in the Portland section of the San Francisco District, that is the Oregon section, the amount of pieces of paper under rediscount show that more than 75 per cent of the notes under rediscount for member banks by the Federal Reserve Bank were notes made by farmers for agriculture or live stock purposes. There is no question of analysis, because, as Governor Harding has said, those notes are conclusive, and they represent 75 per cent of the pieces of paper under rediscount.

Mr. Mansfield. What does that amount to in volume?

Governor Calkins. I cannot tell you in dollars, but it was 75 per cent of the pieces of paper.

Governor Harding. Is it not true that those loans are probably underestimated because six months paper includes nothing but agricultural paper, and there would be shorter term paper which is agricultural, that would be classified as maturing in less than six months and would not come in that class.

Governor Calkins. There may be something in that but 75 per cent of the facilities extended by the Federal Reserve Bank in Oregon were extended to farmers. If you advance \$5,000 to a \$5,000 farmer you have ex-

tended the facilities of your Federal Reserve Bank just as much as you do when you advance \$500,000 to a \$5,000,000 corporation. Now that is a conclusive statement demonstrating the point in dispute, that the Federal Reserve Bank in the District of Oregon has extended to the farmers more than their proportion of its facilities.

Mr. Mansfield. What about the proposition of refusing the farmer a \$5,000 loan on 50,000 bushels of wheat and loaning Mr. Houser three times that amount on the same wheat?

Governor Calkins. Mr. Mansfield, the Federal Reserve Bank does not refuse farm loans or grant farm loans. It discounts the paper for the member banks, and we have no control over the member banks' actions.

Mr. Mansfield. You refuse paper through your member banks.

Governor Calkins. No Federal Reserve Bank has ever called a farm loan unless it was due or past due.

Mr. Mansfield. I understand of course, how it

operates, the member bank sends the paper up for the Federal Reserve Bank to pass on.

Governor Calkins. It has never refused to accept paper because it was based on a farmer's wheat---

Mr. Mansfield. I think I can bring numerous cases to prove that it has been done in Oregon.

Governor Strong. What you gentlemen very properly desire before you go, and what we desire, is constructive suggestion.

Mr. Mansfield. Certainly.

Governor Strong. I do not believe that is going to follow from attempting to fix some responsibility in any definite transaction upon some individual. I would like to refer to two or three of the points that were made in the course of your discussion.

You inquire as to the man who gave this order for deflation. I know of no such order being given. It happens that during the year 1920 I was travelling, I had a year of leave. I reached Japan in the Spring of 1920 and found that this deflation order had been given there long before it was given here. They were in the throes of a liquidation

much more severe than we have experienced.

The same condition was observable in the ports along the Chinese coast, at Hong Kong, Shanghai and Singapore. I found the same conditions in Java, and when I reached India they were in a condition of absolute distress. What is called the "hoonda," the native note of hand, largely made by farmers, was being protested daily; bills drawn for importation of goods from all over the world, drawn upon the native banks and bankers and importers were being dishonored, were not being accepted. When I got to France I found the same condition in France and the same condition in England. It would appear from your remark, as though some gigantic conspiracy had been devised around the world to bring about this condition to which you refer, but it was not a man made affair, something ordered by a supreme czar of finance.

Governor Harding. May I interrupt you a moment?

Governor Strong. Certainly.

Governor Harding. I want to stress your point by saying that these world-wide conditions are apparent

to the people who make a business of studying these things, who think about nothing else. They think they see these things in advance, while sometimes the ordinary man, who is busy with his affairs, does not see them. You will remember Easter Sunday was a very warm Summer day, a very hot day. We had hot weather two or three days before that. The weather forecaster came out and said that Monday night there was going to be a freeze, that a freeze was coming that would damage the fruit crop. A good many people got out their smudges and protected their fruit crop, but I do not think anybody has blamed the weather man for the freeze; and there will ^{not} be because they gave warning of the freeze. There was no reason to say that somebody had made that freeze and that he was responsible for it, no human being was. Now all of this financial trouble we had last year was foreseen by a good many people and warnings were given out, and some people accepted them and acted on them and others did not. Just because warnings were given as to what was coming, is no reason why responsibility should be fixed on any individual for what happened.

Mr. Mansfield. I have been trying for a year to fix responsibility but I have always found somebody to pass the buck. I want to say this as to my own impression, that I got my impression from circular letters and speeches before the American Bankers' Association showing a plan for deflation, by statements from our bankers, from statements by the Federal Reserve Bank Manager in Portland, as a matter that was coming, that deflation was coming, that it had been agreed upon by the bankers and was going to be carried out in a certain way. Some of you gentlemen may have attended the American Bankers' Association and you will remember the speech that was made there to the effect that the farmers during the war had learned extravagance and it was necessary to restore pre-war conditions.

Governor Strong. But I do not believe you want this body to accept responsibility for every statement that has been made on this subject.

Mr. Mansfield. No, but I am explaining where I got my impressions. I did not want to come here and be put in the attitude of some fellow that comes

in with forest burs entangled in his mane, but I am going on what I received through the press of the country and from the bankers themselves.

Governor Strong. If you will permit me to continue--

Mr. Mansfield. Certainly.

Governor Strong. I will try to explain our position to you.

We believe, and I think the students of the subject generally believe, that irrespective of any policy that might have been adopted by any particular bank or system of banks, that what has happened was bound to happen anyway. This great wave of expansion of prices had reached its climax and it was bound to break. It broke the world over, and the mere fact of some person accepting voluntarily responsibility for it, if I may use such strong language, is really non-sensical, because no one could have stopped it and no one could have started it. In our opinion it was bound to come. It was foreseen abroad and it was, to some extent, foreseen here. I think it is no injustice to this body to say that the storm signals were raised long before the storm appeared.

Some of your remarks in regard to your attitude are undoubtedly justified by conditions. You are alarmed about them, we are alarmed about them, but I am led to believe that you are influenced by statements, possibly unauthorized statements, that appear in journals by newspaper men and by others who know nothing about the subject.

Now, particularly in regard to the policy in New York,---I could detain you a long time in explaining the policy of the New York Bank,---but in brief it has been to avoid the possible development of the very thing with which we are now charged, that is that the resources of the Federal Reserve Bank should be diverted to speculative purposes to the disadvantage of the legitimate business of the country. You will agree with me that the farmers are not the only legitimate people in the United States that require credit. Customers of the farmers in New York require credit. They are an essential part of the machine that makes the market for the produce of the farmers of the West. The transportation systems need credit in order to move your crops. It is more particularly the responsi-

bility of the New York Bank to take care of the credit requirements of the customers of the farmers rather than of the farmers themselves; but as to the resources of the bank being deferred to speculative purposes I can assure you, from my own knowledge, without referring to figures, that the Federal Reserve Bank of New York, since September of 1917, has laid a very heavy hand on the speculator. He does not like us. He thinks we have interfered with his legitimate vocation and he thinks so to this very day; and without expressing it in figures, which is not necessary, but you may accept my word for it, so far as security speculation is concerned, there is a smaller volume of credit employed today in security speculation than in any recent years and since before the war. The policy of the Bank of New York has been to confine the extension of credit to those banks which showed a disposition to support the legitimate business of the district. I might go so far as to say that our policy is now designed, as I have already expressed to these gentlemen, to keep the banks in a strong enough position so that if occasion requires this year we can use our resources for

the benefit of the other Reserve Banks that are carrying this load in the agricultural sections.

We deplore and regret the influence of statements that are made about the New York Bank just because of very large loans extended to certain individual banks there, because they do not represent or reflect what is actually transpiring at all. Those loans are simply made to enable those banks to return to the interior the deposits that have temporarily been there and which are now needed in the agricultural and other sections of the country.

We have been engaged in this meeting for some days, and expect to be here for some days longer, in discussing these very matters. For my part I feel it is very helpful to hear what you have to say and I think that is the feeling of all the Governors of the Reserve Banks. If we had a magic remedy for your difficulties which was in our power to bestow upon you you could carry it away with you from this room right now.

Mr. Mansfield. We are sure of that.

Governor Strong. What you have said I can promise you will receive the utmost attention by the men here. I have known them for years and they have one object

only in mind and that is to serve the business interests of this country and your interests.

There has been no discrimination against the farmers; there has been no such discrimination in New York. The only way in which we can extend any relief to you in the West is by doing exactly what we have done, that is to enable the New York banks to return deposits to the interior, to lend very large amounts to their correspondent banks in the interior, and they have for some time past been loaning the largest amount in their history to their interior correspondents, and if it becomes necessary to lend our resources to the other reserve banks we propose to do it and to continue to do it. This meeting, if you please, will discuss the conditions that you have referred to; we have already spent an entire morning with the Secretary of the Treasury in doing that very thing, and we will see what comes of it. It is a matter that we must confer about amongst ourselves, and if constructive suggestions arise, we hope they will be exhibited by improvement of conditions in your district.

Governor Wellborn. Mr. Mansfield, you quoted

from Mr. Greenwood a few moments ago. What position does he occupy?

Mr. Mansfield. He is Manager of the Federal Reserve Bank of Portland.

Governor Calkins. He is Manager of the Portland Branch of the Federal Reserve Bank of San Francisco.

Mr. Walker. Gentlemen, I will not detain you but a little while. We are not unmindful, as students of economics that the curves of prices and finance now practically correspond to the prices of the Civil War. We knew that. I have talked on that and have lectured on that, I have told the farmers that, but the farmer thinks this about the situation: He cannot cover, his crop is planted, and he wants to finance it and it is a one year turnover. Of course that situation makes it very difficult. In California I took charge of Dunn & Bradstreet figures and I showed the Civil War curve and I showed the curve of today and they are corresponding very minutely. But it was coming, and what could we do. We have a six months credit and at harvest time our loan is called.

Now, the plan---but as a matter of fact, we have

22

not a plan; it is immaterial if somebody did do this, because we know that the conditions are world-wide; but what I am anxious to know is if next year, or the next year or the next year we cannot get together and devise something that will take us over these very distressful times.

Governor Strong. Do you feel that the pressure which has been felt in the agricultural districts is the result of some direct concerted action taken by the banks in that section?

Mr. Walker. Oh no, but on the other hand one bank that I know of in particular,---it wasn't a Federal Reserve Bank, but it corresponded with a Federal Reserve member,---they borrowed in a little country town \$700,000 to tide over the farmers, and when that loan was called it had this effect economically upon the community. Of course the farmer is entitled to pay his note when it is due the same as anybody else, but when these notes became due, the short term loans, they became due just about market time and it practically bankrupted that whole community to pay back that \$700,000, because they had to sell at prices

that did not pay the cost of harvesting, whereas they felt that if they could have been tided over and have gotten a rediscount that it possibly would have saved the day not only for the bankers but for themselves. The bankers must face a bankrupt constituency there because their customers that have been dealing with them for years are practically bankrupt. I know that they are absolutely down and out. The local bankers were doing all they could. I am speaking of California. I have travelled all over the State, from the Southern part to the Imperial Valley, going out there just before I came here. In the Imperial Valley the conditions were very acute all the way from harvesting cotton clear down to other things. They could not get additional money even to harvest their crops. I am sure, with all the wisdom that there is here and intelligence and desire to help, that we can institute something that will relieve us somewhat from the disastrous conditions which not only have hurt the men who have to furnish the finances, but that have hurt the producers also.

Governor Strong. Of course you understand it is

exceedingly difficult for the Federal Reserve Bank to say to a member bank, which has made a loan which it might consider to be not a bad loan, that it must extend it and take a loss, because that is a species of control which no Federal Reserve Bank can exercise over its member banks.

Mr. Walker. I understand, but as you know, there are money lenders and money lenders, but what we want to invoke in this matter is your broader sympathy and charity,---although I do not think you could call it charity---but if a man owns a farm of several hundred acres and he is producing a crop, and he is a good customer of yours/^{and}you hold his note, it is the part of wisdom to keep him going instead of breaking him in one year.

Governor Strong. I think so.

Mr. Walker. The bankers all through, as I saw it in California, and I do not know of an exception, were sympathetic towards their customers, but somebody was pressing them and they would say they had \$100,000 which was borrowed from Chicago and had to be paid to Chicago. What the farmers needed was a little longer time, and

what I have to suggest here is that we should have had longer time, and if we could have had an extension of the loans, it is possible we might have avoided trouble. On the other hand you might have said that you did not know that the market in another year or six months was going to be any better than it was at that time, but we do know that putting all of the goods on the market at one time broke the market and made the security and the property that they had less valuable---

Dr. Miller. Where did you say that was?

Mr. Walker. In California.

Dr. Miller. What part?

Mr. Walker. I refer to all of California.

Dr. Miller. But I mean about this specific case.

Mr. Walker. The specific \$700,000 loan?

Dr. Miller. Yes.

Mr. Walker. That was in Glenn County.

Dr. Miller. Where was the situation worst in California, as you observed it?

Mr. Walker. I have been all over California. I am President of the Farm Bureau there and there isn't a town in California, except Fresno but what it weeping. Of course the transient trade in Los Angeles

makes a difference.

Governor Calkins. Won't you particularize a little bit more? There isn't a town in California but what is doing what?

Mr. Walker. But what is hard hit, and hard stressed. That is as I have seen them. Of course I have not examined the bank accounts.

Dr. Miller. But everybody is weeping. The farmer must not think that he is being singled out as a special object of attack.

Mr. Walker. I understand that.

Dr. Miller. This deflation has been extremely indiscriminate. It has fallen alike upon the just and the unjust.

Mr. Bradfute. But it has fallen heavier upon the farmer.

Dr. Miller. I think I would question that statement, because it has fallen just as heavy on the purchaser of farm products. I think if you will inquire into the condition of the Portland mills you will find that they have suffered relatively just as severely as any farmer in Eastern Oregon. I think if you

will inquire into the condition of the milling industry on the coast you will find that they have suffered as much as the farmer. They have paid high prices and have suffered loss in large part. That is nothing to their credit. These things when they come come very much as lightning. Nobody knows who is going to be first struck and who is going to be hit the worst. That is the reason why I ask the question whether there is any particular section of California that you have observed where you have observed the situation has been more acute than it is generally.

Governor Calkins. I would like to ask the gentleman to continue with what he started to say a few moments ago about the Imperial Valley. It is probable that conditions in the Imperial Valley are more acute than in any other part of California---I do not mean any other town in California,---but those conditions in the Imperial Valley are due to the fact that the tire manufacturing concern has suffered a greater loss than any other concern in the country has and is now perhaps bankrupt, so that the farmers cannot go to that concern, with whom they have contracted to sell cotton, and make any money to harvest the cotton

with.

Mr. Walker. You spoke of the tire manufacturing concern. They contracted to pay the farmer 60 cents on the cotton and when the cotton came to be harvested they were practically bankrupt and they said that the only thing they could give to the farmer was stock in the company. The farmer did not have any money so the contracts have been worthless with that good tire company. Another point where they are practically in distressful condition is the rice region---

Governor Calkins. Are the difficulties in the rice region due to lack of finances?

Mr. Walker. No, but---

Governor Calkins(interposing) To an act of God and nothing else in the world!

Mr. Walker. If you want to hear the story it is one of the most vicious combinations of human individuals that I think was ever put over on an unsuspecting people.

Governor Calkins. And an act of God added to it.

Mr. Walker. Of course that added to the difficulty.

Governor Calkins. The rice is unharvested today; it has stood out all winter unharvested.

Mr. Walker. The peculiar thing about it is that those people who have not harvested their rice are glee-ful and glad because they say they are in better shape than they would be if the rice was in the warehouse.

Governor Calkins. That may be true. I happen to be sympathetic in this matter, because aside from the fact that I am Governor of the Federal Reserve Bank of San Francisco, I am a plain farmer.

Mr. Walker. I am from Willows, so we are not so far apart. Mr. Carlson of the Oakland Bank told me that that combination were lucky that they were not in the "pen."

Governor Calkins. That was an extremely vicious combination in the rice district which you come from, but the situation is due to two things, first the combination of which you speak and second, and following that, what is plainly an act of God, and that is early rains, which made it impossible to harvest the rice and which destroyed about 50 per cent of it.

Governor Norris. Before these gentlemen leave, I would like to summarize two or three points with them.

Mr. Walker. If I might ~~say~~ just a word more be-

fore we go. Another thing which I think is chargeable to agriculture, from the economic standpoint, is that tenancy is increasing tremendously. The money is secured by the land, but to conduct the agricultural business the tenant must put up just personal collateral and is supposed to maintain agricultural credit---

Governor Calkins(interposing) That is the trouble in the rice district.

Mr. Walker. The trouble in a good many districts was that they were attempting to finance two things with the most valuable part of agriculture taken from agriculture to secure money to finance other industries.

But the big thing is that if you people can cooperate with us to work out a better system---I am certain that a better financial system can be devised. I was very much interested in reading the history of about twenty years ago in the statement that the financial system that we had then could not be improved. Some writers said that it was so perfect it was almost Divine in its perfection, but now we are wondering how we get along with that old financial system.

In the crisis which has been precipitated we have this remedy of the Federal Reserve Banks which come to the rescue of the banker in distress, and can we not go a step further and have a remedy for agriculture in distress? I believe we can. I do not look for any Utopia here on earth that is going to give everybody who is inefficient, untimely credit, but we are just and reasonable, and I think we are sane.

Governor Harding. What is your remedy?

Dr. Miller. What is it you want specifically? Can you mention the specific thing in the way of a credit problem that you think the farmers want?

Mr. Walker. What we want---we want the financiers and the agricultural people to get together and work out this problem.

Dr. Miller. What is the problem?

Governor Norris. I think I can tell you what the problem is.

Mr. Walker. One of the things suggested, one thing that I think of right now, that seems to have been very serious is the short time credit to farmers.

Governor Seay. You want capital for one, two or

three years, or how long do you want it?

Mr. Walker. It will have to be on longer terms. We cannot go into the market with a man who has six or eight turnovers a year. We have only one turnover in agriculture, and sometimes, in beef, for example, one turnover in three years. A man is either compelled to go in business with capital enough to finance him during those three years or he has to get that capital, and if he has the capital he is foolish to go into the business, but he had better go into something else than farming. It looks then as if my statement must put agriculture on a preferential basis to anything else. When a man comes in at the end of thirty days and takes up his paper and makes a new loan, and does that again, how much is he paying for his money at the end of the year at present rates. Agriculture will not stand that, that is all.

I am not in the attitude of blaming anybody. The Federal Reserve System has just developed, these things are developing and we are going to improve it. The Federal Reserve System has been a tremendous step in the right direction. I was talking to Senator

Owen the other day from Oklahoma. We had a long conference, and I recognize that out of chaotic conditions you have developed something that is wonderfully beneficial. I think after making that step we can go a step further and develop something better. Agriculture needs a longer term of credit. We realize that a man who has no security cannot have credit, and we recognize that and do not want gifts nor charity. I wish to thank you gentlemen for this opportunity.

Governor Norris. Governor Harding, as I stated to you a moment ago, I would like to just summarize two or three of the points of these gentlemen before they leave.

I want to say first that so far as I am concerned that what they have had to say has fallen on very sympathetic ears. For nearly four years I had to study these questions almost daily. The problems of the farmers were my study and my interest during all that time. A great deal of what you have said today I have said myself many times, and I think that you have stated it here today with great moderation and courtesy. If I had been in your position I would

have stated it with a good deal more directness and perhaps with some heat, which you have not exhibited.

Now the point that I think that you ought to remember, to approach it in a proper spirit, the points you have got to remember are first these: To get out of your heads any idea that Governor Harding or the Reserve Board or the officers of the Reserve Banks, or any other individual or group of individuals brought about this deflation. As Governor Strong said there is no man or group of men in the world who could either have caused it or prevented it. It was the inevitable outgrowth of world-wide conditions and it is not confined to the United States. As Governor Strong has said it began in Japan and it has extended through all the world, not only to Europe but to Cuba and to South America. The conditions are the same all over the world.

Secondly, the facilities of the Federal Reserve System, such as they are, were extended continuously throughout the whole period in which these declines in agriculture and other products were taking place, and both the loans and the currency issues of the

Federal Reserve Banks were higher at or near the end of 1920 than they were in the beginning. So far as the direct heads of the Federal Reserve System accomplishing any result at all in the direction of inflation or deflation, it was as Governor Harding has pointed out to you, that they flattened and reduced the rate at which expansion was taking place, and instead of the line going up at an angle of 45 degrees, they flattened it out to perhaps twenty or twenty-five degrees. They put the brakes on a little on continued inflation. That is all they had to do with the inflation or deflation.

Third, that as so far as discriminating against agriculture or agricultural paper is concerned, a much large proportion of the loans of the Federal Reserve System have been devoted to agricultural purposes in 1920 than in 1919 or in any other year of the operation of the System, and the figures that have been collected as to the amount of agricultural loans do not include the loans to fertilizer concerns, implement manufacturers or any other people of that class. When the Federal Reserve Board asked for those figures from each

bank, I did not know whether it was in response to a request from Senator Owen or a Senatorial Committee, but I asked the question whether it was intended that we should include all loans that were under the general head of agricultural purposes, or whether they ought to be confined strictly to loans to farmers. The reply was that it was to be confined strictly to loans to farmers, and the figures that were given from our district, and I suppose from every other district, included only strictly agricultural loans to people who were engaged in farm production.

Fourth, as has already been stated, I think it is probably true that it has borne on the farmers harder than on any other class. It has always been the history of the world that when anything nasty was going to be distributed the farmer got his first. I think the farmers got theirs first this time and they have had it worse than a good many other people, possibly worse than anybody else; but take the large concerns that deal with the farmers, take the Central Leather Company, that deals in hides, and I think they wrote off something like ~~twenty~~ twenty-five or thirty million

dollars last year in loss on inventory. Take the American Woolen Company, seeing this thing coming, at the end of 1919 wrote off seven and a half million from their inventory to cover anticipated losses in 1920. That wasn't enough for them to write off and they had to write off an additional amount this year.

Mr. Bradfute. May I interrupt you?

Governor Norris. Certainly.

Mr. Bradfute. I wonder how much the farmer had to write off on his wool and on his hides.

Governor Norris. I am not arguing that the farmer did not suffer.

Mr. Bradfute. He wrote off twice as much as the other fellow on the same proposition,

Governor Norris. I am not arguing that he was not hit harder, I am only saying he was not the only sufferer. The American Woolen Company is not the only buyer of wool. That is only one company and it wrote off that amount.

Mr. Mansfield. Yes, but they had made millions of dollars during the war profiteering off the American people.

Governor Norris. I am not saying that the farmer did not suffer and that these other people are entitled to any special consideration because they suffered, but I am only saying that the suffering extended all the way around.

Now take the Federal Reserve System as a possible help in this situation, and what are the facts? In the first place we have the fact that we cannot make a loan to anybody but a member bank. We cannot act at all; the bank pushes the button. We cannot make them make a loan; we cannot say to them that they shall make a loan; we can in some cases say that we do not want certain kinds of loans made to carry stocks and bonds and for other speculative purposes, but we cannot make them make loans. We can only meet their applications when they come to us.

Now, that being the fact we cannot meet this situation. The national banking system that you were alluding to a moment ago as it existed prior to the Federal Reserve System was created for the benefit of manufacturers and merchants. When the Federal

Reserve Act was passed it coordinated, systematized and improved that system and it contained one little benefit for agriculture. It provided that whereas in any other industry a Federal Reserve bank could not discount a note that had more than ninety days to run, that as to agricultural paper they could discount up to six months. It also contained a provision, that has never amounted to anything, that a ^{not} (Federal Reserve Bank) might loan a certain proportion of its resources on farm mortgages, to run over a certain period of years. Now, I suppose those two provisions were written into the act as so many provisions are written into a good many acts, with an idea of doing, at least apparently, something for the farmer; but we might as well be frank about it and admit that practically the Federal Reserve Act did very little for the farmer.

Governor Harding. May I interrupt you just a moment?

Governor Norris. Certainly.

Governor Harding. You know the law says the Federal Reserve Banks can loan on six months paper for agricultural purposes up to a certain percentage of their

assets, to be fixed by the Federal Reserve Board. The Federal Reserve Board fixed the percentage at 99 per cent.

Governor Norris. Now, Governor Harding has given one reason, the principal reason why the average commercial bank does not feel inclined to make loans to farmers, and that is because the farmers' balance with them is usually very small and they prefer to accommodate the people who carry good balances with them, or to cultivate new customers among the people who are likely to carry good balances with them.

Mr. Bradfute. Would the balance of the average farmer, would not that balance compare pretty favorably with a manufacturer, that is I mean the per cent, which he might want to borrow with the amount that the manufacturer might want to borrow? In the aggregate I think you will find that the farmers' deposits are pretty large. You could hardly imagine a production in this country of billions each year of products and yet a situation where they would not have money in the bank.

Governor Harding. The answer to that is that

the loans to the farmers are pretty large also. I know in the year 1920 the Federal Reserve Banks, and I might say in 1919, the Federal Reserve Banks discounted for member banks strictly farmer paper amounting to \$721,000,000 and in the year 1920 the Federal Reserve Banks discounted strictly farmer paper for member banks amounting to \$1,980,000,000, which shows that the Federal Reserve Banks were loaning some money to the farmers, and when you consider the non-member banks which have large loans with the farmers it shows that the banks are making loans. You have made reference to the poor tenant farmer who hasn't anything to depend upon except his landlord---

Governor Seay. Governor Harding I would like to say a word or two with regard to that point when Governor Norris is through.

Governor Norris. I will be through shortly, Governor Seay.

Governor Seay. Please do not hurry.

Governor Norris. In addition to that there were two other things that operated against the farmer. One was the fact to which one of you gentlemen alluded, that he wants longer credit and does not turn his stuff over as rapidly as the merchant, and another is the

fact that he is ordinarily situated in a rural community where there isn't a great deal of money about.

Now gentlemen I do not believe there is any kick at this time from the farmers in New England or through the New York District. I know there is not from the Philadelphia District. Probably the reason for that is that those are small farms through those sections where there are little county towns or other towns nearby where there is an accumulation of money; but when you take the great plantations of the South and the great wheat fields of the West, where there is sparse population, there hasn't been an accumulation of money that enables the bankers there to adequately take care of their farmer borrowers.

Now, these facts were all recognized in 1916 and Congress, intended to provide a system for farm financing that should stand side by side with the Federal Reserve System, recognizing that the national banks and the Federal Reserve System took care, as I say, of the manufacturers and the merchants, and that there was no banking system adapted to the needs of the farmer. Now, the trouble is that when they did that

they only half took care of it, and I think they took care of the smaller half. They took care of the long time requirements of the farmer, the farmer who needed to borrow to under-drain his land or fence or build a dairy herd or start an orchard, or anything that was going to take a period of years, and it provided him with the facilities for getting that long time money on an amortized loan at a low rate of interest, but it necessitated the creation of a first mortgage and therefore it is perfectly useless to the farmer who wants to borrow for three, six, or nine months to make a crop, to harvest his crop, and that void has never yet been filled and exists today, and that is lack of facilities for meeting the short time credit requirements of the farmer. I do not see how it can be made under any existing machinery, and I think what is needed is to establish in this country some such system as exists in most of the European countries, for some kind of cooperative short time rural credit with banks or loan agencies of some kind to administer it. Of course the basic principle of ~~that~~ that would be in some form of grouping of these various

applications for five hundred dollars or a thousand dollars or two thousand dollars whatever they might be, made by a multitude of farmers, so that they might be marshalled and used as the mortgages given to the farm loan system are used as security for marketable debenture bonds.

Mr. Walker. It would be more attractive to have an association to take a large loan than it would be if you have to disseminate it into many small loans to the individual farmers, from a financial standpoint.

Governor Norris. A great deal more attractive.

Governor Wellborn. Mr. Chairman I will be very brief, because it is getting late, but I want to say to these gentlemen that I am from the cotton growing district of Atlanta, and I believe our bank has gone to the extreme limit---the Federal Reserve Board does not question that---that we have gone to the extreme limit in helping the farmers with their cotton, their peanuts, their rice and their sugar.

Gentlemen, I do not suppose any complaint has ever come to the Reserve Board that the Atlanta

District did not do its duty by the farmers. But notwithstanding all that our products have gone down and down and down in price from 40 cents for cotton to 11 cents, notwithstanding we have held that cotton for them and carried it for them. I cannot conceive, gentlemen, of any financial system being created to lend money to produce a crop, to harvest that crop and then hold it and make another crop and go on continuously. That is almost an impossibility and I do not believe you can get up a financial system to do that.

Mr. Platt. Just one word with regard to New York and New England. They have had abundant credit, but I know Archie Sanders of Central New York told me that he was selling potatoes at 25 cents a bushel. No matter what the conditions are, if you cannot hold the prices up you might just as well sell the crop.

Governor Strong. Governor Norris of Philadelphia has explained what may not have been pleasant hearing, and that is something about what we cannot do. The limitations imposed upon the Reserve Banks are those limitations imposed by the law. We regard it on the whole as a good law, a law to perform the necessary

functions in a banking system. I believe there are some comprehensive and helpful things that can be done in the policy of the system. They were not suggested by what has been stated at this meeting, but they have been on our program since it was prepared some time ago. We have not yet reached a discussion of the policies which involved the subject which you have raised now, but I want, before I leave, to call your attention to one important matter about the policies of the Federal Reserve System. If we have something to accomplish, and we shout it from the house tops, particularly under the conditions that exist today, we invite the very conditions and the very developments that you are seeking to avoid. This is a new country. The people of the United States, beyond any other country, are speculative in their attitude of mind. They speculate in land, in building operations, stocks, commodities, anything that presents an opportunity for profit. We have witnessed the greatest decline in the value of stocks and commodities that we have ever witnessed in this country, and viewing it from the technical standpoint of the great money lending machine of the country,

if the Federal Reserve System should announce their policies in regard to the management from now on, which would lead the country to believe that everything is all right and we can go right ahead, we would suffer the very thing that would interfere with the very recovery that you want to bring about; we would start speculation and speculation is the one thing that the Federal Reserve System has fought, although we are accused, and it can be shown unjustly accused, of promoting it. The fact is we have fought it from the very beginning. Now constructive things, if they can be done, can best be done by doing them and not talking about them in my opinion. You might say credit is too expensive just now in the United States for the farmer and everybody else. It is not the cost of this credit that is interfering with the development of the interests of the farmers under present conditions at all. We hear very little complaint about the rates charged to the farmers for loans, and I imagine on the whole they are lower than they have been during a long series of years past. What the

farmers want just now, unless I am mistaken from your statements, is credit which they really require, if they have credit which is a bankable article, to enable them to make a new crop. They believe in many cases that a new crop will bring them through without disaster, and that is a matter which I believe in a measure the policies of the Federal Reserve System could help to deal with within the limitation of the statute. I do not want to lead you to believe that I think the Federal Reserve System can work a miracle. It cannot. It is resisting a situation which has developed beyond anybody's control. If you are willing to leave to this meeting the further discussion of this whole subject with the Federal Reserve Board it may effect some constructive results and I hope it will, and so far as we are concerned in New York we will do everything in our power to develop a constructive program. But you would be the last, surely, to advocate a policy which would lead to an outburst of speculation on the one hand and lead to any impairment of the ability of the Federal Reserve System to meet the legitimate requirements of business and of

the farmers. I think gentlemen if you can leave it with these men who are really more familiar with the conditions that you have been discussing than you can imagine, that they will discuss it thoroughly and in a generous frame of mind.

Mr. Mansfield. Probably I had better state to you specifically what has been considered. There has been considered having some provision made to the Federal Farm Loan Act which would provide for long time personal credit to farmers and it has been considered that some added legislation might be made to the Federal Reserve Act, and these farmers are considering forming some sort of a finance corporation to finance their commodities like wheat and things of that sort, some sort of corporation of their own. We had a wheat pool out in Washington and Idaho that has been very successful, financed by Mr. Jewett on gold bonds based on warehouse certificates for graded wheat.

Governor Strong. The copper people got together and financed a very large amount of their surplus production.

With regard to making arrangements to carry the

farm commodities, I would say that those arrangements are being made the world over. In the Strait settlements, in the Malay States you will find arrangements made to carry the surplus rubber and the surplus tin production; you will find coffee and tea in Java, and wheat in India; silk and rice---Burma is the only country that produces just now a surplus rice crop. This movement is taking place the world over. You may be suspending the sword of Damocles over the farmer in future years. If he is able to put himself in a position to go ahead and do business without a crop hanging over him, the way the coffee crop of Brazil hung over the coffee grower there for five years, he will be in much better position. In the long run the history of that type of movement shows that it is an unfortunate thing in its ultimate consequences to hang up much of a crop.

Mr. Walker. I would like to say that we are not approaching that thing blindly. As the American Farm Bureau we have established an economic department to make available the resources and conditions in the world with regard to those things, and

we would not just blindly tell a man to hold his wheat against a tidal wave coming in from all the world.

Governor Strong. I am speaking somewhat of the farmers in the South. Some of them I believe were rather deluded into carrying their cotton too long and all of the crop was put on the market at one time when the fall loans had to be paid.

Governor Seay. Governor Harding, I would like about three minutes to say something in reply to something that Mr. Bradfute stated. I am not willing to have minimized the assistance which the Federal Reserve System and the Federal Reserve Banks of the country have extended to the farmers. The popular estimate of the aid which has been extended by the Federal Reserve Board and the Federal Reserve Banks of the country to the farmers is not a correct one.

I am from an agricultural region, embracing the states of Virginia, North Carolina, and South Carolina, whose principal crops are cotton and tobacco.

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fls.

Cotton has declined about 25 per cent of its value from a year ago; that is very extreme, as you know. In that region the system of tenant farming prevails to a very large extent. Leaving out loans on Government bonds, one-half of all the money that the Richmond Bank lends is loaned to farmers, or loaned to merchants who carry farmers, for the running of farming operations.

You must not forget that the money which the Federal Reserve Bank holds is reserve money of the agricultural and the commercial banks, banks whose deposits, about 75 per cent of it, I believe, are payable on demand. And now the demands of the banks in our region, and in many other regions of the country, are crippled very largely by destroying those deposits. It must be manifest to you that the paper of the Federal Reserve Banks cannot be tied up in long-time loans when their deposits, which they must keep, are payable on demand in very large volume. If you lived in our region I would defy you to name a bank, or in any agricultural section of the country, to name a bank in

2

which they had not extended exceeding liberal accommodations. In many cases, taking these small banks in farming regions, we have left five, ten, fifteen, sometimes twenty times the amount of their reserve deposit in the Federal Reserve Banks. Take the two agricultural States of North and South Carolina, we are lending to South Carolina now 329 per cent of the amount of credit to which she is equitably entitled, and to North Carolina 215 times. They have not liquidated that credit. That shows we have not forced the payment of those loans. We are told by every one of those banks that the reason why they cannot liquidate those loans is because the farmers have not sold their produce and cannot sell their produce. There is proof incontestable that we are lending to the farmers, or lending to the people who lend to the farmers, to render his operations successful. Therefore I am not willing to say the minima assistance the Federal Reserve is rendering to farmers, and it is rendering just as liberally to commercial interests. That statement, as compiled, showed a billion and five hundred million which might be attributed to loans to farmers and to farm produce.

b3

As you gentlemen have had your capital destroyed, it will take one, two or three years to pull you out of the hole. You want capital. The Federal Reserve System has never undertaken to furnish capital, either to farmers or to merchants.

Mr. Mansfield. I should like to interrupt you to say to you that I am one of the greatest advocates of the Federal Reserve System in our part of the country. We have expressed it like this out in our part of the country, that the fellow who is shooting at you has got an awfully fine gun. You will agree with me in this, that when one of our farmers went to the bank over in Eastern Oregon and made a note of \$2,000 on 8,000 bushels of No. 1 Turkey Red wheat, with warehouse certificates attached to that note, and the cashier of that bank refused him credit on that and loaned Mr. Houser the same amount, the same day, on No. Turkey Red wheat--

Governor Seay. Let me tell you one thing in that connection. Governor Norris called your attention to the fact that we deal directly with our member banks. Suppose a member bank, to which we had loaned five,

24

ten or more times the amount of its reserve profits, should apply for a loan of say \$2,000 on cotton, suppose that bank was borrowing from us ten times the amount of its reserve deposit, is it in a position to come to us and get more money?

Mr. Mansfield. No, but I am speaking where this man went to the bank, and Mr. Houser would come in on the same day and borrow^{ed} the money.

Governor Seay. I will give you a parallel instance. Suppose Mr. Houser wants to buy that wheat from that man and has the place to sell it. If he buys it from the man, that man liquidates just so much of his indebtedness. If Mr. Houser sells it to somebody else, Mr. Houser liquidates his indebtedness to that extent. That is one relief it gives your farmer, and one relief to credit, but I am not arguing some specific credit.

Mr. Mansfield. I have no doubt the Federal Reserve Bank is a good thing in many States, it depends altogether on the man in charge of the Federal Reserve Bank, and the particular point of view he assumes toward agriculture. I should like to ask this further: We want constructive suggestions. For instance, we, as farmers, do not

believe the banking system of the United States is perfect. We believe that a system could be devised that would altogether avoid these terrific things we used to call panics, but which an old farmer out in our country said was "a panic with a muffler on this time". Now we would like to know whether the Federal Reserve Board is entirely satisfied with the banking system of the country, and we would like to have some helpful suggestions. We are out trying to figure some way out of this.

Governor Seay. You want something--

Mr. Mansfield. We want something. We know from experience we cannot affect the financial system without some suggestion.

Governor Seay. You want something the system was never designed to perform, and under the present procedure it cannot perform. You want to draft legislation of some kind or create some kind of an institution which can give you the capital credit you want?

Mr. Mansfield. We want a suggestion, do we not, Mr. Walker, from these gentlemen, of a constructive nature? We have got to work out a system which will

b6

finance the farmer over a long period of time.

Governor Norris. You cannot get that through in time to be of any use this year. It may be ultimately what we shall have to come to.

Mr. Mansfield. Yes, we know how the Federal Reserve System is constituted, we realize that. We know how other matters are handled. We know some of the things we suffer from. We run against this out in our country. Just the banks in our little town have bought nearly a million dollars worth of commercial paper; they like to handle that because it is more steady, they say; they do not like to be out with a loan to John Jones away out nine miles up the creek, and he comes in and tells them he has not harvested yet and cannot pay. They take that money and invest it in paper of Armour & Company.

Governor Calkins. Why do you not change your banker?

Mr. Mansfield. They all do it.

Governor Calkins. No, I beg your pardon, all do not do it, even in your section of the country. That is not a fair statement. You know that some of the banks in your district do nothing of that kind, and do finance the

7
farmer up in the hills.

Mr. Mansfield. Yes, they finance the banker.

Governor Calkins. You know what bank does that.
Now why not change your banker?

Mr. Mansfield. They are awfully fond of commercial paper, some of them.

Governor Calkins. It is profitable sometimes.

Mr. Walker. May I just ask this favor, may we take back a word that we might have the cooperation with you and your Board in working out some solution? I have not any plan, but I have confidence that Federal legislation can be devised to assist us during these depressed times, and since we have seen that agriculture not alone has suffered, is there not some way we can prevent these tremendous crises from bankrupting the people and causing them three or four years of capital loss, or must we just expect to go on and continually experience these things over and over again? I want to know if we can hope for that?

Governor Harding. I think to a very large extent your problems are our problems, on account of the loans Federal Reserve Banks are carrying indirectly for farmers

3

through their member banks. I do not think it is ever going to be possible, and I am as much of an optimist as anybody, but I do not believe it is humanly possible to devise a financial system that is going to make everybody prosperous all the time.

Mr. Mansfield. I cannot refrain from making this suggestion, the bankers came out all right this year.

Governor Norris. Not all of them, by any means.

Governor Seay. Not by any means.

Governor Harding. Do not, please, ^{have any} /misapprehension of that fact. If you knew what the bankers have suffered and have had to charge off, you could not say that. The best you can do is to minimize these things. Bear in mind the banker is not the fundamental cause of this depression. This is an aftermath of the war. Read the message that President Harding read to Congress yesterday, when he touched on some of these things. Bear in mind that the effects of war, the economical effects, are never felt while the war is going on, or immediately after, but there is an inevitable period of reaction and reconstruction following every cataclysm such as war, which we are experiencing right now. What happened is not only

b9

the loss of human life on the other side, children have died in infancy, but there is the economic waste and destruction, the loss of productive power, the loss of distributive power, and the loss of consumptive power which you in this country, and all of us, are feeling today.

The actual money cost of the world war is estimated on good authority as being an amount in billions of dollars which is greater than all the wealth, the real and personal value property value of the United States. That has been wiped out. It takes time to restore it, time and effort. You cannot do it over night, and, gentlemen, you represent the basic, fundamental industry in this country, and it has been hard hit. You represent, though, the backbone of Americanism, the hope of the nation rests with the people that you represent.

Do not let us lose our heads. I think it has been shown here that every effort has been devoted by those who are charged with the administration of the Federal Reserve System to give you a fair and square deal, and even more, to go the limit for you. I know that it is so. Of course, there might have been individual

b10 cases beyond our power to protect. But do not let us lose our heads. Bear in mind that you cannot create wealth except in one way, you cannot force a situation, you cannot create wealth by printing paper money; they tried it in Russia and have got to a point now where it is not worth the paper it is printed on. We have just got to make up our minds to make the best of it and to worry through with it, but do not make the situation worse by advocating unsound measures. Let us face the situation squarely, and let us try to bring about a better condition by forbearing with one another, by giving such necessary extensions, extensions that may be needed, and gradually working off this surplus stock that we have, try to produce a new crop as economically as possible, and in the course of two or three years we shall have recovered from this horrible condition from which are now suffering and which is the direct cause of the loss of the world's wealth, occasioned by the destruction of the world's wealth.

Gentlemen, the Governors of the Federal Reserve Banks come from every section of this country. We are very busy this week. They are going to return to their homes

b11

in a few days; they are here on work which concerns you directly as much as anybody else. They have a large and difficult program to carry through, but the Federal Reserve Board you have with you always. We are always here in Washington, and I want to say to you, on behalf of the Federal Reserve Board, that we sympathize with you, and we want to help you, we want to do what we can to help you work that out, and we are always at your service. You can send a committee to us at any time and we will confer with you and may be able to give you some suggestions as to any legislative matter you want to undertake, and we hope, we want to urge you not to be misled and favor unsound measures. Let us be sound and right and true to ourselves, whatever we do. If you do that, the Federal Reserve Board will be glad to cooperate with you and help you along in getting what legislation we can consistently approve of.

Mr. Mansfield. I want to say the Farm Bureau Federation has taken nearly eight months to work out a wheat market scheme, and if anybody can proceed any more conservatively than that I do not know how to go about it.

Governor Harding. I am sure it is a conservative or-

ganization.

Mr. Mansfield. We realize these world conditions, and the only thing is we do not want to bear any more than our just proportion of it.

Governor Harding. Do not let us think, though, that we can work out some scheme that shall be war-proof, that if we should have another war thirty or forty years from now that we might not have the same thing again, because I think it is inevitable.

Mr. Mansfield. We thank you all for listening to us patiently and hope some good may come of it. On the Governor's suggestion, we will hope the backbone will receive as much attention as it is entitled to. That is all we ask.

(Whereupon, at 6:45 p m, the Conference was declared adjourned until 10:30 o'clock Thursday, April 14, 1921.)

