

VOLUME 4

PROCEEDINGS

OF A

CONFERENCE OF GOVERNERS OF THE FEDERAL RESERVE BANKS

HOTEL WASHINGTON
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CONFERENCE OF GOVERNORS OF THE FEDERAL RESERVE BANKS.

FOURTH DAY

Friday, Oct. 28, 1921.

The Conference of Governors of the Federal Reserve Banks reconvened, pursuant to adjournment of yesterday, at 9.30 o'clock, a.m., in the Hotel Washington, Washington, D.C.

Present, as indicated in yesterday's record.

PROCEEDINGS

The Chairman. I understand the discussion last night related to the principles that should govern the fixing of the rates of discount by the Federal Reserve banks. Mr. Harrison has reported the substance of the discussion yesterday afternoon, in my absence.

Gov. McDougal. We should like to have the views of the representative of the New York Bank, Mr. Chairman.

The Chairman. To sum it all up I think you have got to consider that there are, as the basis of experience in banking, a variety of considerations that enter into the fixing of the rates of discount by the institution that holds reserves of the commercial banks.

One is the amount or percentage of the reserve of the bank of issue, and the question of whether the

reserve is unduly large or getting dangerously low.

Now, I have seen nowhere in the literature bearing on the subject of banking anything that is more illuminating than a discussion, as I recall it, by Walter Bagehot in his writings, in which he refers to the decline in the reserve of the bank of issue to what he calls "the point of apprehension"; that is to say, when the expansion of the liabilities of the bank of issue, or conversely, the loss of reserve by gold exports, gives rise to a feeling of certainty or apprehension, that is the justification for the bank to raise its discount rate and protect its reserve. I refer to that because it is one of the most illuminating phrases relating to the influence which the amount or percentage of reserve has upon the determination by the directors of the bank of issue in changing its rate of discount.

Gov. Calkins. Also the most effective sentence ever uttered with regard to the policy of the Bank of England.

The Chairman. Yes. Now, the converse of that naturally would apply according to my view if other conditions justified employing the surplus of an unduly large

reserve as the occasion or justification for reducing rates, and if reserves alone governed rate policies by the bank of issue, under such conditions as we have today, we would all be justified in greatly reducing our rates.

Most of us--I will exclude Governor Van Zandt and Governor Mellborn and possibly Minneapolis--but speaking generally, take the New York Bank with 82 per cent reserve, if the percentage or quantity of reserve, viewed from the standpoint of Walter Bagehot's formula, were the only consideration, we could put our rate down to 2 per cent, say, but I think one must admit that there are other considerations besides the quantity of the reserve or the percentage.

Now, what are those? One of them is unquestionably the relation which must be borne and maintained between the rate at which the reserve bank manufactures credit, in a sense, by lending to its members or to its customers, and the rate which credit brings in the market.

There is the greatest possible misapprehension about the way in which bank rate operates in the London market and the way in which it operates in this country. England, or the British Isles, are a very small banking community.

They have the entire industrial and commercial interests of the island served in banking by a very few banks, all of which have head offices in London or are so closely allied with London banks that there is not a very great variety of rates in England, such as we have in this country. Our banking system is comparable to the banking systems of all of Europe, with one set of conditions in Rome, one in Constantinople, one in Berlin, one in Copenhagen, one in Paris, one in London, and so on, and geographically and in every way, and because of the fact that we have not a French banking system, you cannot compare the influence of money rates in England and especially in London, and the rates of the Bank of England with similar conditions in this country, because they are not similar.

Further than that, the Bank of England really only makes one kind of loan in normal times of any importance. That loan or that extension of credit--it is not a loan--is brought about by the discount of bills of a substantially similar type, accepted by a very small number of acceptors, which are discounted at the Bank of England when the market justifies that taking place, by a very few firms, and not by banking institutions, and those

bills have a uniform market rate which varies very slightly, and which is dealt with on a very close margin of profit on the trading. In other words, the so-called trade bill, the accepted bill in the open market, which is the avenue of approach to the Bank of England, is a commodity with just as staple a rate and as stable a rate as any commodity in the world. That is the only rate of any importance, aside from war times, when the government is borrowing, which bears upon the rate of the Bank of England. With us here we have the stock exchange call money rate, which has an influence in New York. They have no Stock Exchange call money rate in London. We ought also to have commercial paper and the ordinary eligible paper of the banks. None of that exists in London, practically. All of the loans that are made of a similar character by these joint stock banks in London are made on overdraft account, and they appear on the statements of the joint stock banks as advances. They are not represented by a piece of paper which can be brought to the Bank of England and discounted. If they were, the Bank of England would not discount that kind of paper, unless under certain circumstances.

Therefore, the difference between what we have and theirs is very great. We have a great variety of different kinds of paper that can be brought to the Federal Reserve Bank that sell in the market at a great variety of rates, and our rate has to be adjusted with due regard to the relation between our rate and this great variety of market rates. It is a wholly different situation.

I was going on to say that the Bank of England has no such problem to deal with as we have, where in New York the influences bearing upon our rate are four--the Stock Exchange call money rates, the rates for commercial loans made by banks on promissory notes, the rate on Treasury certificates of indebtedness, and the rate on bankers' bills or acceptances--all four of those rates have a relation to our rate.

In the same way they have no such problem to deal with in London as we have here, where, as in Governor Miller's District, according to the condition of the usury laws and other conditions, the banks in one part of his District will be lending money at six per cent, and in another part of his District at ten or twelve, and the same way in Texas. The contract rate in Texas is 10 per cent. In

Nebraska it is 12, isn't it?

Gov. Miller. Ten, and in Wyoming and Colorado it is twelve.

The Chairman. In Wyoming and Colorado it is 12, and in Nebraska it is 10. The country banks also charge all that the traffic will bear, and the bank rates, which should be a restraint upon borrowing in Omaha and Kansas City, cannot prevent the possibility of very large profits to the banks in Wyoming and Colorado. No such situation exists in the central banks of Europe, and it does not even exist in Japan.

Therefore, we have a very puzzling and difficult situation to deal with in adjusting our rates, so that the Reserve Banks shall not be used as instruments for making an interest shave or profit ~~in~~ the borrowing.

I think those are the two fundamental or traditional influences that are first obvious in dealing with discount rates, but there are others more general in character. One is the general temper of the community, and whether it is in a speculative frame of mind, whether business is active or bad, whether there is a hopeful or a depressing outlook, and certainly as a matter of good judgment, certainly under these conditions of varying

rates that we deal with, one important influence in fixing rates is whether the public is in a frame of mind to speculate, look for rising prices, borrowing money in order to make money, or whether they are in a depressed frame of mind and will not employ the facilities of their banks, and in turn our facilities, just for the purpose of supporting a great speculative movement.

Now, there is still a fourth consideration, which is an important one, and that is the whole general subject and a great economical subject itself, as to the relation between the cost of credit and prices generally. We may find lots of differences of opinion on that subject, unless I am mistaken, as to whether rates should be fixed with a view to controlling prices or not, and my own belief is that while prices are affected by changes in the bank rates, by restraints upon borrowing, or by a liberal policy that encourages borrowing, that it is not the business, the duty or the function of the Federal Reserve System or of central banks generally, to deal with prices.

Gov. Calkins. You do not base that, however, on any experience since the establishment of the Federal Reserve System?

The Chairman. Oh, no.

Gov. Calkins. You sort of coupled it with the Federal Reserve Bank, and it appeared to me that that is an impossible combination.

The Chairman. No, I am speaking more from a historical standpoint, Governor Calkins. The Bank of England, which we generally regard as the best possible example to which we can turn for experience, possibly simply because the literature is published in the same language which we understand, the Bank of England is subject to a different influence with regard to prices than we are, because the bank rate in England operates directly upon the bill of exchange which is drawn in connection with the British import trade, and the importation of raw materials into Great Britain is a direct reflection of the state of trade in Great Britain, and consequently if they have an excessive activity in trade and too high prices, they are importing too much and exporting too little. In other words, if England becomes a better selling market than buying market, then the Bank of England begins to lose its reserve, and inasmuch as it is an international trade with them more than domestic, the effect of the bank

rate upon prices is almost instantaneous. When they put up their bank rate the pressure is on at once to sell goods, and pay loans, and that readjusts the price level to some extent.

Besides that, when the Bank of England now after long years' experience takes action of that sort, the sentimental effect of it is greater in England than it is in any other country, probably.

Gov. Miller. How long do they consider increasing or decreasing the rate of discount?

The Chairman. Before they do it?

Gov. Miller. Yes. Ordinarily, in case there might be some emergencies where it would be overnight, but such a matter of importance as you have just related to the entire British Isles and the great interests centered there.

The Chairman. I have never been in London when they have changed their rate, but I should say that the change in the bank rate is made in London by the Bank of England as the result of deliberation for one or possibly two weeks by the Governor and Deputy Governor of the bank and two or three of the directors who form a little inner council of advisors, except in time of emergency, where prompt action is required.

Gov. Morss. Mr. Chairman, I understand that the Board favor the reduction of rates all around at the present time.

The Chairman. I have heard that statement made.

Gov. Morss. Ought we to steer our discussion here as to what attitude we should take towards that?

The Chairman. Well, I was coming to that, Governor Morss. I do not think I have ever attempted to make any suggestion to the other Governors as to what their policies should be at all. I do not want to do it, but I think it is desirable to exchange views. We have only got a few minutes, but I want to explain what my theory of the situation is as to New York.

Up to the time that we entered the war, our rate was above the market rates generally. From the time we entered the war until last spring, our rate generally was below the market rates. Beginning in the spring of 1920 as to certificates of indebtedness, gradually progressing so that it included bankers' bills and now almost reaching the point where it includes commercial paper, our rate has gotten above the market rate. We are now above the certificate of indebtedness rate, and we are above the bankers' rate, and we are only about half a point

below the rate for the best commercial paper, and the Stock Exchange call rate, which is a little bit higher, I think, than it would be if certain influences were not operating.

The Stock Exchange call rate is no longer an important influence upon our rate, because the New York banks do not like to make Stock Exchange call loans. I want to point out what to my mind has been the impelling motive up to date in the rate reductions which we have made. When all of the large member banks of New York City were borrowing from us and paying seven or six per cent. for loans, every time they had any money over as the result of the day's transactions, they came and paid us off-- whatever they had over--and when they were short they came and borrowed it back again. So long as that condition continued with all of the member banks of importance borrowing from us, there was no competition to lend money in the market at all. All the money that was available to loan was applied to repaying us. Just as soon as a few banks got out of debt to us, then there was a competition to lend money in the market, because they had nothing to repay to us, and as that condition extended and a greater number

got out of debt to us, then there came a greater competition to lend money, and that was the influence that brought down money rates.

The reduction in our rate had no influence in the market. It was the competition to lend money that did it, just as competition to sell anything will reduce the price. So that we have proceeded upon the theory that we would let that condition work the market rates lower and lower, and as they went down we would go down.

Now, therefore, there are two modifying statements that I want to make. The first is this: I think that it would be of assistance to the business of the country to hasten that process of rate reduction if it is possible to do it, and we have endeavored to do it in New York principally in two ways. One is always to be in the market to buy bills, not in very great volume, but always have the pressure there to put out our money. The second, which is the most effective thing we have, is that the minute the books close, on an issue of certificates at the Treasury, we jump right in and buy every certificate that is offered in the market, and put them to a premium.

You know, when a thing sells at a discount nobody wants it. The minute that it goes to a premium everybody

wants it, and there is a little psychological influence made effective by our going into the market the minute the books close on these certificate issues and buying everything that is offered, and that has had a very wholesome effect in getting our rates down in New York, I think.

Now, the other modifying statement I want to make is this. I think in a broad way, speaking from the standpoint of the New York market, which is the market for the distribution of securities and credit generally, that we cannot afford in this country to impound all the monetary gold in the world and lock it up and not permit the world to do banking here and borrow money here. In other words, we are shutting down on the world's recovery and closing our markets, if we require gold payments for everything, and then don't use some of that gold as the basis of some extension of credit, and we feel in New York that the general recovery of trade around the world is going to be brought about by our making New York a good market in which the world can borrow money, and that applies to the whole country, but New York is where they first come.

So that our policy, I think, is to reduce rates somewhat faster so long as the speculative fever is not on.

In New York this would be the case if we were just considering the interest level or the state of our reserves or the state of prices, or any other individual local condition.

That, in a rough way, is about the way we are looking at things in New York.

Gov. Miller. Do you think the rates all over our country should be lower?

The Chairman. I think you have got to bring your rates down. I say this with some hesitation. I think you have got to bring your rates down there in response to the development of conditions, which you cannot bring about simply by reducing your own rate. You are not going to make money cheaper to the original borrower by reducing your discount rate. I do not think so.

Gov. Miller. Our experience shows that.

Gov. Van Zandt. We are not.

The Chairman. Whether there are means in Kansas City, for instance, of forcing rate reductions by commercial banks to their customers to such an extent that it will gradually extend over the district and effect a general lowering of interest rates, is a question I cannot pass upon.

I know it is within our power in New York to influence lower levels of rates by the market operations of the bank, to some extent. I think we had better go to the Joint Conference.

Gov. Miller. I just want to say one word. I am going away early this afternoon. Now, in view of the fact that we will probably have meetings of the Governors at different Federal Reserve points, we want to invite you to Kansas City for the first meeting. We have a nice building there and facilities, and we will agree to entertain you just as little or just as much as you desire.

The Chairman. Thank you, sir. It is duly recorded in the minutes.

(Whereupon, at 10:05 o'clock a.m., the Conference of Governors was recessed until after the Joint Conference with the Federal Reserve Board and the Agents of the Federal Reserve Banks.)

AFTER RECESS

The Conference of Governors reconvened, pursuant to adjournment, at 2:15 p m, at the Assembly Room of the Federal Reserve Board.

The Chairman. Governor Harding wants to know about our further meeting with the Board, and I rather think, if I may say so, that we will do better to go right ahead with our meeting this afternoon and meet with the Board tomorrow morning.

Governor Fancher. There are several members of the Board who will not be here.

The Chairman. There will be two absent, but I do not see how we can help that very well.

Governor Van Zandt. I so move, Mr. Chairman, in accordance with your suggestion.

Governor Fancher. One other question enters into that, when would we meet with the Board tomorrow? At the conclusion of our Conference?

The Chairman. How about a meeting at 11 o'clock and then we can have a morning meeting for an hour and a half?

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

The Chairman. Before proceeding with the regular program and as we concluded the discussion on rates, I would like to bring up again the subject of Mr. Myer's call, and I would like to read from this letter.

"I would suggest that you advise us if you are able to furnish us, (1) a man who has had detail and executive experience and who is capable and willing to assume considerable responsibility in dispatching the business of this organization".

Has anybody any candidate?

Governor Young. I had one, and I had made arrangements to have him down here, but unfortunately he has been ill and is not in physical shape to come at this time.

Governor Fancher. Is there any indication in that communication as to salaries to be paid? That enters into this matter

Governor Young. He will pay \$600.00 a month for that man, but will not pay any expenses.

Governor Fancher. I think that would be very helpful if we had some indication of the salary that is to be attached to the positions.

Governor Wellborn. I think I have a man in our bank

that would come up to his requirements. He is secretary of our bank, and he is not very busy at the present time.

The Chairman. Is he a man capable of dealing with detail?

Governor Wellborn. Yes, he is a very fine man. He is secretary of our Board, and I think he would like to come here. He used to live in Washington. He was secretary to a Congressman. He would like to come here for a month probably.

The Chairman. He would probably be needed somewhat longer.

Governor Wellborn. He might like it if he had to stay here somewhat longer.

The Chairman. What is his name?

Governor Wellborn. Joseph M. Slattery, secretary of the Federal Reserve Bank at Atlanta.

The Chairman. Is he a bank man?

Governor Wellborn. Yes. He has been at our bank for seven years. He sits with the executive committee some times. We sent him down to Jacksonville, Florida, to take charge of a branch bank there during the absence of the manager, and he conducted that. He used to be my

secretary at the beginning. He is a very fine fellow, and of course I would have to consult with him.

The Chairman. Next "The names of two or three men from their chief auditing staff capable of assuming duties of an assistant treasurer in supervising the work of certain clerical departments of this organization". Has any one a candidate?

Governor McDougal. We have already offered the services, I think, of such a man. Whether this is another one or not I don't know. I think we are willing to furnish another man from our auditing department.

The Chairman. Shall I put Chicago down here then?

Governor McDougal. You may do so.

The Chairman. How many?

Governor McDougal. The names of two or three.

ce / Governor Young. We will supply one.

lete Governor Fancher. Do you know about the salary attached to that?

Governor Young. No. My memory is that they had a little pencil memorandum alongside of the letter, and I think it was \$3600.00 per year.

The Chairman. Yes, that was \$3600, I think.

Governor Wellborn. You might put opposite Slat-
tery's name that he is a bachelor about 36 years old.

The Chairman. Third, a man to check collateral and
see that the margins required under the agreement are
properly maintained on all cleared collateral, by calling
it to the attention of the proper officer in charge.

Governor Young. How many does he want on that?

The Chairman. One.

Governor Young. He will need more than that. I will
furnish a man for that.

The Chairman. I may say that we would be glad to
furnish the men--would not hesitate to do it, but we
have a great many calls of this kind from Washington
and some from other places.

Governor Calkins. We would be glad to furnish a man,
but his expenses in coming from San Francisco and return-
ing to San Francisco would have to be paid by somebody.

The Chairman. I think that if we make this suggestion
to Mr. Myer, that he will have to take it up by correspond-
ence and work it out with each bank.

Governor Morss. I should think that the man in Boston
could consult the officers there.

Governor Norris. He does not expect us to lend him these men and to pay them on our pay roll?

Governor Fancher. No. Grant them a leave of absence and he will pay them.

Governor Young. But he said he could not very well pay any expenses and that they would have to make the salary large enough for the time that they were here to cover their expenses. I thought I had that arranged with one of our men that we were paying \$4800.00. He offered to pay \$7200.00.

Governor Norris. I do not believe that we can get very far in suggesting names. It seems to me all that we can do is to take this list and then suggest the names after we get home.

The Chairman. That is exactly what I am doing. "We want next a list of 25 bookkeepers". We can furnish some of those from New York.

Governor Young. We can furnish some.

Governor McDougal. Philadelphia has several bookkeepers, have you not, Governor Norris?

Governor Norris. We have 26 men under notice to leave, and I have no doubt that among them there are some

who would like to take some of these positions and would be competent to fill them, but I do not know the names of any of them now.

The Chairman. Do you have any in Richmond that you can let go?

Governor Seay. We have no superfluous men in Richmond.

The Chairman. These men must have had machine experience and bookkeeping experience.

Governor Calkins. What do they pay?

The Chairman. \$1800.00, I think, is what they had noted here.

Governor Calkins. I cannot send him any.

Governor Young. We have a lot of people who are going to be let out and they would rather take that than nothing, I imagine.

The Chairman. I will put down Philadelphia, New York and Minneapolis.

Governor Morss. How many bookkeepers do you want?

The Chairman. Twenty five.

Governor Biggs. We have 12 or 15 men there, but I don't know much about them. They all go out the 1st of

January. I just furnished ^{to} Mr. Glasgow a credit man. He is with them now. So I do not think we can furnish any men at this time.

The Chairman. Suppose that I turn this letter over to Mr. Harrison and ask him to prepare a reply. My thought is to ask Mr. Harrison to advise Mr. Myer that these banks have indicated a belief that they can furnish the men needed if they will be good enough to write to the banks and the selections can be made and the names and arrangements as to salary and so on can be advised by his office.

Governor Morss. There is no objection to writing him if we find any man when we get home?

The Chairman. No.

Governor Fancher. If such communications were addressed to us, possibly we might be able to help some. I cannot say off hand. If we had some idea of the salaries, we might be able to help if it is felt that the banks mentioned cannot furnish the entire personnel.

The Chairman. I have also received from Governor Harding some correspondence with a memorandum which he has received from Mr. S. P. Hixon, director of the Fed-

eral Reserve Bank of Minneapolis, I believe, in regard to a rate scheme which Governor Harding suggested might be submitted to the meeting. It seems to me that as the matter of rates was very well disposed of at the meeting this morning that it is no longer important to submit this correspondence, which came to me this morning before the meeting took place in this room. This was discussed yesterday, but I do not understand that any action was required, but this correspondence Governor Harding wants me to return to Mr. Harrison again.

Now, there are one or two other matters to clean up and get down to our calendar. We came to no conclusion yesterday, as a result of our conference with Senator Kendrick and his party on one point, that is, whether it is desirable for these Federal Reserve Banks, which are located in the cattle section, about sending a communication to their member banks. Mr. Myer has left and we would have to deal with Mr. McLean in order to make arrangements as to the terms of any letter, and it strikes me that we can leave the matter in this shape, without any action of the Conference, especially as only six of the banks are interested. It is really not the special

business of the other six, but I want to express my personal belief that if some letter along the line of our discussion, especially relating to the line of discount, which was brought up by Mr. Myer, can be sent by the Reserve Banks to the member banks out in that section, that it will help a great deal in connection with this general situation.

Governor Young. I do not think there is any such difficulty as that in our district. We corresponded for thirty days with a lot of member banks and told them that they might better get along with some finance corporation and come to us in a real emergency. I have talked that over with Mr. Myer, and it had his approval. We are not doing that with every bank, but some of these banks that are unduly over-extended. They have to have some assistance from somewhere, and I think their Governors have taken similar action; at least, those with whom I have discussed the matter have.

The Chairman. Well, this just concludes the record. I thought it was left in an unfinished condition. It is not a matter on which we would vote at this meeting. Certainly I would not want to vote as to what Governor

Young should do about the cattle business out in his district.

Governor Young. What I attempted to say was that we were doing what you suggested yesterday, and I think the other Governors in the agricultural and cattle districts are doing the same thing.

The Chairman. Now, another matter of unfinished business: Governor Harding surprised me this morning when he stated that the proposal for the issuing of a circular which he made in his address, in relation to charges which might be imposed in view of an interest loss, if you please, on the collection of checks by member banks, was made after consulting counsel, and that counsel favored sending out such a circular. That being the case, I suppose that we had better consider this circular and see whether it meets with approval or not.

Governor Seay. As I understood Governor Harding, he referred not to that provision of the act which requires the Federal Reserve Board to fix the charge which the member bank may make, but he referred to the charge which the Board might require the member banks to make in handling items received from these non-member banks,

which declined to remit at par.

The Chairman. No, it was just the other way.

Governor Fancher. It was just the other way around.

Governor Seay. It was the other way around?

The Chairman. Yes. Here is the draft of the circular.

I will read the first paragraph:

"Under authority of that part of Section 16 of the Federal Reserve Act which provides that the Federal Reserve Board shall, by rule, fix the charges to be collected by member banks from their patrons whose checks are cleared through the Federal Reserve Banks, the Board rules that no member bank shall collect from its patrons any charge by way of interest on account of any check deposited with it and cleared through a Federal Reserve Bank in excess of 10¢ per \$100, or fraction thereof, on the amount of such check. The interest charges authorized by the Board, equal to or less than 10¢ per \$100 or fraction thereof, are, of course, optional, that is, they or may not be imposed at the discretion of each member bank".

Governor Seay. Is that the circular, Governor Wellborn, that your counsel thought it would be helpful to

issue at this time?

Governor Wellborn. Well, I was not aware that they had approved that. I would like to talk with them about it, because my feeling about it is that if we put that into effect now it will arouse those city banks. While they are not cooperating with us, still they will get on the other side more vigorously, I think, if we change their plan of charging for checks. Of course, the business interests would like to see that change take place, because they are ~~struck~~ pretty heavily. Take our city banks in New Orleans and Atlanta, they have very heavy charges on checks that go over the counter, and they do not make any concession. They charge the depositor a pretty heavy rake off. I think it ought to be regulated at some time or other, but I think right now is a rather bad time. You see our trial comes up in November.

Governor Seay. Chairman McCord said that it would be helpful to do it at this time. Governor Harding stated that it was the opinion of the counsel for the Atlanta Bank that it would be helpful, and Chairman McCord nodded his assent.

Governor Wellborn. Yes, I think Mr. McCord now has

that view, but I do not see how that will be helpful.
It might help the country banks to some extent.

Governor Fancher. Mr. Chairman, I understand that if this regulation is put into effect, it will have the effect of creating certain charges which are now exacted by certain clearing house association.

Senator McDougal. That is what it is for?

Governor Fancher. That is exactly what it is for.
That is exactly what they have done.

Governor McDougal. There is no question about that, but the concluding sentence in this letter is as follows:

"There have been no complaints, however, with regard to banks in the majority of Federal Reserve Districts. For this reason the Board desires to leave it to the discretion of each Federal Reserve Bank as to whether and to what extent it is necessary or desirable to call this ruling to the attention of member banks".

The Chairman. Where is the complaint supposed to arise?

Governor McDougal. New York, Chicago and Cleveland. It undoubtedly is Chicago, and I think it is New York. I do not know about your present rules up there; but this

is of no force and effect with this paragraph in it, because it leaves it to you or to me. They say "Here is an order to do something", and the conclusion is "Do it if you like. If you don't like it, let it stand".

The Chairman. I will ask Mr. Harrison to explain what he knows about this circular to the meeting, if he will.

Mr. Harrison. Some time ago Mr. Logan referred to the fact that the Board was considering the use of a circular of this character. In fact, they have considered it for several years, because the Federal Reserve Act requires, under Section 16, that they shall by rule fix the limit of charges that may be made for checks cleared through the Federal Reserve Banks. Up until this time, however, for various reasons, they have never done anything. They feel now that it is perhaps important to issue a ruling, if only because of the fact that in certain districts, I understand there are only two of them, the member banks, because of rulings of their clearing houses, are collecting charges that are in excess of the limit prescribed by this regulation. It was on my suggestion to Logan that if they did prescribe any ruling of this character it ought to be so phrased as to permit these

banks, where there is no abuse, that is, those districts where there are no abuses, to smother the regulation, rather than to suggest to member banks that are not now making the charges, that they shall make the charges. For that reason the last sentence was put in, not that individual Reserve Banks should nullify the regulation, but that where it was not necessary to issue a regulation, it would not be issued. For instance, in New York the clearing house charges and the charges made under the clearing house rules are considerably less than the maximum fixed by the Board in its regulation, with the exception of charges on checks collected in certain States, in the Atlanta district, where they make an allowance for an exchange charge in addition to the interest charge; but I would feel under these circumstances that we would be perfectly justified in smothering the regulation in New York.

Governor McDougal. Don't you still have a minimum charge on small items?

Mr. Harrison. Yes.

Governor McDougal. This would affect that. It would require you to handle those items on the basis of so much

per hundred or so much per thousand, instead of per item. I am sure of that.

Governor Young. No, not according to this. It speaks of "check". It says "The Board rules that no member bank shall collect from its patrons any charge by way of interest on account of any check deposited with it and cleared through a Federal Reserve Bank in excess of 10 cents per \$100., or fraction thereof, on the amount of such checks. The interest charges authorized by the Board, equal to or less than 10¢ per \$100. or fraction thereof, are, of course, optional, that is, they may or may not be imposed at the discretion of each member bank". This will not affect my district at all.

Governor McDougal. Then if a depositor of the First National Bank in Chicago brought in three checks on Peoria, they could charge, if they deposited no other item in the same deposit, 10 cents at least?

Governor Young. Yes sir.

Governor McDougal. Then this would be of no force and effect in Chicago.

The Chairman. Nor in New York. The great majority of the districts would not be affected by it. It is for

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that reason that the Board wants to have it applied in only those districts like, Atlanta, where some of the banks are making exhorbitant charges for the collection of checks put through the Federal Reserve Bank.

Governor Calkins. We cannot govern the situation, because we do not know what charges are made. There are undoubtedly some banks in our district who are doing that, but we don't know who they are.

Mr. Harrison. I think the thing to do would be to call this to the attention of any member bank of which you are advised that they are making exhorbitant charges.

Governor Calkins. But you are missing my point. We are not advised.

Mr. Harrison. Then I would not do very much.

Governor Calkins. Then somebody comes along and says "Here is a rule put into effect by the Federal Reserve Board and that has not been employed. Here is a bank that has been violating a rule of the Federal Reserve Board," and the bank says "We did not know anything about it. We were not told". I think you have to apply it or not apply it, one or the other.

Governor Seay. If the Board makes a ruling, I think

it will be communicated to our member banks, in order to reach those who violate it.

The Chairman. Oh, I do not know.

Governor Calkins. Well, what is the answer to my proposal?

The Chairman. Well, when you get a notice or are advised of a case of violation, then you might advise the bank of the ruling. Ordinarily we would advise all the banks of a regulation, but this is not a regulation. This is a ruling. In other words, in order to make as little disturbance as possible, I suppose the idea is only to use this ruling where we are at present advised of abuses.

Governor Young. It might appear in the Federal Reserve Bulletin.

Governor Wellborn. If the Federal Reserve Board puts this into effect, we would have to send each member bank that ruling, would we not, in a circular letter?

The Chairman. You would, according to their notion.

Governor Wellborn. Now that would bring on a lot of opposition from the banks, I will tell you that.

Governor Seay. From those banks who are violating it, of course it would.

Governor Wellborn. They are some of the biggest banks that we have.

Governor Seay. The purpose of the regulation is to reach them.

The Chairman. Now it seems to me that we are asked here to take action with regard to a ruling which has simply special application in the Atlanta District, and Governor Wellborn seems to be opposed to it, and he says it will have an adverse effect.

Governor Wellborn. I think it will, because I think these people will get very mad and raise a rumpus about it, ^{ing} take/away their clearing house charges.

The Chairman. What do you wish us to do about it, Governor Wellborn?

Governor Wellborn. I don't know what to say about that. It seems that Mr. McCord agrees with Governor Harding, and that counsel have agreed that it would be helpful to their case. Of course, I want them to win their case.

The Chairman. The difficulty is that Governor Harding seems to be advised that it will help the case and you think it will hurt it.

Governor Calkins. We have a case in our district and Governor Fancher has one in his district. My own opinion is, without going into the merits of this particular regulation or rule, that it is undesirable to change the conditions at all until we get some sort of a decision; at least, a preliminary decision.

The Chairman. Has anybody a motion to offer?

Mr. Harrison. There is one thing that I would like to say if the Conference will permit me, and that is we judged by the conversation we had with Mr. Davis on this whole general subject, though we did not specifically refer to this circular or this proposed rule, I am quite sure in my own judgment that were he acquainted with the possibility of a issuing of a rule like this, he would strenuously oppose it. I base that assumption simply on his general statement that in his opinion nothing ought to be done at this time that is in the nature of a change of existing practices in the par collection business. I frankly feel that it might not be inadvisable for this Conference to suggest that you leave it up to Mr. Davis.

The Chairman. Is that satisfactory to you, Mr. Well-

born?

Governor Wellborn. That is my idea about it. You see Mr. McCord's idea is that the country banks complain, and say "You want to take away our interest from us and exchange goes over the counter every day". People are complaining about the charges. There is nothing being done to regulate that. That is true. They are complaining about that, but I believe that if we put this into effect now it will arouse indignation on the part of the city bankers, and they will do all they can to help break up this exchange.

The Chairman. Mr. Harrison suggests that it might be appropriate for the Conference to pass a resolution expressing the view that this rule may be issued by the Federal Reserve Board, with the inclusion of the last qualifying sentence, provided however that counsel and the associate counsel in the so-called Atlanta case both approve of it. Would that satisfy you, Governor Wellborn? I think Mr. Davis will strenuously oppose it.

Governor Wellborn. I think he will. I think we had better just leave it to him. I am perfectly willing to leave it to him.

The Chairman. I suggested both counsel and associate counsel.

Governor Wellborn. But I think if you or Mr. Harrison will talk to him about it, he might take some other view of it.

The Chairman. Mr. Davis has expressed himself as opposed to any change in the practice.

Governor Wellborn. I think that in this suit the State banks allege there that they are permitting their member banks to charge exchange over the counter. That is one of their charges. Although that is not related entirely to the subject, it has some general bearing on it. It does not touch our immediate question in issue.

Governor Seay. Mr. Chairman, it appears to me that the Board has reached a conclusion that it is called upon to do this thing, and I believe that there is only one thing that will stop them, and that is an opinion of counsel that it would be injudicious to do it at this time. I was about to express the same thing that Mr. Harrison suggested. I do not see any other issue for this Conference but that.

The Chairman. Would that be agreeable to you, Govern-

or Wellborn?

Governor Wellborn. Yes sir.

The Chairman. How about you, Governor Fancher?

Governor Fancher. Yes sir, that is agreeable.

The Chairman. Is that offered as a motion?

Governor Fancher. I offer it as a motion.

Governor Young. I second the motion.

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

The Chairman. I have indicated to Mr. Gilbert that it will probably be more convenient for us to have a short conference with him tomorrow rather than today. If that is satisfactory, I think now we can go ahead with our program, beginning at topic III:

III. Currency and Circulation.

Governor Wellborn. I would like to know what time we will adjourn tomorrow. I would like to make my reservation.

The Chairman. I thought we might get through tomorrow sometime around 3 o'clock.

Governor Wellborn. I want to stay until the close of the meeting, but the train leaves at 3 o'clock.

Governor Beay. My reservation has been made for 3 o'clock.

The Chairman. Suppose that we try to get through and have lunch a little ^{letter}/than usual, but not come back. Is that agreeable?

Governor Wellborn. Yes sir.

The Chairman. The first subject is

"Designs of paper currency. Would it not be desirable, as a measure to prevent counterfeiting and raising, to adopt a comprehensive scheme of designs classified as to kinds of issue and as to denominations?"

That topic was suggested by New York, and I think it has been dealt with by the action which we took in regard to the models of designs submitted by Mr. Gilbert, where we suggested a conference of the currency men from the nearby Reserve Banks. If that is the conclusion of the meeting, then we will pass that.

B. Shipments of Federal Reserve notes.

- (1) Shipping Federal Reserve Banks should absorb the cost of shipments of other fit as well unfit Federal Reserve notes, except the cost of insurance.

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This topic comes from San Francisco, Cleveland and Richmond. What do you say, Governor Fancher?

Governor Fancher. Mr. Chairman, that has a bearing on the action taken by the Conference at the last meeting. It is our opinion and we recommend that the plans be worked out whereby each Federal Reserve Bank will absorb the postage expense in returning all Federal Reserve Bank notes to all of the banks by the bank of issue. It is to be a complete adjustment daily between the Federal Reserve Banks.

Governor McDougal. I second the motion, if that is a motion.

The Chairman. Governor Seay, what have you to say?

Governor Seay. I am informed by the men of our bank that it is the practice between several of the Federal Reserve Banks to absorb all the charges on shipments, whether fit or unfit. All charges except cost of insurance we are in favor of absorbing. We are in favor of absorbing all charges for insurance, on both the fit and the unfit.

Governor Fancher. We are in favor of that.

Governor Norris. We are in favor of absorbing them all, including the insurance.

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Governor Seay. The other matter has been dealt with, and it is felt that each bank has its own policy of insurance, and that the matter is covered both ^{on} incoming and outgoing shipments and it does not need to be dealt with; and that with respect to the postage, the practice already prevails of absorbing the charges on those between the several Federal Reserve Banks, but I thought it advisable to make it general.

Governor Young. I make such a motion.

Governor Morris. I second it.

The Chairman. This covers all expenses of shipping, both fit and unfit, including postage and so forth, excepting insurance, which will be covered by the blanket policy of the receiving bank.

Governor Young. Yes sir.

The Chairman. If that is a motion, I will put it to a vote.

(The motion was duly seconded and carried unanimously).

The Chairman. The next is

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- (2) Method of accounting for postage on shipments of Federal Reserve notes made direct to bank of issue. Should be uniform.

Simplest plan appears to be to include postage in the wire advice of shipment. By this method only one entry is made and no further attention is necessary on the part of the forwarding banks.

I might say that there is some objection to that in New York on account of the detail involved in wiring the postage amount, as I understand it.

Governor Young. Might we consider paragraph (4) before we consider paragraphs (2) and (3), and if we considered No. (4) favorably, it will totally eliminate paragraphs 2 and 3.

The Chairman. Very well, we will skip to paragraph (4):

(4) Cannot settlement of shipments of other Federal Reserve notes be handled through the Federal Reserve Board in a manner similar to the present daily settlement of collected funds through the Gold Settlement Fund. Submitted this would greatly reduce the number of telegrams over the private wire system.

Is that possible to do?

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Governor Young. I think so.

Governor Seay. That is, to have the Board clear the telegrams?

Governor Fancher. Then the postage would be a matter of mail advice, would it not? I mean simply an entry.

Governor Young. Yes.

The Chairman. Governor Fancher, what do you say?

Governor Fancher. That would mean the clearing of the amounts through the Board, then followed by mail advice.

The Chairman. Exactly.

Governor Seay. As I understand it, the Federal Reserve Banks will advise the Board and the Board would send one telegram to all the other Federal Reserve Banks. They would clear the telegrams.

The Chairman. Well, we ship checks to other Federal Reserve Banks, and we ship Federal Reserve Bank notes to other Federal Reserve Banks. We can effect a settlement on shipments of notes just as well as we can effect settlements on shipments of checks. The point is shall we do so? Isn't that it?

Governor Young. That is all there is to it.

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Governor McDougal. If these settlements will be made on the date of shipment, I would say yes. I think they can be.

Governor Fancher. That would mean that your tellers will have to determine the shipment fairly early in the day.

Governor McDougal. Yes.

The Chairman. Does this suit everybody or does it conflict with any individual views? Is there a disagreement?

Governor Young. I make a motion that we act favorably on the suggestion in paragraph (4).

The Chairman. Is that seconded?

Governor Fancher. I second it.

Governor McDougal. My qualification is taken care of, because it will be done on the date of the shipment. That is assumed.

(Whereupon the motion was put to a vote and carried unanimously).

The Chairman. Now, we come back to (3).

Governor Young. It is not necessary to consider that now.

The Chairman. (5) is disposed of by the action taken

en (4).

Governor Young. And so is (2).

The Chairman. (2) is likewise disposed of.

Now, it will be necessary to recommend, of course, a set of code words or a method of telegraphing to deal with currency shipments. The present code may cover it, but I think it will probably be necessary to devise a telegraphic formula, will it not? You see each bank will want to make a separate advice of currency shipments as distinguished from the other items requiring settlements, as I gather it.

Governor Fancher. If this is put into operation it would just mean another settlement; another set of settlements or entries each day.

Governor Morss. Does (4) take care of (3)?

Governor Fancher. Yes.

The Chairman. Who will take charge of working that out?

Governor McDougal. I will be glad to ascertain whether or not our present code will cover the situation.

The Chairman. As a rule, the wire system centers in Governor McDougal, and would it be satisfactory to ap-

point him a special committee to take charge of the arrangement of this matter?

Governor Young. I so move.

Governor Fancher. I second the motion.

Governor McDougal. There will be some arrangement necessary here; that is, in so far as the code is concerned.

The Chairman. But I now refer to Topic B, paragraphs (1), (2), (3) and (4). Those are referred to you, Governor McDougal, to be worked out with the Federal Reserve Board on behalf of all of the banks. That I understand is the motion.

Governor McDougal. This will be reported to the Board and they will have to concur in our recommendation? That will have to be done before we can go any further, will it not?

The Chairman. Yes. It will be reported in the usual course, as we usually do, as soon as the record is made up, and I think it would be perfectly proper for Governor McDougal to take up correspondence immediately with the Board in regard to this matter.

Governor McDougall. I will be glad to do it.

The Chairman. Is there any objection to that? If not,

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it will be considered as arranged.

It is understood that postage will be included as a part of the cost.

Governor McDougal. That was passed, yes.

The Chairman. But it is not understood whether telegraphic advice of postage is to be included.

Governor Young. It would not be necessary.

Governor Fancher. It would not be necessary.

Governor Young. The shipping bank pays it, so you do not have to say anything about postage.

The Chairman. Yes, that is right. Mr. Harrison would like to have a motion passed approving or recommending (2), for the purpose of the record, that postage shall be absorbed. (2) is really disposed of by (1).

Mr. Harrison. Yes, that is right.

The Chairman. We now come to

Currency and Circulation.

C. Standard of sorting currency should be uniform.

That has been disposed of by a recommendation to the Treasurer that a committee be appointed to deal with that very matter in the Treasury. Is there any question about it?

If not, we will pass it.

D. Necessity of banks reporting to Board on form 160, detail of monthly currency receipts and disbursements as to kinds, denominations, and conditions.

Governor Fancher, you suggested that topic.

8 Governor Fancher, ~~Probably~~ the Governors may be more or less familiar with the object of form 160. Board report form 160 was initiated by the Board's new currency committee during the war period when Government agencies were having difficulty in printing sufficient quantities of currency. This monthly report is a very elaborate display of balances, receipts and disbursements of currency by kinds, denominations and conditions, new, fit and unfit. It is our understanding that the purpose of this analytical report was to determine each Federal Reserve Bank's average requirements and turn over as a guide to future printing allotments and to permit a withholding of a certain percentage of the product of the Bureau of Printing and Engraving from issuance, in order to build up a currency reserve. It would seem that during the period this report has been in effect that accurate enough conclusions could be drawn therefrom as a basis for working out the

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result desired, and if this has been accomplished, what is the necessity for a continuance of this report? It means in all banks considerable work to prepare this report.

The Chairman. We have ^a man in our bank who ~~has~~ charge of these matters, and he is of the opinion that the Board will be reluctant to abandon that report. If you care to offer a resolution for its abandonment, might it not be desirable to put it in the form of a recommendation, subject also that it be referred to this new committee?

Governor Fancher. That is what I had in mind. I would move that the matter be referred to the new currency committee, and if it can be abandoned that it will be abandoned in the interest of economy.

Governor Young. I second that.

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

The Chairman. The next is

E. Telegraphic transfers:

(1) Limitation on detail matter.

That was suggested by Richmond. Governor Seay is out at the telephone now. I think we had better dis-

cuss it until he comes in, however. Has anyone any suggestion to make?

Governor Biggs. These transfers are passed under a secret code by the forwarding bank and also by the receiving bank, so payments shall be made to individuals.

Governor Young. Both paragraphs (1) and (2) are questions that have been up here at most every Governor's Conference. There is only one way that I know of to handle that. That is, where the receiving bank feels that there is too much detail in the matter, it should be called to the attention of the proper officer and let him correspond with the Governor of the other bank, and through that system you gradually eliminate the unnecessary telegrams and financial detail. It takes some time to do that. I do not know how else it can be handled. We do that with Chicago a great deal, and I think it has worked pretty satisfactorily down there. Don't you think so, Governor McDougal?

Governor McDougal. Yes sir, I think so.

Governor Young. That is, I sent him a long wire the other day and he replied by letter. That was a little hint to me.

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Governor McDougal. I think it would be in order to read a little memorandum from Mr. Dillard, who keeps his eye on the leased wire. There is a little inquiry from the Board at different times, and Mr. Dillard, who is in direct charge of the leased wire, states: "That there has been but one wire added to the system since January 1st, 1921, this being the wire between the Federal Reserve Bank of Kansas City and its Denver branch. Business is being handled satisfactorily on all wires except between Chicago and Eastern banks, which is relayed at Washington, and between Chicago and San Francisco. In those cases there is some congestion, due to increase in volume, and it will be necessary, if the number of telegrams continues to increase, to provide some relief in the near future on the Chicago-San Francisco circuit, and probably between Chicago and the East.

"The Board in its letter X-3051 stated that an analysis of the business received at the Washington telegraph office showed that a considerable percentage could have been forwarded as satisfactorily by mail, requesting that all banks bring to the attention of their officers and employes the necessity of restricting the use of the

telegraph wires to business requiring immediate communication and the desirability of wording messages in concise language. It has been brought to the attention of our officers, department managers and employes on several occasions, and we believe there is very little misuse of the wire in this bank.

"Our operator informs me that the last analysis made of business relayed through our telegraph office indicated that there were very few unnecessary wires being transmitted. It would be difficult to make such an analysis of the telegraph office now, due to the fact that a great percentage of the messages are in code".

In connection with this, I should like to take this opportunity of reminding the Governors that we have from time to time been requested to be careful and use our wire only for essential purposes, and that is about all there is to report. I think if you will permit that to go in there, it will look like we at least do talk about this leased wire. We follow the practice in Chicago of at least endeavoring to carry by mail everything that should go by mail and keeping the wire for messages that are essential, and I think the banks generally speaking

are doing the same thing.

The Chairman. Yes. Mr. Harrison refreshes my memory, and I recall it now distinctly, that exactly this same discussion took place at the last Conference, and I think it has taken place at conferences previous to the last. The points raised are really these, first, unnecessary telegraphing; second, lack of concise expression in necessary telegraphing. And I feel still another question has recently arisen, and that is whether it is not more expensive to code messages and maintain a staff necessary to put the messages in code than it would be send concise messages in open language.

Now, I happen to have discussed this situation with some of the officers in our bank at New York, and if the Conference passed a resolution suggesting these things once more, and including Governor Young's suggestion that the receiving bank should take an interest in the extent of the necessary language of messages received, with the provision that every officer, department head and employe, including the telegraph staff, be made aware of this resolution and its terms, that we might really get more out of this subject about telegraphing. There is

not anything but management and discipline in each bank that will accomplish it.

Governor Seay. Is it topic E (1) you are talking about?

The Chairman. E, paragraphs (1) and (2) together.

Governor Seay. Richmond is responsible for (1).

The Chairman. Yes, we started to discuss it in your absence.

Governor Seay. It arose from this fact: I think it was Chicago that took exception, probably correctly--I will not say not--to certain detail in our telegrams. I think the Board has decided that our telegraphic transfers should be limited to our member banks. It should not be for the benefit of non-member banks. We have been trying to limit our telegrams to just about this: We are willing to transmit to any Reserve Bank a telegram for the credit of any member bank. Now, when it comes to the use of a non-member bank, and so forth, I think that that ought to be arranged between the sending bank and the member bank which gets the benefit of the transfer. That is the limit of the detail that we hope telegraphic transfers may reach.

The Chairman. Now, Governor Seay, I was going to add one suggestion to this idea of getting up the resolution or notice, and that is that this telegraph system centers in Chicago. They have an opportunity of studying it there, and Governor McDougal and Governor Fancher, I recall, were the original committee on this telegraph system. I would like to see this Conference pass a resolution referring these topics about the use or misuse of the telegraph system to Governor McDougal, with authority to call upon any near-by Reserve Bank Governor or officer for assistance, and formulate it scientifically, after due study, and find out just where the limitations should be applied, and then submit it back. Personally I do not think I feel capable to pass upon that matter without our man at the bank having an opportunity to study something concrete. I have grave doubts whether it is wise to go ^{to} the extent of coding the messages, to the extent which we have gone. We have a large department coding messages all day long, and when you come to consider that we sent last year 175,000 telegraphic transfers out of the bank, you can see the extent of the labor involved in it all. Now, if Governor McDougal would undertake to formulate something

that could be submitted to all the Federal Reserve Banks, and get replies from them, and digest the results and resubmit it all as the act of this Conference, I would be satisfied to have the people in New York abide by the result of that. If in view of the large volume of telegraphic business that originates in New York he would like to have some one come to Chicago from New York to work on it with him, we will send him some one.

Governor McDougal. Your suggestion is that this be referred to the code committee?

The Chairman. It is the code or telegraph committee. Formulate something that is comprehensive, that will cover the whole subject of the wire system.

Governor Morss. Didn't Governor McDougal say that you had observed these messages and that in your opinion there was not much abuse of them.

Governor McDougal. Not so completely as we might, but the idea was, according to this report, and according to this study that was made by the man who was in charge, he reports that the wires are apparently only used for necessary purposes, the exceptions being very few comparatively. I think, Governor Strong, it might be quite pos-

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sible that the New York Bank, which does use the wire naturally more than the other banks,--I wonder if you resort to the code to a greater extent than the others? We send a great many open messages.

The Chairman. I want to have it studied. I do not know that we do in New York very much or not. That would have to be developed. There is a complaint about the code, giving rise to the topic on the next page.

VI. E. Federal Reserve Code.

Words used are difficult to send. Revision desired. That comes from St. Louis. I have heard the same statement made in New York.

Governor Seay. And we have it in Richmond also. The operators express criticism.

Governor Biggs. Our experience is that many of these code words are too long and they delay the transmission of the telegrams. They are not easily made in the telegraphic combinations, so they say.

The Chairman. I would like to include E in the topics to be submitted to Governor McDougal.

Governor McDougal. Well, I have a memorandum here in regard to the subject that you are now presenting, Mr.

Chairman. I want to say on behalf of Governor Fancher and myself as the original committee that you gave us some job when you gave us this job of working out a code. It required of course a great deal of study and the use of a great deal of time. The work was passed along, as we usually do if possible, to a sub-committee. It can be done just as well, or perhaps better, but at any rate the Business Men's Code Company, which finally got the contract, was represented to us to be perhaps the equal or superior of any other code company in New York. We recognized that there were a great many long words, and in respect to the whole matter here is a memorandum prepared in the bank:

"Five hundred and nine copies of the Federal Reserve Bank code were delivered to the Federal Reserve Board and distributed by them to the various Federal Reserve Banks in June of this year. This code was put into effect as of July 1st. The total cost of preparing the code was \$4912.17, which amount was shared equally among the twelve Federal Reserve Banks. Some complaints were received after the code had been in use a short time, and Mr. Higgins, chairman of the sub-committee, ad-

dressed a letter of inquiry to all of the Federal Reserve Banks, inviting criticisms or suggestions, and a digest of the replies would indicate that the principal objections to the code were due to the large number of very long and unusual words used. Mr. Higgins requested the Business Men's Code Company, who compiled the code, to make some written suggestions as to what might be done about their getting suggestions. Necessary attention to this request has been delayed because of the absence of Mr. Harding, president of the code company. You will recall that Mr. Harding stopped in to see us when he came through Chicago, returning from his vacation, and he said his company stood ready to assist us in any way possible to make the code satisfactory. He also stated that in building this code he endeavored to use words having ^{as} much as two letters different, and in doing this it was impossible to find so many short words for so comprehensive a code. However, he believes it is possible, if words beginning with the letter "s" are used, to supply shorter words for numerals or figures. The letter "s" was omitted from the code at the request of the telegraph operators, due to the fact that our test word began with the letter "s". We are of the opinion that a

little more experience will overcome the minor objections, and believe that no revision should be made until it is determined whether it is satisfactory or not by a little further experience".

The Chairman. Let me say that Mr. Higgins, chairman of the sub-committee who worked on this, now admits that the code is all wrong, and he would rather abandon the thing and let the telegraphers use their telegraphic shorthand.

Governor McDougal. He has never reported that to the chairman of this committee.

The Chairman. I heard a rumble of this in our bank. Mr. Harrison. ^{was} Mr. Higgins ~~at~~ in my office one day and I asked him point-blank why it was that he was not making any recommendation on this code which was costing us ^{near} pretty/treble what it had cost us prior to the inauguration of the code. He hesitated a little and finally admitted that he had some hesitation in doing so, because he was chairman of this committee which had recommended it, and he thought that under the circumstances he ought to wait a little longer to see how it worked out. He admitted frankly to me that if he had to make a

recommendation at this time, that we would leave it to the telegraphers themselves to work out their telegraphic shorthand.

Governor Norris. I have here a letter that was handed to me---a copy of the Business Men's Code Company's letter to Mr. Higgins, under date of October 18th, ^{and} and Mr. Higgins' letter to Mr. Dyer of our bank of the 19th.

The Chairman. What does Mr. Higgins say?

Governor Norris. He says: "On September 17th I wrote you and the other members of the leased wire code committee that Mr. Harding of the Business Men's Code Company would probably not be able to make a complete answer to the criticisms developed in the use of the new code in time for the Washington conference this month, and therefore the report to the Conference might better be omitted until some time later. The enclosed copy of a letter received this morning from Mr. Harding conveys some general information such as 'that it would be advisable to give the code a test for at least six months'. Would it be your opinion that the sub-committee should meet some time in February or March to formulate to the leased wire committee some definite line? ^{of action?} Very truly yours".

This is from Mr. Higgins to Mr. Dyer of our bank, who I think is also on that committee.

The Chairman. Doesn't it seem apparent that this matter can only be dealt with by referring it back to the leased wire committee? That is, code practices that have developed in the use of the system? Are you willing to take that action?

Governor Norris. I move that action be taken.

Governor Van Zandt. I second it.

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

Governor McDougal. I would just like to say that I cannot comprehend why it should cost your bank three times, as I understood Mr. Harrison to state, three times as much to operate under this code as it did the old one. We never had that trouble.

The Chairman. You did not understand my remark.

Governor McDougal. I am speaking of Mr. Harrison's remark.

The Chairman. But it costs us three times as much to operate under the present system, which includes the use of this code, plus the necessity of having to code a great many more messages than we have previously coded.

Governor McDougal. But I do not see how that can possibly be, because we have had no experience of that sort. We have added one individual to my force, according to my understanding of it.

Governor Norris. We have not added any.

Governor McDougal. Unless it is that possibly you do code a good many more message in proportion that we do.

The Chairman. That is probably the situation, but we did it in response to what was not a direction, but a very strong indication from the Federal Reserve Board that the leased wire expense would be reduce if we would code our messages.

Governor McDougal. There are a great many open messages coming, and we are sending a great many. We do not code things unless they are confidential.

Mr. Harrison. I will explain this, that my statement about it costing three times as much ought to be qualified to this extent, that Mr. Higgins admitted that that is what it would be, were we doing everything we were supposed to be doing under this arrangement; but we think we are taking certain liberties which has kept the expense below that figure of three times as much, but it washed

increased very substantially. He sent me a memorandum just before I came down here and I returned it to him on account of some errors in it, He had not handed it back to me before I left.

The Chairman. The action of the Conference now is to refer topic III, paragraphs 1 and 2

together with topic VI E to the committee on leased wires, of which Governor McDougal is chairman. This leaves III E, sub-paragraph (3):

III. E. Federal Reserve Bank: liability for telegraphic transfers.

This is suggested by San Francisco.

Governor Norris. Before you take that up, Mr. Chairman, there is one point raised on paragraphs 1 and 2 that I would like to call attention to. I can probably illustrate it best by stating a specific transaction that brought this up.

On October 17th we transferred by wire to the Fourth National Bank of Atlanta \$175,000.00 for the use of McFadden Brothers. We sent this message at 11 o'clock a m, and it was relayed through the Washington office, arriving at the Federal Reserve Bank of Atlanta at 11:45,

but the Fourth National Bank of Atlanta did not receive advice of the credit until after 2 o'clock, the same being sent by a messenger instead of by telephone. The Atlanta office of McFadden Brothers had been advised that this money would be transferred that morning, and as they failed to receive it, two telegrams of inquiry were sent to the Philadelphia office before the advice of credit reached them. This delay was reported to the Philadelphia National Bank by the Fourth National Bank of Atlanta, and the matter was brought to our attention by our member bank.

There were at least three telegrams that were sent as a result of that.

We have had experience similar to this one on transfers to other districts, and in order to perfect wire transfer service, we hope other Federal Reserve Boards may realize the desirability of advising the payee banks by telephone or telegraph of credits on account of wire transfers of funds, as is our practice in handling such transactions.

The Chairman. Do you offer a resolution referring the record which you have just made to this committee to be embodied in instructions also?

Governor Norris. Well, I will make either a motion or a suggestion that it be the universal practice to advise payee banks by telephone or telegraph immediately.

Governor Wellborn. Are they taking into consideration the difference in the time? There is one hour's difference in the time.

Governor Norris. It was sent by a messenger. That is the point. That 11:45, I expect, was your time, Governor Wellborn.

Governor Wellborn. There is no excuse for our bank not delivering that by messenger. It is only about a two minutes' walk from our bank to the Fourth National Bank.

Governor Fancher. What is your custom about advising the receipt of large transfers to the member banks in Atlanta?

Governor Wellborn. We usually send it by messenger. It is more satisfactory. There are all there within three minutes' walk anyway. The Fourth National Bank is only about a two minutes' walk.

Governor Fancher. Suppose you did not have a messenger available, is the transaction held up?

Governor Wellborn. No. I am surprised to hear that.

I would like to investigate that. I did not know of it. I will make a memorandum of that. When was that sent?

Governor Norris. October 17th.

If there is no objection, I offer a motion that it be recommended that all Reserve Banks advise payee banks of telegraphic transfers at once, by telephone or telegraph.

The Chairman. You have no objection to having that referred to the committee, to be included in their report, have you?

Governor Norris. None at all.

Governor Wellborn. I think that Governor Norris is remiss in not writing me about this. If anything like that ever comes up, you should notify me at once. The very thing I would like to do is to get on to that.

The Chairman. I would like to make some progress on this program if we might.

Governor Van Zandt. I do not think what they are talking about really touches this topic here. This says "Federal Reserve Bank liability for telegraphic transfers".

The Chairman. I have not quite reached that yet. Governor Norris said he wanted to bring that up in connection with the previous subject.

Governor Fancher. Do you think it is necessary that that matter be referred to the telegraphic committee.

The Chairman. Well, the motion already passed intended that among other things to be done by the committee on leased wire service would be to formulate a circular of instructions for use by Federal Reserve Banks, to take care of this very question that has arisen, and this certainly is such a matter as should be included in that circular. Is that action satisfactory to you, Governor Norris?

Governor Norris. Perfectly.

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

The Chairman.

(3) Federal Reserve Bank liability for telegraphic transfers.

That is suggested by San Francisco. Governor Calkins is not here. What do you wish to do about it?

Governor Fancher. Why not just pass it until Governor Calkins returns to the meeting.

The Chairman. Very well. The next is

III F. Should the resolution adopted at the April Conference, in reference to requests of non-member banks for currency and coin service,

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accompanied by drafts on city correspondents, be reconsidered?

This is suggested by Philadelphia.

Governor Morris. You will all recall that at the last Conference we had two closely related subjects. First, should the Federal Reserve Banks absorb the expenses of shipments of currency and coin to and from banks in their respective districts. Second, should requests of non-member banks for currency and coin service, accompanied by drafts on said correspondents, be received.

There was a long discussion on the first one of these subjects and very little discussion on the second. We have lately had some correspondence with the Treasury Department, which rather thinks that we should ship currency to non-member banks on their drafts. In a discussion of this matter at the last Conference, Mr. Gilbert admitted that the Treasury Department had never done that, and the Sub Treasury at Philadelphia never did it. We have so far declined to do it. We are very much opposed to doing it. We feel that the non-member banks have too many privileges already and we do not want to extend that additional privilege to them. The action of the

Conference last year on those two points was summed up by the Chairman--

The Chairman. I have it here. The action was a vote that requests of non-member banks for shipments of coin and currency, accompanied by drafts on said correspondents, should be received and honored only at the expense of the non-member banks, and only after collection of the accompanying draft.

Governor Norris. Yes. Now the principal question that we have had correspondence with the Treasury Department about arose in connection with a non-member bank up in the coal region that does not keep an account with any correspondent bank in our district. They wanted to send their drafts on New York to us and have us ship them currency, and we do not see any reason why we should do it.

Governor McDougal. You should not do that. There is no reason why you should.

Governor Van Zandt. I think you have to do it as a Sub Treasury function.

Governor Norris. They never did it before.

Governor Seay. Doesn't it mean correspondents within the city?

Governor Norris. I would be a little more reconciled

to it if it was.

The Chairman. That was our understanding of it in New York, but all of the non-member banks in our district would have accounts in New York.

Governor Norris. You see, as a matter of fact, this is a bank up near Scranton, and they have their own correspondent account in New York.

The Chairman. Well, isn't that one of those cases that you might call "border line" case that has to be worked out with the Treasury Department, because in those particular matters you are acting as fiscal agent of the Treasury?

Governor Norris. No. They are asking us to perform a function here that the Sub Treasury never did perform.

The Chairman. Shipping coin?

Governor Norris. No. Shipping currency. Because we do it for member banks, they claim we ought to do it for them, although they must admit, as Mr. Gilbert did admit, that the Sub Treasury never did do it for them.

The Chairman. Does Mr. Gilbert insist that it must be done?

Governor Norris. No, he does not insist, but he is

strongly of the opinion that we ought to do it.

Mr. Harrison. Isn't it a necessary part of the policy that the Federal Reserve Bank should be the sole distributing agency of currency?

Governor Norris. I have gone on the principle, that in taking over the Sub Treasury we were bound to do all that the Sub Treasury did, but we are not bound to do anything more.

Mr. Harrison. As fiscal agents you are bound to do a lot more than the Sub Treasury did. We all do it. In the old days of course Washington was the central distributing point for currency. They now use the Federal Reserve Banks as the fiscal agents of the Government.

Governor Norris. But Washington doesn't do this. The Sub Treasury did not do it.

Governor McDougal. The Sub Treasury in Chicago did do that.

Governor Norris. In some districts I believe they did, and if they had done it in our district, we would do it now.

Governor McDougal. Our theory was that as long as the Sub Treasury did render that service, that after securing

possession of the funds, the Reserve Bank should continue to do so.

Governor Fancher. That was the custom that prevailed in the Sub Treasury in Cincinnati, and we have continued it since.

Governor Norris. I would like to know whether the question has ever arisen and what the practice is in the other districts.

The Chairman. I do not believe that question has arisen with us, but we ship to non-members when we get New York funds. If your funds are made to yourselves, I should think you would have to ship it. The bank is in your district.

Governor Norris. Then we are removing another inducement to membership.

Governor Morss. Is the principal thing the question of the ~~expense~~ expense of the shipment or the funds?

Governor Norris. It is the question with us, purely, of making a distinction between a member and a non-member bank. The question is whether we shall render service to non-member banks that we have never done before.

Governor Morss. Which are they the most insistent on?

The question of expense or the kind of funds that they give you?

Governor Norris. The question really arose in this way, I think: it arose at a time when new money was scarce and when this bank wrote to their New York correspondent wanting funds, the New York correspondent said to them "You get it from your Reserve Bank"; so they applied to us for it and we declined to give it to them. Then the New York correspondent took it up with the Sub Treasury and there was some fellow in the Hanover Bank there who is a very ugly letter writer, and he keeps writing letters about it.

The Chairman. Well, Governor Norris, the independent treasury system has been abandoned by the United States, and they have placed, as one of the duties of fiscal agents, the duty of distributing currency upon the twelve Reserve Banks, and the duty of distributing currency has no relation to whether the banks are members or non-members of the Federal Reserve System. I think the Treasury is bound to take the position that no matter whether it is an inducement or not for a State bank to stay out of the system, that the bank in the

Federal Reserve district is entitled to get the currency from the fiscal agent of the United States when it sends good money for it and pays the cost of shipping it. I do not think you can get away from that.

Governor Morss. That is what we have contended.

The Chairman. And that is what would have to be done in this instance. Because the Philadelphia Sub Treasury had not done exactly this type of transaction, Governor Norris feels that it should not be done, but I think the Treasury is bound to rule that it is done generally throughout the Federal Reserve System and that the peculiarity in that district does not itself justify a different method in the Philadelphia district to what prevails elsewhere.

Governor Morss. I thought it was a case of where they wanted you to pay the expense.

Governor Norris. No. In the discussion of this question, when Mr. Gilbert was here, Governor McDougal said to him:

"But you did not give the banks of the country the privilege of calling upon the Sub Treasuries for currency, for instance, by offering their draft on a Chicago bank

at the Treasury Department. They would not honor that".
And he replied "No".

The Chairman. I should think that this would be very much in the interest of your district, that these non-member banks would be forced to either join the Federal Reserve System or else to open an account in Philadelphia, because you are not going to ship currency until you collect the New York funds, and that is going to be such an inconvenience and expense to this bank in Scranton that they will either join the system or will open an account in Philadelphia.

Governor Norris. They have not done either so far.

Governor McDougal. What would you have done with that request had the draft been in the form of a Philadelphia draft?

Governor Norris. We would not have done a thing.

Governor McDougal. Then you are not performing in accordance with the vote of the Conference. I think you should.

Governor Norris. I am suggesting that that be reconsidered, because I think it is putting a premium on non-membership.

The Chairman. We threshed that all out before.
Do you offer a resolution, Governor Norris,

Governor Seay. You are going to omit to take into account that in one case we ship the currency at the expense of the non-member bank and in the other case we absorb the expense to the member bank? That is the distinction that should be made.

The Chairman. Well, I still want to push this program as fast as possible, so, Governor Norris, what action do you submit for the Conference on this topic?

Governor Norris. I do not think it is worth while to offer a resolution, which I gather from the expressions that have been made would be voted down.

The Chairman. I think that is a safe conclusion.

Governor Norris. I am sorry that you do not take the same view of it that I do, but if you do not, we will let it end.

The Chairman. The topic then is withdrawn from the calendar.

The next one is

IV. Gold Policy.

This was referred to by Dr. Miller this morning.

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Governor Calkins is interested in that topic, and I would like to have him here when it is discussed. I have a suggestion to make to the Conference about this particular matter. It looks like a mouthful, but what I have in mind to suggest is much less than that. If it is agreeable we will pass that for the time being and go down to topic

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V. Fiscal Agency Operations.

C. Absorption of fiscal agency costs.

This is suggested by San Francisco. I call your attention to the fact that that was disposed of at our meeting when Mr. Gilbert was there yesterday. Unless someone objects to doing so, we will consider that that has been dealt with.

Governor Morss. I don't believe I was there. Can you tell me in just a few words what was done?

The Chairman. I think it was generally agreed, without a vote being taken, that it was inadvisable at this time to advocate the Treasury applying to Congress for an appropriation to reimburse fiscal agency expense; that it would probably bring down a storm of protest on our heads. Is that satisfactory to the Conference, to con-

sider that that has been disposed of?

The next is

VI. B. Direct pouching of mail in Federal Reserve
Banks.

I want to submit a report which was to be made by the New York Bank, I believe.

At the last Conference I undertook to have a letter dispatched to the other Federal Reserve Banks and proposals sent out for dealing with this matter of direct pouching. That was done by Mr. Sailer. We had already adopted a plan and had observed its satisfactory workings, and incidentally we find that there is an interest saving from the handling of items both ways; getting in items in time for clearance; getting them out later so that we can include more items in the mail, thereby reducing the float. That has resulted in a saving of from a thousand to twelve hundred dollars a day in the New York Bank. That is a little matter of \$300,000.00 a year.

On July 20th Mr. Sailer forwarded a digest of the replies to his correspondence to all the Federal Reserve Banks. The replies indicated that seven Federal Reserve Banks have established or are in favor of establishing a

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plan of using the mail in the bank for direct transmission to destination. Those who are using it are Boston, New York, Cleveland, Atlanta, Chicago, Kansas City and Dallas. They are either using it or are proposing to do so. Four Federal Reserve Banks are of the opinion that no saving can be effected because of the early arrival and late departure of mail trains. Those are Richmond, St. Louis, Minneapolis and San Francisco. Philadelphia is of the opinion that one hour can be saved in pouching outgoing mail, but because of their proximity to the post office no time can be saved on incoming mail. Of course, incoming mail will take care of itself to some extent if the other banks all adopt the plan.

Governor Van Zandt. Right there, Mr. Chairman, that might be Philadelphia's opinion just off hand, but I believe if they ever found the advantage to be gained by having their incoming mail pouched to them on the trains, saving the delay of sorting in the local postoffice, they would find an immense saving.

The Chairman. The point right there is that the saving is not apparent in the bank, but it is the saving that results from the necessity of resorting. We send the mail

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to the postoffice from the bank, and that has to be re-sorted and a certain schedule of time is required in order to get it into the pouches to given trains. That multiplies to a certain extent, in connection with the sorting on the trains, as I understand it. We have found it a great advantage. We would like to have all the Reserve Banks adopt it if possible. Governor Van Zandt, with whom I have talked about it previously, is in favor of that.

Governor Fancher, is all the mail pouched on the train to your sub station?

Governor Fancher. No, it is not pouched in. We have not got the same form of sub station as you have. We have got a classified station.

The Chairman. My recommendation is, after experience at the bank, that we do not have classified sub stations; where you are subject to the control of the mail by postoffice clerks, who are subject to the civil service rules. The mail in our bank is handled in our own bank and by our own employes who are not subject to civil service rules. We employ and discharge the clerks, and the only thing that we wanted by having our private postoffice was the privilege of cancelling the stamps and pouching the mail.

Governor Fancher. We pouch outgoing mail to a number of trains.

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The Chairman. Well, that is all resorted on those trains.

Governor Fancher. I don't think so, except they are pouched to certain trains that might be broken up, but they do not pass through the postoffice at all; in other words, they took it up with the Assistant Postmaster and worked out a plan as to intersecting rail connections where there is a big exchange of mail.

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Governor Seay. Do they have any clerk in there to verify the fact that envelopes have stamps on them?

The Chairman. No sir.

Governor Seay. They leave the entire matter to you?

The Chairman. It is run just exactly as the post-office.

Governor Seay. Under your own authority, with their permission?

The Chairman. Under our own authority and with their permission. I do not think that there is any office in the United States that got that privilege until the Federal Reserve Bank of New York did it by a special ruling of the Postmaster General. He had to look up the the

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law to see if it was possible, and he found that it was. I think it is a great economy. It is more security also, because we deliver these pouches to the United States mail wagon right at our front door.

Governor Seay. You haven't that privilege, have you, Governor Van Zandt?

Governor Van Zandt. We are in a better position than that. We have a lettered sub station right there in our building, on the third floor of our building, and the United States Government pays for all of the employes, puts in their own cancelling machinery, and everything of that kind.

Governor Seay. But they handle your matter, and it is not as secure as the New York arrangement.

Governor Van Zandt. We can buy our postage stamps there and we can do all of our registering there, and receive all of our registered letters there.

Governor Seay. But it is by no means as secure as the New York Bank, because New York handles it with their own employes and you turn the matter over to the Postoffice Department, although it is your own building.

Governor Van Zandt. But they turn it over to the

postoffice themselves.

Governor Seay. But it is all done under their own supervision and is all handled by their own employes.

Governor Van Zandt. Yes, that is so.

The Chairman. I would like to point out that the Postmaster General who preceded the present Postmaster General is a Texan and it may be that Governor Van Zandt has a pull with him, but I was told by the present Postmaster General that it was not the policy of the Postoffice Department, and he did not think he would be willing, to make a ruling, to permit the opening of a classified lettered station in any private establishment, except that it was open to the use of the public as is required by all postoffices.

Governor Van Zandt. Oh, ours is supposed to be.

The Chairman. Nominally it is, but actually it is not, is it?

Governor Van Zandt. Well, it is on the third floor. All of the banks come in and utilize it.

The Chairman. We do not want that. We do not want a lot of people coming into our building and enjoying our special facility.

Governor Van Zandt. We get mail to New York one day ahead of the regular mail there.

Governor Seay. That is what we understood we would be required to do if we opened it. I was not aware that any such arrangement as you now advise us has been made in New York could be made there.

The Chairman. It has been made, and the Postmaster General said to me that this looked to him like such a good thing, when I pointed out the saving of time in the receipt and collection of checks, and that it had a greater advantage to the Treasury of the United States than of any other individual on account of the vast amount of funds going through their account. He said that looked very good to him and wanted to know if I would not suggest it to the other Reserve Banks. Now, I do not think Mr. Sailer could have made this thing very clear, Mr. Harrison.

Mr. Harrison. No, I think not.

The Chairman. If you will permit me, I will take the liberty of asking Mr. Sailer to submit the letters to Mr. Harrison before they go out and take it up again.

Governor Norris. I wish you would. The outgoing Postmaster said he did not want to take it up;

he would not be there very much longer, and then when the new man came in, we took it up with him and he referred it to Washington, and Washington said they would send their inspector to look into it, and that is the last we ever heard of it.

The Chairman. I happen to know Mr. Hays very well, and I saw him and told him the whole story and just what it meant. It should go directly to the Postmaster General. If you will permit me, I will get this thing straightened out with Mr. Sailer when we get back.

The next is

C. Pension fund. Desirability of urging legislation at this time.

This question was suggested by New York, and the question is whether it is desirable. I understand that Mr. Curtis heard from Senator Smoot recently that he would not advocate the introduction of a bill at the present time.

Governor Fancher. Do you know whether the bill has been placed in the hands of Senator Smoot, or is it in the hands of Governor Harding?

The Chairman. I think Mr. Curtis explained that he

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had been in direct communication with Senator Smoot and that he had a copy of the bill. It has been printed, as you know.

Governor Seay. I think we ought to defer to his judgment, and are compelled to respect it. It would be unwise to ignore it.

Governor Fancher. Personally I have some doubts about favorable consideration at this time.

The Chairman. I would not like to see a bill introduced just now. Is there any dissent from that view? If there isn't, I suggest that we pass this.

The next is

VI D. Securities left in custody.

There is a report expected from me on that subject.

Governor Seay. Haven't we received that report by mail?

The Chairman. I think you have received the report by mail.

We have had considerable correspondence. In a word, there seems to be such a divergence of views and such considerable opposition to the plan suggested by our counsel, Mr. Hart, of sending out a uniform circular,

that he has felt it necessary to abandon any thought of having a uniform circular sent out which contained the indications which he had in mind in regard to liabilities. I do not think it is necessary to take the time of the Conference to discuss this at length. I will ask Mr. Harrison when he comes to make up the record to ask Mr. Hart about preparing a report in the form of a letter, such as I would make otherwise at this meeting if we had more time, and send it by mail. That will save the time of reading a long report.

The next is

VI G. Participation of Federal Reserve Bank officers and employes in American Institute of Banking Affairs.

(The discussion with reference to the above last-mentioned, at the direction of the Chairman, was not recorded).

The Chairman: When Governor Callins was compelled to leave the Conference, we passed one or two topics, which we might take up now, that is, III, Currency and circulation; E, Telegraphic transfers, the third paragraph, Federal Reserve Bank liability for telegraphic transfers.

Governor Callins. Our Circular No. 96, telegraphic

transfers and purchase of exchange, contains the following provision relating to the liability of this bank when making telegraphic transfers:

"Liability for transfers. The liability of the Federal Reserve Bank of San Francisco is limited solely to the proper transfer of the funds to the receiving Federal Reserve Bank for the credit to the account of, or for payment to, the payee bank.

"All telegraphic messages are received subject to delays in transmission. If leased wire service becomes interrupted through causes over which we have no control, messages may be dispatched at the expense of the Federal Reserve Bank of San Francisco over commercial telegraph wires. The Federal Reserve Bank will not be responsible for errors of telegraph company, or for any delay in transmission."

In the past, we have on several occasions been called upon by our member banks to make interest adjustments, where the payment of telegraphic transfers ordered through this bank has been delayed because of an error in coding, an incorrect test word, or mutilation in transmitting the message from this office to the receiv-

ing office.

Under the terms of our circular, we have felt obligated to make the requested adjustments.

However, we have recently received from the Federal Reserve Board of New York a copy of a letter they addressed to the First National Bank of Seattle, in reply to a letter received by them from the First National Bank of Seattle, which requested an adjustment for a delay in the transfer of \$100,000 from the National Park Bank to the First National Bank of San Francisco. The Federal Reserve Bank of New York declined to make any adjustment, as indicated by the following excerpt from their letter:

"We are doing the best we can to perfect this free service to member banks, but we in no way guarantee that a transfer will always be consummated the same day. While we feel the responsibility in the matter of actually getting the funds to a desired destination as promptly as is practicably possible, it would seem to be too great a contingent burden to assume responsibility from any interest claims that might be made because of slight delays arising from causes other than absolute negligence, and trust that you will appreciate our attitude in :

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declining to remit the interest".

As the volume of telegraphic transfers passing through the Federal Reserve Banks is constantly increasing, it follows that there will be more and more requests for adjustments on transfers, and it would seem an opportune moment to bring this up at the Governors' Conference, with the view of obtaining in very definite terms the exact liability incurred by a Federal Reserve Bank in receiving funds for transfer over the private wire, and with the further view of outlining a uniform procedure to be followed by all Federal Reserve Banks in cases of the above character.

A copy of the Federal Reserve Bank of New York's letter to the First National Bank of Seattle, together with copy of our telegraphic department's comments upon this letter, are submitted.

It is a very long letter. The fact is that somebody was negligent and the First National Bank of Seattle lost money by reason of that negligence.

The Chairman.

I do not want to accept personal responsibility for that letter, and I discharge Mr. Harrison, who ordinarily supervises that correspondence, as he has been here in Washington with me attending to other things. A suitable

reply, of course, is to rely upon the terms of the circular, which we have sent to all of our member banks almost identical with this, and not to indulge in correspondence which would in any way appear to be a modification of the provisions of that circular. That is a very stupid letter and unnecessarily long. I do not know whether we are liable or not, but I am going to suggest that Mr. Harrison take that up also when he gets back.

Governor Calkins. I would like your view in regard to this question, not on this case, because I don't care anything about this particular case. If there is clearly negligence on the part of the bank in carrying out telegraphic transfer, there is an obligation to reimburse the injured bank?

The Chairman. I do not know whether there was any question in that case--

Governor Calkins. I am not referring to that case at all.

The Chairman. We believe that the liability of the bank is fairly set out in the clause such as you read, or would be better set out in any other clause which has been suggested by our counsel,--it might not be better--

but a revision of the existing clause which would read something like this:

The liability of this bank will be limited solely to the proper transfer of such funds to the receiving bank for credit to the account of or for payment to the payee bank. It shall not be liable in any case for delays arising from interruption in the working of telegraph lines, or for delays or errors in transmission occurring outside of this point, or from other contingencies arising out of its control.

Now, here is another case similar to our collection circular, where the system should have a uniform circular. In other words, if your liabilities are defined as being somewhat different from those which we define, we must protect ourselves against you by using the same language in our circular in applying it to you. The same applies to the Federal Reserve Board, which is the relay station.

Governor Calkins. I quite agree with that, but it does not answer the question I am asking, and that is whether, when there has been negligence, we have any liability or not.

The Chairman. We think so in New York.

Governor Calkins. We think so, too. Now, if you want the facts in this case, I think I have it.

The Chairman. Is it your opinion that there is liability in that case on New York?

Governor Calkins. I don't know. I couldn't answer that.

The Chairman. It is a purely individual case. I do not object to discussing it, but I am very keen to clean up this program.

Governor Calkins. I do not want to discuss it, but I wanted to discuss the question whether we have liability in case of negligence.

The Chairman. Unquestionably.

Governor Calkins. We have reimbursed banks where we have been negligent.

The Chairman. But what irritated me about that letter was that our circular recognizes that we have liability. That letter should never have been sent. It does not deal with the facts to determine whether there is liability or not, and I would like to have the facts, if you will be

good enough to send them to me, so that we can deal with them.

Governor Fancher. You bring up a point there about there being a uniform circular.

Mr. Harrison. I think that all Reserve Banks have got one circular, because I happen~~ed~~ to remember when I was with the Federal Reserve Board I suggested a form of liability clause to the Federal Reserve Banks, which was transmitted by the Board, and I understand that that was adopted by most of the banks. Governor Calkins' quotation from the liability clause in his circular is so nearly identical with ours that I am rather inclined to believe that that paragraph is the same.

Governor Fancher. Does your attorney suggest ~~another~~ better clause?

Mr. Harrison. The only reason ^{he does so is one} ~~is~~ entirely different from the point at issue. He conceived the idea that if the operators in Washington, for instance, made an error on a message that we were transmitting from New York to Chicago, would we or would we not be liable? The question being whether the operators in Washington are our agents or whether they are not our agents. There is a

very knotty legal question as to whether or not we would be liable under our own circular in that instance. The Chicago operators, for instance, are paid practically by all the Reserve Banks. In that event, would an error by a Chicago operator be an error which would attribute negligence to the New York Bank in transmitting the message, and I am rather inclined to believe that it would. Our counsel has devised this paragraph so as to exempt us from liability on account of an error in a message that we send through Chicago which is erroneously transmitted by the operator in Chicago. Frankly, there is no reason why we should not assume that responsibility. Somebody has to.

Governor Calkins. I would say that we certainly should assume it.

The Chairman. We passed this subject until Governor Calkins arrived. If you are willing to add this question of the uniform circular and possible perfection of the language of the circular to the other topics referred to the committee on leased wire service, and it is agreeable to the Conference to do that, we might undertake to have all the twelve circulars reviewed, to see^{to} just what extent they are uniform. I think it would be worth having

that done. You have all the circulars in the Reserve Bank in Chicago, have you not, Governor McDougal?

Governor McDougal. I do not know that we have, but I can get them. I would be glad to undertake that. There is one point in connection with this whole subject that I am not clear on. You have referred these matters back to the wire committee. What are we to do with our recommendations?

The Chairman. They are to be sent to all of the Federal Reserve Banks, and you are to get a report back on them just as you have done before.

Governor McDougal. And not wait the formal Conference?

The Chairman. No.

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The Chairman. Governor Young, would it be satisfactory to you to strike out the discussion about the American Institution of Banking?

Governor Young. Yes.

The Chairman. It is ordered that the record with regard to the American Institution of Banking be stricken out.

Governor Calkins, we have also passed topic No. 4, Gold Policy, awaiting your return, and the reason for doing so was this: This topic was suggested by New York, and what I am going to say now I would like to have considered as especially confidential.

We recently had a visit, as I mentioned before, from Governor Norman of the Bank of England. He was accompanied by Sir Charles Addis, and one of the directors of the Bank of England happened to be in Canada, and he came down also. We had three directors together, that is, Norman and Addis were here for three weeks, and the thirdman for a few days. We discussed a great variety of things, and I had hoped that it would be feasible to invite some of the Governors of the Reserve Banks to join us, but for various reasons it was not feasible. We did succeed, however, in getting Governor Morss down to dinner one

night. This visit was arranged on very short notice, by the way, was quite unexpected, and was to be kept exceedingly confidential.

We discussed a good many matters, and it all boiled down to two of some consequence.

The first one I do not want to go into at length, and I will merely refer to it as the consideration of a tentative and very sketchy plan by which the Federal Reserve Banks would joint with certain banks of issue of Europe and might, in the course of this year and the coming year, participate in a program for the restoration of more normal conditions in Austria, for which there is a crying need. I will only go so far, inasmuch as there is nothing imminent at the moment, to say that the theory of dealing financially, economically and non-politically with the Austrian situation is due to a peculiar situation in Austria itself, where, with a population of about eight million people or thereabouts, especially in the City of Vienna, they have all of the tradition, machinery, skill and experience of government, not only for Austria itself, but for all of those nations that were carved out of Austria; and the feeling has been strongly developed in London that in

order to stabilize the whole situation in that part of Europe we have got to begin in Austria, where there are people who know how to run government and banks and manage large railroad systems and generally deal with problems with which the whole of that part of Europe is now confronted, and that nations like a part of Poland, Hungary, and a part of Czecho-Slovakia, and so on, that were crowded out of Austria literally had no one there who knows how to run the economic affairs of government or of the general business fabric. All of that country was served by one central bank of issue, which is now in liquidation. Vienna has often been alluded to as not only the political center but as the heart and nerve center of a large part of Europe. This proposal has been considered and discussed here in Washington with the Federal Reserve Board, with members of the Cabinet; it was discussed by the Cabinet, and it finally developed that it did not seem feasible at the moment for us to join in a program of that character, at least not under any license of authority or approval of the Federal Government. We had first been apprised that the administration would approve of some such program, but that was subsequently changed. I am under the impression

that within possibly a comparatively short period the subject will come up again, and if it does all that we propose to do, having in mind that this whole system would work together on anything of that sort, all that we propose to do would be to make no commitments, take no step which would involve anybody, but simply do whatever was necessary in order to get information as to whether it was feasible to do anything.

I did not want this meeting to pass without reporting briefly what had transpired. While there was no definite proposal that I could submit, and if there was one I would explain it, but there is none, and all I can say is that an indefinite discussion has taken place, and if anything is done it will be in the nature of exploration, so to speak, and that we would not do anything without keeping the other Reserve Banks advised anyway. That comes under this topic, which was put in in blind fashion, and because it had something to do with the possibility of a gold loan.

Now, with reference to the matter that Dr. Miller was discussing this morning, I do not want to put that in your minds as something that might be done, because I am not sure whether it is feasible or not, and it is something for

discussion by the best minds that we can put on it.

A great deal is being written just now and a great deal of discussion is taking place as to when and how and whether, if ever, the international gold standard, so to speak, will be reestablished in the world. I listened to Dr. Miller's remarks with a great deal of respect, except I had in mind this reservation. He referred to the return of the time when gold would be freely shipped between nations in adjustment of these necessary but very small net differences. The fact is the gold is being shipped between the nations today at a rate and in quantity never before witnessed in history, and still we do not get anything like stable conditions in exchange.

The reasons for this are obvious, and there are a variety of them. I think possibly the least of the reasons now, as has been currently discussed, is the trade balance. A large part of the cause lies in the inflation of currency in certain foreign countries, and their currency is being accordingly constantly depreciated measured in the exchange in response to that. Another cause is the insistence that Germany pay reparation in a manner and at a rate probably

beyond
her capacity to pay; a third possible cause of difficulty will arise in the management of the debt owed by the allied countries to this country, if it is not handled with very great skill and discretion. Now, confronted with these three or four situations, it seems to me to be impossible to hope for a stable exchange situation generally throughout the world. We have been considering a little what could be done in the absence of any general program, and what I have in mind is something like this-- I am not prepared to say it is feasible; it has got to be discussed--but there are eight nations in the world today, speaking of those with which we would naturally deal, which present conditions that seem to afford an opportunity for stabilizing their exchange. They are not expanding their currency and their trade is in reasonable balance. They have large gold reserves in their banks of issue, and, with the exception of one of them, their exchanges are not very far off par with ours, although they have fluctuated more than they normally would if gold were being freely shipped. Those nations are Switzerland, Holland, Denmark, Sweden, Norway, Japan and England. The exchange is not nearly at

par in the case of England, but England would have to be included, together with the United States. That makes eight nations to be considered as possible elements in stabilizing a part of the exchanges.

Now the reason for including England is the same reason you might advance for excluding; that is to say, that the British exchanges are so important in the world, so much of the trade of the world is financed still with sterling bills, and it is so much a measuring rod around the world for other exchanges, that it would be highly desirable, in any plan of stabilization, to include it if it could be done. They still have a large gold reserve, they are a skilful and courageous banking nation, and have good credit, and they are not inflating their currency, although their exchange is at a heavy discount.

Now what I have had in mind is based a little bit upon an experience which I witnessed, although I had nothing directly to do with it, during the war, which was this: The Italian exchange went down like a plummet at one time. It was due to some local condition and we felt, those of us that were discussing it, that the decline was not justified by the facts of the Italian situation; it was causing them

great hardship, especially in the face of the fact that sterling was sterling was pegged and that francs were also pegged to a limited extent. Mr. Kent undertook to say that, with a capital of \$10,000,000.00 to operate on, he would undertake to restore the lira somewhat to the position it had been in before the sharp decline, that he thought he could do it just by trading if we would give him \$10,000,000.00 capital. I am speaking from memory as to the figures, but I think I am fairly certain that he cut the discount of the lira in half or thereabouts, just trading in the currency, and that he never employed a dollar of the capital, and that he had a turn-over of about 750,000,000 lira. It was just a certain kind of skill in furnishing exchange when it was needed and buying it when it was not needed. That suggested the idea that if we should establish a trading account, by an arrangement between the banks of issue of nations which are capable of entering into such an arrangement, that we might get a much greater stability.

The difficulty about any trading arrangement is that if you undertake to trade in exchange in a period of wide fluctuation, some day you have got to cover your account

in case you get long or short, and the chances would be that any nation with which we made an arrangement of this sort would get short of dollars, if you please, and get caught for a big loss; so that it occurred to me that if we were to bring about any stabilization arrangement it must be that with those country and under such terms that this speculative loss would be secured against by their entering into an agreement, in the first instance, to cover any shortage by shipments of gold, which would insure against anything but a very moderate loss in the account; and I am turning over in my mind--I have not had a chance yet to discuss it with Mr. Jay--whether we should not consider approaching some of the other banks of issue which have an adequate gold reserve with a proposal for such a plan and discuss some plan along this line. If we do so, we will probably want to say this, and it seems to me we would be required to say this: that these eight nations would band together in some such arrangement, and each would have to pledge a certain amount of gold--we, for instance, having to pledge probably as much gold as the rest put together, but instead of pledging gold in the case of the United States or the Federal Reserve Banks, we would sim-

ply undertake to finance the operation by credit until the settlement day arrived, and if a settlement day did arrive, then we would ^{be} obligated to ship gold and it would boil down to that. A great many details would have to be worked out as to how the trading would be conducted, whether in London, New York or where, who should buy, who should sell, and so on; I have not gone into the detail of it at all. What I do want to bring out, however, is this, that this proposal for some sort of concert of action, whether it is in this matter or other matters, is really now taking concrete form. We have, as you know, agreements with the Bank of England, and we have an agreement with the Bank of Japan, with the Bank of The Netherlands, (the Netherlandische Bank,) and with the Tavasche Bank of Batavia, and we have had correspondence with other central banks, and Mr. Jay has visited some of them while he was abroad.

I have just received a very confidential message from the Governor of the Bank of England, stating that he has just received a visit from the president of the Reich Bank; he is also going to see Vissering of the Netherlanische Bank, and the whole scheme which we have been planning in New York for some sort of concerted action between these

banks of issue is marching along fairly rapidly; I do not know what it will lead us to, but a part of what I said this morning in regard to our rates is due to my belief that whether we want to or not we are going to have to take some part in this situation abroad. We probably wont do it politically, but we have got to do it financially and economically, and my thought is--I hate to go too far in discussion without a talk with Mr. Jay, and I haven't had a visit with him since he got back from Europe--my thought is that in the next winter we may be approached with some proposal or program of a concert of action along some line, I do not know what it will be, and I cannot forecast it, but I think the likelihood is that it will be somewhat along the line of an exchange account, in the beginning, such as I have discussed, and I would like to get an expression of views from those of you here as to how you would feel about such a proposal of loaning, for instance, to the most responsible banking institutions of the world a reasonable amount of money if the occasion arose, each one responsible to us for its share, under an agreement of such a character that in the absence of their payment, in case the account ultimately was liquidated, that they would ship gold to cover

anything owing us.

Now you may ask how we would make the loan. As a matter of fact I think we would not necessarily need to make a loan. It could all be done in current account, which the statute authorizes us to maintain at banks that we appoint our agents and correspondents. So far as the Federal Reserve Bank in New York is concerned, I am frank to say that if the Bank of England, for instance, or the Netherlandische Bank, or probably any of the other banks that I have named, gave us a contract to liquidate a special contract of this character by shipping gold if it was not liquidated by any other means, I would regard it as just as good, or better, than any bill we could go out and buy, and under the terms of the Federal Reserve Act I think we can buy commercial bills in foreign currency, but that is a question for future determination. What I have in mind is it may involve an obligation to make advances to the extent of probably \$250,000,000.00 at the start or a smaller amount, with an arrangement for increasing it, and if we once undertake it we want to do it with our eyes open, because we have a job that will require careful and skilful management on our hands.

I do not want to take too much time explaining the

very indefinite thoughts that we have in mind, but I would like to get your reaction from it.

Governor Morss. This business would be done at a risk of loss, I suppose, and a possibility of profit.

The Chairman. Very little risk of loss and the possibility of very considerable profit.

Governor Morss. To what extent on the average, if loss occurred?

The Chairman. That I am unable to answer. It depends entirely upon whether we enter into this agreement simply to loan the money and take no risk or whether we entered into an account upon the basis, which I would regard as the best basis, of a mutual undertaking between the banks of issue to restore the exchanges to a more stable condition, and the risking of losing under the plan which I now have in mind would be limited to the actual cost of transporting the gold from these countries to this country. There would be no great risk beyond that.

Governor Morss. Would the Bank of England be favorable to this?

The Chairman. I do not know. We have discussed it only in the most indefinite way and I do not have any ideas

on the subject. Has anyone else anything to say about this?

Mr. Wellborn. We are very much interested in seeing the exchange stabilized and I would like to see you work up that plan and get the cooperation of all the Reserve Banks. I think it would be highly desirable.

The Chairman. The principal banks of issue that have been consulted have expressed the view that the time has come to get the banks of issue together in some sort of concert of action and policies, with some regular method of exchange of views, but just how it is to be brought about we do not know. I suppose it will result in somebody going abroad again to pursue the subject.

Governor Morss. The object to be attained is most desirable, Mr. Chairman, there is no doubt about that. If the United States or the Federal Reserve Banks--of course I am speaking now my own opinion--could do anything to help bring that about, they ought to do it.

Now I asked you if there was any risk, and I was rather surprised when you said that we could do it without risk of loss. I did not suppose that any of those things could be done without risk of loss in a business transaction, certainly under such unfortunate conditions, but even if there

was risk of loss to the Federal Reserve Banks, if that could be limited, and if it could be plainly shown just what the loss might be, so as to make it a reasonable business transaction, I think we ought to do it. I personally do not understand foreign exchange well enough to know how you would do it.

The Chairman. You can eliminate risk of loss in dealing with any exchange which is at a discount measured in dollars, if you are willing to ship gold and produce the dollars, because you produce the dollars at a greater rate by shipping gold than you possibly can realize by an exchange transaction when there is a discount.

Governor Morss. It would be of such benefit to those countries that it would seem reasonable to me that they would be willing to undertake that obligation.

The Chairman. I haven't the slightest idea whether they would or not. Dr. Vissering has for some years past been convinced that it would be a mistake for the Bank of the Netherlands alone, by gold shipments, to attempt to stabilize the guilder.

Governor Morss. Of course, your proposed arrangement, as I understand it, would depend entirely on that.

The Chairman. If you are going to eliminate risk and fluctuation in exchange--

Governor Morss. That is the only way to do it.

The Chairman. You have got to do it by gold agreement; there is no other way.

Governor Morss. We could finance it as a System, without any doubt.

Governor Norris. That is, there would be a kind of pool to operate foreign exchange.

The Chairman. Yes, just about that.

Governor Norris. The only risk or loss would be on the failure of one of those foreign banks to live up to its obligation to ship gold in the event it became necessary to do it.

The Chairman. Yes, and you cannot conceive of any of those banks failing to respect such an obligation.

Governor Norris. No. I am speaking purely in a theoretical way.

The Chairman. That is the theoretical risk; but of course, Governor Norris, all credit operations have a risk involved, but when you deal with such banks as that under a gold contract it is hard to see how risk can be more

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eliminated/by that method.

Governor Fancher. My reaction is that it is an undertaking to which we should lend a very sympathetic ear. I think that if the Federal Reserve Bank can take part in an undertaking of that kind that we should do it, even with a reasonable risk of loss, because the results to be accomplished are so tremendous. As you have stated, someone has got to lead off pretty soon in some sort of a plan.

The Chairman. Yes, that is it.

Governor Fancher. Something has got to be done.

Governor Norris. If you want my personal reaction to it, it is something like this: I am bound to say that I think the three great big opportunities that we have had to accomplish the stabilizing of foreign exchange were, first, to go into the League of Nations; second, to make a readjustment of our tariff with a view to opening our doors to export as far as it could be done with the least disturbance to our industries rather than to put up barriers. Neither of those things has been done or will be done, and the third was to empower the Secretary of the Treasury to deal in an intelligent way with the refunding of foreign obligations. I do not know just what the present status of that is, but

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I gather the impression from newspaper report that I have seen that the limitations that have been written into that bill will make it impossible for him to do anything that will be of any real use. So that it seems to me that we have lost, or will lose, our three best opportunities of accomplishing the purpose. But because we have lost those three, it does not follow, of course, that we ought to throw aside and discard all others. I appreciate the difficulty that Governor Calkins has suggested, but it seems to me that the proposition you have suggested is one that undoubtedly has merit and may reasonably be expected to accomplish some results. We all know that a market that is left to itself is likely to fluctuate very much more and to go to very much greater heights and depths than it ought to go to, and that a controlling hand or a large operator in it can accomplish a great deal of good. I should think that the political objection might perhaps be overcome if this thing was developed along lines to make it possible for larger exports of our products to be made, by assisting in the stabilization of exchange, through an arrangement in we made no loan and gave no guarantee, but simply entered into a pool, with

equally responsible institutions to assume a joint liability and with a contract or guarantee from them that was just as good as our contract or guarantee to them.

The Chairman. That is about the point of view that I have taken, Governor Norris, in simply turning this over in my mind. Of course, as to the American debt, I think the entire beneficial results of anything that we would do or could do could be swept away in twenty-four hours if the treatment of that debt should be of a character that would put such pressure on all the world exchanges that dollars would go soaring to a higher premium. That is a difficulty that may or may not be capable of being controlled, I do not know. It bristles with difficulties, there is no doubt of that. The thing that inspires me is the belief that somebody should be doing something, if it is no more than talking it over, looking towards a plan some day.

it Governor McDougal. I should like to see you continue your efforts in the future and work out such a plan. I believe this Conference will assure you that, in the event it can be worked out on a safe and workable basis, that the entire System will be sympathetic.

The Chairman. In any event, there is one thing surely

that will come of it, and that is that we are going to establish a closer contact with those banks of issue and get better information from them and have the advantage of authoritative means of reaching facts abroad about a great many things that we could not otherwise get.

Governor McDougal. There is one point that is not just clear. I understood from your statement that it is not to take the form of a loan. It must be in the form of a loan in some way.

The Chairman. I say it may take the form of purchase of bills, which would be to some extent a credit operation. It may be a loan upon gold, in other words.

Governor McDougal. That is what I assumed it would be.

The Chairman. I do not know. The thing is too indefinite. I do not know what the obstacles may be that will be encountered dealing with these institutions, which are themselves controlled by acts of their own legislatures.

Governor McDougal. I should think it would take the form of a loan against gold or its equivalent.

The Chairman. I do not know. However, whatever form it would take, it would be a guarantee of gold by responsible banks. It might be a contribution account some

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time, but it would certainly, in my opinion, so far as I have thought of it, be in such form that ultimately repayment would be a pledge to ship gold in some form.

Mr. Harrison. There would be no legal handicap in doing that.

The Chairman. There would be less in doing it than in any other form. There would be less on our part, but there might be more abroad. We have got to look out for the statutes and things that limit the action of these various banks with regard to shipping gold.

Governor McDougal. Mr. Chairman, I would like to introduce a subject at this time, and while I do not know that it requires formal action, I would like to report. At the time of our dinner the other evening Governor Harding appointed a committee, consisting of Mr. Jay, Mr. Martin, Mr. Seay and myself to give consideration to the question as to whether or not the group conferences should be continued. Governor Seay and I have reported on our first meeting with the other wing of that committee, and the fact that the chairman voted in favor of continuing the conferences. We expressed the view to the Governors, and the understanding was that Mr. Jay and Mr.

Martin would go back to their Conference, which they did, and the result was that they confirmed their first vote. Consequently our committee, in an informal interview last night with Governor Harding, was divided, and in the course of the discussion we naturally, and I think quite properly, introduced the subject of more frequent Governors' conferences to be held at points outside of Washington. It developed that Governor Harding himself was very emphatically opposed to such meetings being held, the reason advanced being that it would add very much to the load he is carrying, perhaps be embarrassing, that publicity would be given to the meetings held elsewhere, and he felt that meetings of the Governors, if held, should be held in Washington. He seemed to have no objection to our holding more frequent meetings here if we had something to meet for. He was so emphatically opposed to the meeting of Governors at any point other than Washington that there was no use of pursuing the matter any further, and in view of his known opinion and his expressed opinion that the Board would be opposed to it also, and in view of the fact that the Chairmen were in favor of continuing the group meetings, I think Mr. Seay and I rather felt inclined to believe that

for policy's sake, if not of consideration for Governor Harding himself, that our committee might better recommend that for the present these group conferences be continued, and that the question of more frequent meetings with the Governors, which was of necessity introduced into the matter, be discussed from some angle.

Governor Seay, have you anything to add to my report? I have endeavored to tell just what happened. There was a good deal said at the meeting.

Governor Seay. Just to confirm what Governor McDougal has reported, Governor Harding himself is unalterably opposed to the meeting of Governors at any place outside of Washington.

Governor Van Zandt. I move, out of deference to Governor Harding, that it is the sense of this meeting that we do not at this time press our request for meetings at points other than Washington, but that if we do that it is advisable for us to have more frequent meetings in Washington to enable the Governors to study and discuss topics covering the operation and policy of the Federal Reserve Bank.

Governor Biggs. I will second that.

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

Governor McDougal. Now, on the other question raised, I think under all the circumstances, without objection on the part of the Governors, that our committee will meet with the other committee and report to Governor Harding that we think the group meetings should be continued, at least for the present.

The Chairman. Is that your motion?

Governor McDougal. Yes, although I do not think it is necessary to make a motion. However, I will make a motion that the question of continuing group meetings has been considered and the consensus of opinion is that for the present they should be continued.

Governor Young. And that the banks should be regrouped.

Governor Wellborn. That to be left to the Board.

The Chairman. I think they ought to be regrouped.

Governor McDougal. So do I, and that the matter of regrouping be left with the Board.

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

Governor McDougal. Mr. Chairman, I would like to bring up another subject, which will take only a moment, and I think it is of importance to some of the others, and that is the question of disposition of past-due and suspended paper which

some of the banks hold in connection with failed banks. The banks have all set aside, or at least are figuring on a reserve against possible loss and depreciation. We have something like \$280,000 of uncollected paper at the present time. I would suggest, as a motion, that it be recommended to the Federal Reserve Board that the banks which are holding paper of that kind be permitted at the end of the year to charge it off against the fund that has been provided for that purpose, not because it is a loss, but to get rid of it.

Governor Van Zandt. I will second that.

The Chairman. I have no suggestion to offer, because we haven't any of that.

Governor Young. I would like to discuss that a little bit. We have some paper in our portfolio secured by Liberty Bonds. For reasons best known to ourselves we do not care to charge that off just at the moment. I think that is rather a broad suggestion, to charge off all of our past-due paper. I have some past-due paper that is better than some paper that is not past-due.

Governor McDougal. I used the expression "be permitted" and not "required". It is only a recommendation.

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

The Chairman. We will take up Operation under VI:

Operation. J. Future policy of Federal Reserve Banks as to salary adjustments and extra compensation.

Governor Fancher. That was put on as a matter of information, to bring out what the policy of the other banks was.

The Chairman. We have discontinued paying extra compensation.

Governor Seay. You are having salary adjustments, however, are you not?

Governor Biggs. We paid none this year. We will have to make some adjustments at the end of the year, necessarily.

Governor Fancher. What is your policy in adjusting salaries? Once each year?

Governor Biggs. Our real adjustments are made annually, on June 30th. We make some minor adjustments, but they amount to nothing.

Governor Fancher. You do not adjust on the anniversary of the employment?

Governor Biggs. No, we have so far been adjusting at certain periods, usually January, and we have had no bonuses since last January,

The Chairman. Governor McDougal, are you paying extra compensation?

Governor McDougal. We have paid none this year. The question has not been definitely and finally disposed of, but we have paid nothing this year.

The Chairman. Do you make a salary adjustment at a stated period?

Governor McDougal. They are made generally at the end of the year, and to some extent at the end of the first six months. We have given a good deal of consideration to the matter, and we believe that there should be a plan devised by which these adjustments should be made in smaller groups and at more frequent intervals.

Governor Wellborn. We usually make our adjustments in January and July.

The Chairman. Have you discontinued special compensation?

Governor Wellborn. We only do that once a year, and the last bonus we gave we cut in half.

The Chairman. Governor Norris, have you discontinued special bonuses?

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Governor Norris. We pay them semi-annually. We paid half last year of what we had paid in the previous December. I think this December we will not pay any extra compensation.

The Chairman. Do you readjust salaries at regular intervals?

Governor Norris. Our principal readjustments are made semi-annually. We feel that that is a mistake, because it is apt to create an impression that at that time each employe may expect an increase. If possible, it ought to be as Governor McDougal has suggested, in smaller groups and more frequently, as often as possible, so that there would not be, at any certain date, the possibility of expectation of increase.

The Chairman. Do you pay bonuses, Governor Young?

Governor Young. We paid one in June, but we announced at that time that we would not pay any more bonuses. Salaries in the past have been adjusted in June. However, we are going to change that plan, and we will even go so far as to adjust the individual salary on the anniversary of their employment.

The Chairman. We will give you one year in which to

get tired of that, but in the meantime you should try it out.

Governor Seay. We adjust salaries monthly on the anniversary of employes.

The Chairman. Are you paying a bonus?

Governor Seay. It has been our practice for several years to pay a bonus annually. We expect to pay a bonus this year for past time, not to apply to current work, that is, for services during the early part of the year.

The Chairman. Governor Morss, do you pay a high cost of living bonus now?

Governor Morss. We anticipate that we will pay one the 1st of January. We have been in the habit of paying one the 1st of July and the 1st of January, but we cut it down from what we paid last January. We never pay bonuses in equal amounts, but we pay the small one in June and a larger one in December. We feel we have not raised our salaries to such a point, and the cost of living has not come down far enough, but what we should pay some bonus at the end of this year, and we shall probably do it. But a year ago, I think it was, after the first of last year, we gave them warning that they were not permanent and

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might be discontinued or cut down. But our feeling is we should pay them some bonus at the end of this six months.

The Chairman. Does that answer your inquiry, Governor Fancher?

Governor Fancher. Yes. What are you doing in New York about the salary adjustment?

The Chairman. We first tried the plan of readjusting salaries twice a year, but it got to be such a burden, with two or three thousand people to be dealt with, that we had to abandon it. Then we took up the readjustment every month with regard to clerks whose employment anniversary occurred, and that we have found is quite unsatisfactory, and we are now practically working on the basis of a regular scale of promotion with a corresponding scale of increase. It has not wholly gone into effect, I believe.

Governor Seay. You are making monthly adjustments now?

The Chairman. Just now we are working on the basis of monthly review on anniversaries, except with regard to certain departments that have been transferred to the other system.

Mr. Harrison. We stopped the anniversary adjustments the 1st of last August, in view of the system of standard-

ization which we have about completed.

Governor Seay. I think we have about completed ours, but I do not know.

The Chairman. Gentlemen, it is 6 o'clock and a motion to adjourn will be in order.

(Whereupon, at 6 o'clock p m, upon motion duly seconded, the Conference adjourned until Saturday, October 29th, 1921, at 9:30 o'clock a m).

CONFERENCE OF GOVERNORS OF THE FEDERAL RESERVE BANKS

FIFTH DAY

Washington, D. C.,

Saturday, October 29th, 1921.

The Conference of Governors reconvened in the Metropolitan Bank Building, Washington, D. C., at 9:30 o'clock a m.

Present: The Governors as previously indicated in the record (Governor Miller of Kansas City being absent).

The Chairman (Governor Strong). The meeting will please come to order.

The next on the program is No. VII, accounting and auditing.

VII. Accounting and Auditing.

The Chairman (continuing). You will notice that A, B, C and D are all suggestive of the same thing, and that is that we shall have some permanent method by which the accounting practices of the twelve banks may be made uniform, and the benefit of the experience of one bank placed at the disposition of another. I do not know whether it is worthwhile to discuss these topics separately. They are really all one topic and for my own use this committee on procedure, to which I referred the other day, has prepared a report of

what they were doing in the Bank in the way of improving methods of procedure, and I gathered from what was stated at the meeting the day before yesterday that most of the Reserve Banks are doing about the same thing.

Now the question is to bring them into uniformity, uniform practice in accounting, in advices, procedure, and especially in cost accounting. That would be a long step towards efficiency and economy.

Let me point out just one thing. Take the forms that we interchange, the advices, collection advices and other matters of that kind, of which there is a great mass. We have adopted the principle in New York of binding our records instead of filing them wherever they are capable of being filed in that way. It makes a very compact and more or less permanent record. They are not so easily lost, they can not be taken out of their bound volume. If these forms that we use, that we interchange, are uniform in size, uniform in weight and thickness and printing, those bound volumes are very much easier handled.

Another thing, if your clerks are trained to look for a figure at one place on an advice and it is always in the same place on letters coming from the 12 different banks, it very much facilitates the speed and accuracy with which

the work is done.

Those are possibly poor illustrations of what I have in mind. My point is that we should have an organization competent and capable of getting the best practice introduced throughout all 12 banks.

Gov. McDougal. I agree heartily with that and move such committee be appointed, that is, if such a committee is not in existence at the present time.

Gov. Fancher. You perhaps will recall that we did have a committee on accounting and form procedure, which labored for about a year and suggested forms and certain procedure. I understand that seven banks became interested to the extent of studying those forms and considering their adoption. My idea is that such a committee should prepare forms and then we should have them adopted. We ought to have a committee that would take this matter up and study it thoroughly, and some means should certainly be devised after threshing the matter out of getting it in operation. Too many of these things are simply left up in the air.

Gov. Galkins. I am anxious to see this thing hitched up and in sequence. There is a sequence coming to it and we are going to get it. I would like to amend Governor

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McDougal's motion so that it could read something like this: That this committee for the purpose of studying the whole subject of what you have included under the word procedure in all the banks be constituted by the appointment by each Governor of the best operating man in his organization, to meet wherever it is necessary that that committee should meet, to remain in sessions long as it is necessary for it to remain in session, and to report conclusions to the next Governors' Conference, wherever held. This is with the hope that in three months or some such time-- some from our point of view long period of study-- we can really accomplish something and stop wasting paper.

Gov. Fancher put his finger on the spot. There are seven banks that are considering something which costs a lot of money to consider. Now the thing I want to do is to have this thing hitched up with the Governors, who may decide these things, in a definite way, which should eventuate in a continual relation of that kind, it being a continuing committee of the Governors' Conference.

Mr. Morss. I must say that it seems to me that we do these things, vote for them, and never think of them again. If we want uniformity I do not see any way/except to get

a secretary or somebody else who will follow these things up by inquiries from each bank. He ought to write to the banks, have you put this into effect and if not, why not? And then the next time you come to the Conference you will have something.

The Chairman. I would refresh your memory to this extent: That after the last conference letters of special appeal were sent to each of the Governors urging that that very thing be done, that these matters be followed up; a letter was sent which outlined everything.

Gov. Morss. Yes, it did.

The Chairman. With an urgent request that it be followed up and, as Mr. Harrison reminds me, a personal letter was sent out.

Gov. Morss. Did you ask for a reply, did you ask whether they had done it or whether they proposed to do it? You have to go a little further than just writing a letter.

The Chairman. We asked for a report and we got replies. I think in general terms, from the banks-- did we not, Mr. Harrison?

Mr. Harrison. Most of them, that is letters of acknowledgment.

Gov. Van Zandt. It occurs to me that while the follow-up of yours did, I believe, some good, it did not quite go far enough. If this committee that you have under consideration now-- and I believe there has been a committee appointed to prepare a letter to be signed by you, to the Governors-- if you find that they are not following it up, then the Governor should take that up with his own organization and see that the practices adopted were being carried out.

Gov. Morss. I have no doubt at the next Conference it will be said that we voted to put this through and it was not done.

Gov. Van Zandt. And they will say they thought it was being done?

Gov. Fancher. Yes.

Gov. Seay. One trouble has been, as we all know, that we have not quite got simmered down from the experiences through which have been going. I believe we have arrived at a point now where we can accomplish more. As to the committee, I believe it has been a committee that did not represent all banks. I am in sympathy with Gov. Calkins' suggestion or motion. It will never get us anywhere unless we have a committee consisting of the accounting plan man in each bank,

because there are differences in the banks, the big and the little do not entirely conform as to practices, and it will be essential to have a representative from each bank on that committee, and then let them form a subcommittee if they choose, which will be an operating committee. Until you get that you cannot hope to have any success.

The Chairman. We have a committee on procedure composed of the most competent men in the bank, and so far as our own organization is concerned we are endeavoring to standardize all this work within the bank. It is very important that all do the same thing.

Gov. Fancher. We can have the benefit of that study and we can perhaps propose some point in our bank and we ought to go clear around the circle.

Gov. Calkins. The best thing, to get down to brass tacks, would be to have the twelfth man on that committee stand out against the other eleven, and then bring that fight into this Conference and we would get something settled at least.

Gov. Morss. The report presented by the Federal Bank of New York was examined by the officers of the Boston Board and, except as a difference in local conditions make

some other procedure desirable, the methods outlined in the New York report are much the same as the methods followed in the Boston Bank.

That is what I can report.

Gov. Calkins. Governor Morss has read his and I will read what I have to report.

While we favor the reappointment of a standing committee to standardize accounting forms and existing accounting procedure, and to recommend such new accounting procedure as may be necessary from time to time in handling interdistrict transactions occurring between Federal Reserve Banks, we do not feel that this committee should be vested with power and authority to insist upon the establishment of such accounting procedure as they may devise, but, rather, that their proceedings should be subject to review by all the Federal Reserve Banks and the Federal Reserve Board. In other words, our operating department thinks they should be left to go their own way so far as local conditions necessitate.

The Chairman. And I want to call attention to the fact, Governor Calkins, that we have under this one heading six separate suggestions to bring about uniformity, and we have never had a meeting of the Governors that I recall where the

question does not arise, how can we bring about uniform practice in this or that work that the banks are doing? The operating men--I have no doubt it is so in our bank--have a pride in their own views and methods and they are possibly resisting that very effort, but nevertheless these suggestions reach the program and when it comes to such a matter as unit cost and things of that kind it is absolutely essential that our cost rates be made up on the same basis. Otherwise comparisons are of no value.

Gov. McDougal. I want to say in connection with the figures recently submitted here, that they tend to show that the various relative costs at the various banks do not amount to anything because they are not prepared on a uniform basis.

The Chairman. Exactly so.

Gov. Fancher. I wish to read the report of a young man who is a member of that committee on forms. It reads:

"At the last Conference of Governors, the Standardization of Inter-Federal Reserve Accounting Forms Committee submitted its final report, which was adopted by the conference and later approved by the Federal Reserve Board. At the time it was realized that the question of standardizing

these accounting forms was a difficult matter and in many cases parts of or all existing procedures would necessarily have to be changed. The three banks represented on the committee appreciated this condition and many internal changes were made in each one, primarily for the sake of uniformity in accounting practice.

"After more than a year's labor on this work, each member of the committee naturally had a keen desire to see the forms adopted in all Federal Reserve Bank offices. The report was distributed among the banks and later actual forms used in the three banks represented on the committee were sent to each office. This has resulted in favorable response in a few cases; in fact, seven banks have become interested to the extent of installing some of the forms and are considering their adoption. Officially the committee's work is practically done, but from the individual efforts put forth since the last conference the need of a standing committee is quite apparent."

(Governor Fancher made a further statement which by direction was not reported.)

The Chairman. There are two things which it seems to me are inherently weak in our procedure to bring about better practice. One is that we are not organized to do

it right, we need a committee organization. The other is that we have not got a follow-up.

Now as to the organization, I do not think there is anything we can accomplish except we have a committee in each bank working on this subject, and that a representative of that committee from each bank shall sit in a general meeting, spending weeks or months at it if necessary, to work out a program. I think we are all agreed that some such program is desirable.

The next thing is the follow-up. We attempted a little follow-up after the last Conference, but it would be a mistake to delegate any authority to anybody to impose these decisions upon any bank that does not want to observe them. I would not want to attempt to do that. All we can do in New York is to send a reminder, which we will be glad to do, but if we have a permanent organization of committees in each bank, committees of the operating men, with a representative sitting in the general conference of twelve, and watch those men, to follow up whatever procedure is adopted, and if it is not followed up it will be brought up at this meeting, and then we can go after it. Now that would relieve me, if I am acting as chairman, of any respons-

ibility for enforcement, but the failure of observance of whatever plan is adopted will be picked up by these committees in the different banks and reported here.

Gov. McDougal. Mr. Chairman, I would like to withdraw my motion, if it is in order, and move that the plan of procedure as outlined by you be followed.

Gov. Galkins. I second that motion.

Gov. Seay. May I ask Governor Fancher if those responsible for getting up those forms did not meet at his bank before?

Gov. Fancher. Yes, they had two or three meetings, as I recall it, Governor Seay. I remember one meeting in Cleveland, we were together two or three days on forms. I recall that committee spent a good deal of time, and their forms were finally recommended and resulted in several conferences and the reconciling of differences and that sort of thing.

Gov. Seay. Was the Cleveland representative chairman of that committee at that time?

Gov. Fancher. I am not sure.

The Chairman. I think Mr. Rash was.

Gov. Fancher. Yes.

The Chairman. They made a splendid report.

Gov. Fancher. Yes, a splendid report. Those men spent a good deal of time and went over it thoroughly.

Gov. Seay. I recall it all. We have such a department in our bank and an officer at the head of it.

Gov. Fancher. Mr. Wagner has talked to me about this, and they put forth a good deal of hard work in this thing and they have made suggestions, but nothing comes of it.

Gov. Seay. The labor of that committee ought not to be lost, it ought to be taken up where they stopped.

The Chairman. I examined that report pretty carefully. They went into every aspect of the work. It spoke of the size and weight of the paper, the color of the paper, where it could be purchased, it dealt with the character of the machines to be used, and it was as complete and good a report as you could have, and I am afraid the results were lost because the banks did not pursue it. I think we have adopted the report in toto in New York.

Gov. Fancher. We did, yes.

Gov. Seay. We did, I think, in Richmond.

Gov. Fancher. And I think New York, Richmond and Cleveland went straight to it and adopted all the forms

and are using them.

Governor Young. Minneapolis is using these forms.

The Chairman. The motion is that it is the sense of this meeting that each Federal Reserve Bank should have as part of its organization a committee of its operating men who would deal with these matters of procedure both with regard to the internal practices of the bank and the practices between the Reserve Banks; that one member of this committee should serve as a member of a general committee representing all twelve of the banks, that their report should be submitted back and adopted; that they should be charged with the responsibility of following up their adoption, and where they find that their reports are not so adopted that the members of the Committee of the respective banks are charged with the responsibility of reporting back to the Conference of Governors.

Gov. Seay. That would involve taking up the whole matter new where we left off.

Gov. McDougal. No, that would take advantage of what we have done. This man would be the man that has gone along with the other committee, and they have made some progress.

The Chairman. I should suppose that committees would take advantage of all work that has been heretofore done in this

direction and simply carry it on more effectively.

Gov. Seay. That is what I have in mind.

Gov. McDougal. Do you want to decide on the first composition of this committee at this meeting?

The Chairman. No, my thought would be that in our bank, for instance, doubtless we would say that Messrs. Oakley, Rounds & Hendricks, this plan is the plan to be pursued in regard to all these matters in regard to inter-bank transactions, and the responsibility is upon you to carry out this program; and I will designate one of them as a member of this committee of twelve, and each of you designate a similar man, and when we are advised in New York that they have all been designated and are ready to meet, then they will be notified to have a meeting and appoint a chairman and get busy.

Gov. Seay. Yes, that is right.

Gov. Fancher. I understand, Mr. Chairman, this will be followed up as we get the record, one of the things the Secretary will bring to our attention--

The Chairman. Oh yes, you will get a report of every action taken by this Conference. Now there is one thing I left out of the motion, as I dictated it, and that is that I think this organization, the plan, at least, to create

this organization, should be reported to the committee to be appointed by the Federal Reserve Board and it should be indicated to the Federal Reserve Board that we are going right ahead with the program that is under consideration, and that we should expect these men to produce these results desired by this committee and the Reserve Board.

Gov. Fancher. There will be a very close time between that committee and this committee in which to expect results.

The Chairman. Yes, there should be. Are you ready for the question?

(Cries of "Question, question!".)

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

The Chairman. That disposes of the topics under No. VII, unless someone wishes to raise a question as to any one of the four headings.

Gov. Van Zandt. Do you vest this same committee with the work under D-- "Report and Statistics. Appointment of a committee to consider the necessity of and consolidation of the various reports and statistics furnishes the Federal Reserve Board and Treasury Department."

The Chairman. I think that is exactly the type of thing that that committee ought to do.

Gov. Seay. It comes back to the Governors, you know.

The Chairman. Governor Calkins, that topic, D, was suggested by you, and I am taking the liberty of answering for you, inadvertently.

Gov. Calkins. I accept your answer. That is the largest immediate question for that committee to deal with.

The Chairman. I think that is the first one and the largest one.

Mr. Gilbert will be here in about twenty minutes, and before he comes I would like to ask you what specific topics you would like to discuss with the Federal Reserve Board. May I suggest a few that are in my mind?

First, I think we ought to talk over this gold matter we were discussing yesterday, the possibility of central bank cooperation or banks of issue cooperating.

I would also like to discuss this cattle matter a little bit with the Federal Reserve Board, and the possibility of cooperation between the War Finance Corporation and the Federal Reserve Banks. That makes a good record of what we are considering in the matter.

Gov. Seay. May I ask whether I correctly understood the Board was familiar with the bill that the cattle people propose to introduce.

The Chairman. Governor Harding is familiar with it; I do not know whether the Board is.

Gov. Ellborn. Does he favor that, Governor? I believe he has one of his own.

Gov. Seay. I think, Mr. Chairman, as a matter of protection we ought to make sure that they are familiar with it. What do you think?

The Chairman. Well, I think that responsibility rests entirely with Governor Harding. He is fully familiar with it and has attended all of the meetings that I have had with the Senators, and attended the meeting we had with them on Thursday morning. It seems to me that beyond a discussion of the general subject we talked over with Mr. Meyer, that the responsibility does not rest upon us to inform the other members of the Federal Reserve Board. Do you think so, Mr. Harrison?

Mr. Harrison. I think not.

The Chairman. Governor Harding was brought into the Conference particularly for that purpose.

Mr. Harrison. Yes.

Gov. Seay. You remember you had an interview after we adjourned with Chairman Anderson?

The Chairman. Yes, I did.

Gov. Seay. With respect to the two points of the bill which were under discussion with the Governor?

The Chairman. Yes. I am going to make a report on that but first I wanted to line up these topics for a discussion with the Board. It also occurred to me that we ought to discuss this subject of efficiency and economy and the appointment of the Committee we have just decided upon.

Are there any other matters?

Gov. Seay. That question of the status of the collection system and the issue of the circular, on which we should make a report?

The Chairman. Yes, we should report our action regarding the proposed circular covering charges. Is there anything else?

Possibly some other topic will occur to you while we are going ahead with our discussion I would like to report now what transpired with Mr. Anderson.

The Comptroller of the Currency invites the Conference to a luncheon today at one o'clock and he will be here at 11 o'clock and I would like to report how many can attend the luncheon. Suppose those who can attend raise their

right hands?

Including Mr. Harrison and myself I count eleven.

Now in regard to my interview with Mr. Anderson, I submitted to him every point that was raised at the discussion in regard to the bill. He was impressed by all of the matters. I indicated to him that I thought it would be a good plan to have Mr. Harrison redraft the bill to cover those points and submit a memorandum with an argument as to the reason for each change that we were proposing, and that I think should be done, because all that I have done is to make a verbal argument with him, and he is not a technical banker, and the force of that argument may not appeal to the members of the committee unless it is reenforced by a written memorandum, and I am sorry to say that the committee is proposing to meet Monday in order to act on the bill, and at the hazard of very greatly inconveniencing Mr. Harrison I am going to ask him if he can stay over in Washington long enough to deal with it.

Now, the points that I covered with him, so we could have no misunderstanding about it, were to consider about the relation of cattle loan companies and the farm loan system; to consider the necessity and limitations of Section 5202; to consider whether the privilege accorded to the Federal Farm

Loan System of discounting paper with the Federal Reserve Banks should not be restricted to paper bearing the endorsement of member banks; to consider whether a clause could not be added to the provisions for the amendment to the Farm Loan Act which would make it not impossible but unprofitable for any existing member bank to withdraw from the Federal Reserve System in order to take advantage of discount privileges which would be equally advantageous through the Farm Loan System and which they now get through the Federal Reserve System. And a further clause which would put the Farm Loan System in the same relation to existing agencies for obtaining credit information about banks that the Federal Reserve System now has, or should be with the Comptroller of the Currency.

Gov. Norris. I beg your pardon, but what was the last?

The Chairman. If the Farm Loan System is to make loans to banks, it should be put in possession of the necessary information, and that should be indicated in some manner in the bill.

Now, with these additions and amendments to the proposal made by Mr. Harrison, and supported by a memorandum on each

point and submitted to a committee, not as an expression of opinion from the Governors but simply as a modification of the suggestions I made personally, it seems to me we have gone as far as we can.

We now propose, as I understand the action of the Conference, to take no formal action in the way of recommending any legislation at all.

(Gov. Van Zandt then made a statement off the record).

The Chairman. Now I want to make one more statement in reference to my interview with Mr. Anderson.

It developed in the course of our discussion that Mr. Anderson was a little bit uncertain as to whether the existing capital which had been paid in to the Farm Loan Banks and the Associations would be adequate to support the new operations which might result from this amendment, and I pointed out to him that if a part of the plan contemplated that all banks taking advantage of this program, would be required to pay in the five per cent., that was discussed here, it might not only furnish the capital required but would furnish the protection against withdrawal against the Reserve System.

Governor Seay. Of course the requirement to pay in five per cent of the capital is no comparison, does not compare with the requirement now governing member banks, that is the contribution of the reserve, the proportion one to the other, is very small. But that is just by the way, it is not necessary to discuss that, we all know it.

Gov. Morss. Mr. Chairman, I think it would be useful if we could be informed somewhat of the points that may come up on the bill that will be brought forward. For instance, I met one of our representatives yesterday and he told me that there was some legislation of this sort that he thought was bound to go through. He offered when this legislation came up to talk with us about the bill. He is a very good fellow and a man we know very well, and takes that action generally when anything of this sort comes up that would interest us. So if we were fairly well posted upon the other side we might be a little better able to talk to him than if we did not know the points about it.

The Chairman. I regret to say, Governor Morss, that the situation up at the Capitol appears to be that there is a kind of rivalry between the Senators to see which one could introduce a bill first, each one seems to feel that he ought to get there first. I had rather felt, speaking personally,

from my own observation, that the real purpose and object should be to give any aid that was possible from the standpoint of the Federal Reserve Bank, with the commission that was appointed by Congress to deal with this very thing-- agricultural credit-- and when Congress appointed a commission to study the subject and recommend legislation it seems to me they must have intended that and not that each Senator might hustle around and get what information he could and introduce a bill.

Gov. Morss. Do not misunderstand me. This gentleman had no idea of introducing a bill.

The Chairman. Oh, I did not understand you.

Gov. Morss. No, he had no idea of that; he only wanted to be able to criticize or support the bill by any information we might give him when it came on the floor of the House. He had no bill of his own.

The Chairman. Well, is it satisfactory to the meeting to leave this matter of the legislation in its present shape, without any formal action?

Gov. Seay. I think decidedly there ought not to be any formal action, as you have expressed it, by the Governors. As I apprehend there might be danger of misunderstanding.

The Chairman. Yes. Do you make that a motion?

Gov. Seay. Yes, decidedly.

The Chairman. Your motion is that it is not desirable to take any formal action by way of recommendation?

Gov. Seay. Yes, sir.

The Chairman. Is that seconded?

Gov. Wellborn. I second that motion.

Gov. Morss. Why put anything on the record at all-- even anything against it?

Gov. Seay. Well, inasmuch as a great deal appears in the record concerning this matter I think it is desirable to have an emphatic statement that no recommendation is made.

Gov. Fancher. I think so too.

Gov. Seay. And it was not the purpose of the Governors to concern themselves in this matter.

Mr. Harrison. It would be a great help to the Secretary in writing up the minutes if something is stated about it, because otherwise there would be loose ends that it would be difficult to tie up without some sort of expression from the Governors themselves.

Gov. Seay. It is a far-reaching matter as we all know and should originate in this body.

Gov. Fancher. I would like to second Governor Seay's motion.

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

The Chairman. Now, one other matter before Mr. Gilbert comes. I have told Senator Kendrick that I would endeavor if possible to see him once more before leaving Washington, and have a little chat with him about this cattle matter, and the question is what shall I say to him.

My thought is that if I can report that the Reserve Banks in the central sections are willing to do anything and everything that they can to promote handling this matter by cooperation with the War Finance Corporation, by removing misunderstandings that may have arisen as to the line of borrowing--as some confusion seems to be reported by Mr. Meyer and so on--that it would be helpful. I understand that you do not contemplate communicating directly with the member banks in each district.

Gov. Young. Not as a general circular but by correspondence with each individual bank. I think we are safe in reporting that we have done it, are doing it and will continue to do it.

The Chairman. Does that apply to your district, Governor Calkins?

Gov. Calhoun. I think so. I do not believe myself that there is any misunderstanding about it. There is perhaps some friction or something possibly of friction, in the case of the Northwest 'heat Growers' Association, but the managers of that association believe that the member banks are opposed to their program and will block it whenever they can see an opportunity, and I am not sure that they are not right to a certain extent. We have tried to smooth out that wrinkle, but not with any success. I have said, and believe, that the cooperative marketing organization is on the way, and we ought to meet it and deal with it, and that bankers ought to recognize it. We are the pioneers in this movement in California and have seen some action and results as well as some serious mistakes, but we believe it is coming and is coming to stay.

The Chairman. Governor Biggs, is the statement I suggested appropriate for your district?

Gov. Biggs. Yes. We have something along the lines of this cooperative organization, when it comes to tobacco. There is nothing objectionable at all to report, and they are working along good lines.

The Chairman. Governor Van Zandt?

Gov. Van Zandt. We are taking it up not only with our member banks but non-member banks and even with individuals.

Gov. Calkins. I would like to say that there are or at least there were two distinct classes of cooperating market associations, many of them dealing with tobacco, and one dealing with cotton, and so forth, were promoted by a Hebrew gentleman named Shapiro, in San Francisco. Shapiro started out with the idea that he thought the association could control prices. Some of these associations are 25 years old. One is the San Francisco Citrus Growers. But now Shapiro does not believe in controlling prices, he has changed his tone. There is another school, if you please, which may be said to be represented by Ralph Merritt. Merritt is getting a leadership, I should say. His program is a sound program. Everything should be done to assist that school and not the others.

The Chairman. Well, the War Finance Corporation has had considerable contact with Shapiro and his movements, and have undertaken to make considerable loans. The largest loan I heard of was that made to the Association of Cotton Growers of the Mississippi Delta, and there they agreed to

loan a large amount of money, and I understand not a dollar of it has been taken.

Gov. Biggs. Very little of it. That is the Cotton Growers' Association?

The Chairman. Yes.

Gov. Wellborn. I saw that the War Finance Corporation had made quite a large loan to the Fruit Exchange in California-- a million, two hundred thousand dollars. That looked rather strange, because I understand money matters are very easy in Los Angeles.

The Chairman. Well, I think I understand what kind of a report to make to Senator Kendrick, and I shall endeavor to see him this afternoon.

Now, after Mr. Gilbert finishes his part of the program-- there are one or two matters to discuss with him-- members of the Board will be here, and I have a list of four topics. They are the general subject of the exchange situation and the cooperation of the banks of issue abroad; cattle; efficiency and economy, and a report of what we are proposing to do in that matter; a report of our action on the collection matter. Are there any other matters?

Gov. Seay. Governor Strong, do you not think we ought

to report on the question of group meetings?

The Chairman. Yes.

Gov. McDougal. I want to report to the Board on behalf of the joint committee, and if you can handle that I wish you would. Mr. Jay has asked me to speak for their committee and state that the vote was unanimous in favor of continuing those meetings as at present.

Gov. Seay. The Board itself appointed that committee and it might be, Governor McDougal--

Gov. McDougal. In view of Mr. Jay having reported on that I would like him to do it.

Gov. Calkins. In your discussion of the question of efficiency and economy are we going to get any renewal of the proposal we had made that we be permitted to do something effective.

The Chairman. Well, I am of the opinion that the action we took yesterday precludes our suggesting those meetings.

Gov. Calkins. What action do you refer to?

The Chairman. After you left yesterday afternoon the Conference passed a resolution recommending the continuance

of the group meetings, a regrouping to be made by the Federal Reserve Board, and more frequent conferences of the Governors in Washington. This was based upon a report made by the subcommittee, consisting of Governor McDougal and Governor Seay, that it was absolutely impossible to bring about an arrangement for meetings of the Governors in other places than Washington at present.

(Gov. Calkins made a statement off the record.)

The Chairman. If it is the wish of the meeting I will report the action of the meeting and I will also report what is really the wish of the meeting, that we must deal with these matters more efficiently and effectively, and that we can do so by means of meetings such as Governor Calkins has suggested. Governor Harding, as I recall a report made to the meeting, was not speaking altogether from the standpoint of the Federal Reserve Board and its position, but rather indicated that he felt that the publicity which would result from meetings of the Governors in the other reserve cities would arouse comment and antagonism of a more political character. As you know, Secretary Glass at one time was very critical of these meetings of the Governors. We had better bring it out.

Gov. Seay. Mr. Chairman, it is my deliberate judgment

that if the Governors desire to bring about in the future the resumption of these meetings, it will be very wise to go no further at this time.

If you gentlemen could have seen the viewpoint of Governor Harding I think you would have been impressed, as we have been impressed, and I am absolutely certain that such a suggestion would not only make no headway at this time but it might be misunderstood and that our best chance of resuming the independent meetings of the Governors lies in accepting the situation as it is for the moment and let reflection take place on the part of all of us, and let the future develop.

I am firmly convinced of that, and if the subject is introduced I think you will be convinced of it when it is concluded.

The Chairman. Governor Harding has appealed to me personally to postpone pressing any such recommendation, and I told him that the feeling was very strong that if the Federal Reserve Board wished to accomplish what they are proposing to accomplish by appointing a committee they never could do it, except we were going to have more frequent meetings, and of the character which had been indicated to him through our sub-committee.

Gov. Seay. Your committee impressed the same view upon him, and there it stands, and my belief is that if it is allowed to rest where it is that it will be more to the advantage--

(Governor Calkins addressed the meeting, but by direction his remarks were not reported).

The Chairman. Governor Fancher offers a resolution which has been duly seconded, that the report under No. VI, operation, entitled "Personnel and Welfare", be made part of the record and of the proceedings. Is there any discussion?

Gov. Seay. I second the motion.

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

(At this point Under Secretary Gilbert entered the room).

The Chairman. We have left on Supplement II two subjects, the 1922 program for the issue of Government savings securities, and discussion of the practice followed by the Federal Reserve Banks in handling checks deposited in the Treasury accounts, and Mr. Gilbert also wishes to bring up for further discussion the question of allotments of Treasury certificates.

Mr. Gilbert. I would like to begin on the allotment

of Treasury certificates. I am not sure that one aspect of that question was sufficiently discussed the other day. The great advantage of the present system, or of some system modeled after the present system, is that it permits definite allotments to be made to banks and other subscribers in advance of the closing date. It gives them a basis on which they can go ahead and resell. In a system where we depend so much on the redistribution of the certificates by the subscribing banks that is an important consideration, I think.

There will be banks and other heavy subscribers in the cities particularly who will be absolutely unable to make any definite arrangements on resale until the day after the closing, and the allotments cannot be made until late in the day of the closing of the books. I therefore would either like to have some further consideration of the Governors' opinion on that point or else leave the matter open for further discussion in the next two weeks, either by correspondence or otherwise.

Gov. Fancher. I think in our present issue we have about as many flare backs as we did in the previous issues sold.

The Chairman. What is the amount subscribed now?

Mr. Gilbert. 633 million. Those were the subscriptions last night. Practically every district is oversubscribed. That is the largest subscription we have ever had.

Gov. Wellborn. I understand in our district we are very heavily ^{over} subscribed and 12 million dollars has come from New Orleans, but I know very well that the New Orleans banks-- I do not think they are local subscriptions, I think that is on account of some of their friends on the outside, and I would like to get your suggestion about how to allot those subscriptions. I wired our manager today to hold up on that because I want to give the old subscribers a fair deal, those that have been subscribing all the time, during the tug of war, when things were pretty hard to get.

The Chairman. I would like to suggest a word on that subject. Subscriptions made in one District for account of banks in another District. I may be wrong about this, as to what is developing and what the result will be, but this is my idea. Money is easing in New York more rapidly than in any other part of the country. That is an inevitable development. We have had, as is always the case, the most liquidation in the industrial and money

centers of the country. Our loans have gone down very sharply at the Reserve Bank. The large banks have mostly paid up what they owe us. They are now looking for investments for employment of their funds. If the entire amount of an issue of certificates was subscribed by the New York banks, even though they went to the other districts in order to get their allotments, it would have the same effect when the Government disbursed that money as though the New York banks were lending funds to the other sections of the country. In other words, we make the entire loan to the Treasury and the Treasury uses the proceeds to pay the Government bills all over the country, and I think it is a desirable development. I would not interpose any obstacles in the way of these subscriptions being sent in to other districts. The only disadvantage lies in the fact that where banks in the other districts really want these certificates, the amount of the subscription is inflated by the subscriptions from New York banks and their allotments are correspondingly cut down. Now that is a hardship on those banks that want and need the investment for their customers, but the advantages of such a development it seems to me greatly

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outweigh the disadvantages.

Governor Seay. Those banks, Governor Strong, in other districts who desire them for themselves may decline to make subscriptions at the request of banks in other districts. Probably they will say they want them for themselves and may not consent. The least criticism, as it occurs to me, ^{perhaps} and the fairest plan was that which was proposed; set the date in advance on which the subscriptions will be received, let them accumulate, make a proportionate distribution and fix the limit to which the full award will be made.

Mr. Gilbert. Taking the subscriptions as they come and making no allotment until they close.

Governor Seay. Yes. Nobody can object on good grounds to that if it will meet the conditions that the Treasury has in view, that is, distribution.

Mr. Gilbert. The objection I wanted to raise seems to be a practical objection from the viewpoint of the people, and the people who buy to resell.

Governor Morss. Is not that redistribution so well established now that you could ignore that under present circumstances? I do not think there is any question of

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redistribution now.

Mr. Gilbert. We will know how it is going, we might allot, but the trouble with that is the long distance place would be out of it.

Governor Morss. Suppose you did not announce it quite as soon?

Mr. Gilbert. Well, there, too, it is a question of the whole district, largely. If we only had to do with New York, Boston, Philadelphia and Cleveland, we might announce it the day before, but with other districts that would hardly be fair.

Governor Seay. Mr. Secretary, that would put the original subscriber exactly where the bank subscriber is, and if the original subscriber does not receive a large percentage of what he has subscribed for, will not it whet his appetite?

Mr. Gilbert. I thought you asked wheth^{er}/it would hurt is appetite. Yes, it may whet his appetite. There is one possibility. You might close the subscription books a day or two ahead of the issue, as a general policy.

Governor Fancher. Then your announcement might^{have to}/be made. In other words, it appears to us in our district

that using the mail facilities for sending out the announcement and subscription blanks, and then the return by mail, that takes the better part of a week for the banks to get along, I mean particularly the outlying small banks, and you have got to give those banks consideration--

The Chairman. I do not think you could close the books without doing injustice. What impresses me is this: that the minute you adopt the basis of not making allotments until the books close, you then throw back on all subscribing banks the same necessity with their customers, and no subscribing bank would know how many certificates would be allotted until after the books close. Therefore they will not know how much to allot to their customers for whom they are subscribing until after they are notified of their allotment, and I do not think that is a bad thing, I think that would be a stimulation.

Governor Fancher. Then it goes back, Mr. Chairman, to the basis on which the allotment of bonds was made.

Mr. Gilbert. Except there there was a gap between the date of closing and the date of issue.

Governor Fancher. Yes, there was a gap there.

Mr. Gilbert. To give time to turn around and provide for

payment.

Governor Fancher. In the matter of the gap I see no serious objection to your making your announcement a day or two earlier, so that there would be sufficient time to give publicity to the announcement, to get out subscription blanks by mail and get replies by mail. Now the situation in our district is not as at greater distances. We are more compact. Our mail facilities are greater and our distances are not as long, but I think there has got to be a certain amount of time given.

Mr. Gilbert. It takes several days for a country bank to get in a subscription, and they are the ones that are most noisy if they do not get what they want.

Governor Morss. Some of them have to have meetings of the directors to authorize their officers to do anything.

Mr. Gilbert. What I would like to do on this allotment business is to have you to consider it a little bit more, and if you could write in within a week or two any further views or further suggestions you may have, or the people in the several banks who handle the allotments may have, that would be very helpful to us. I think it needs some thought.

I sent out a rather long telegram on that early in September. I feel that the Treasury ought not to discourage those subscriptions; but, on the other hand, the Reserve Banks should not go so far with them as to freeze out the local subscribers. It is a difficult thing to adjust that, however.

Governor Wellborn. Mr. Secretary, in our district large subscriptions come in immediately and before they are locally subscribed for, before our local subscribers have a chance to receive these letters, the subscriptions are made from these outsiders.

Mr. Gilbert. I think that develops an additional reason to make a proportionate allotment, and make it on the day of closing.

The Chairman. Gentlemen, the understanding is that after deliberation, and with a view to the Secretary's deciding upon the principle that in future issues we will all write reports of this matter, have you any suggestion to make in relation to the credits?

Mr. Gilbert. On the question of Government savings for next year, I have already sent out to each Governor a letter. There have been several developments in the

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last few weeks. The President has shown an unusually keen interest in this savings program, and he has asked particularly that it be continued, and he has offered to do everything in his power to promote the sale of the credits next year. He voluntarily offered to issued a proclamation and do everything he could do. The Postmaster General has taken an active interest and is sending out better instructions to postmasters and giving better publicity to the savings securities in the postoffice than we have had for several years.

The savings campaign has been through a pretty hard period, it has been through a period when Liberty Bonds and other securities were selling at such a rate that it seemed almost fraudulent to push an issue of securities selling at such a low rate of interest as the 4 per cent savings securities.

We have now come to a period when we seem to be readjusting on a lower level, and with the active interest of the President, the Postmaster General and the Treasury, we feel that we ought to make a good try next year on a slightly different basis, and see what can be done in the way of selling savings securities, chiefly through post-offices.

The Postmaster General is particularly anxious, I think, to see some field organization maintained on about the basis that we now have. The Treasury is quite prepared to do that, and at least for the next six months, until the new plans develop. It is the intention to discontinue absolutely the War Savings Stamps and the Thrift Stamps, to continue securities resembling the present higher denominations, the Treasury saving certificates, to change the basis, however, so that it will be sold at a fixed issue price, and will mature on the fifth anniversary of the date of issue. That will make it possible to continue the securities on sale indefinitely without withdrawing them at the end of the year; it would simplify the accounting all along the line, and assist them materially and put other things in that are rather advantageous from the point of view of the Treasury.

Governor Fancher. Is it the thought of the Department to continue the present war savings organization, to cooperate with the Postoffice Department and the postmasters?

Mr. Gilbert. Very largely, with the local postoffices in the district. If the banks should begin to show any interest in it, which is possible but perhaps not probable, the

local savings organizations in the banks would be important for that sale. It is the intention to make the new securities much more attractive in appearance than anything that has previously gone out. They are being engraved now on the basis of the appearance of the Liberty Bonds and otherwise on an attractive basis. I think it will also be possible to simplify somewhat the issue price, make it a flat round amount. At present the \$100.00 security is sold at a discount price of 82.40, the first month. That is roughly 4 per cent compounded quarterly. The Treasury has felt that we could at least make that an even \$82.00. It will probably be unwise to go any lower than that, but \$82.00 would be a convenience and might introduce some new attractions.

It will enable us to talk in terms of a new deal.

We also expect to have the limit of holdings increased to \$5,000.00. That has already been approved by the Senate, and it would be included in this revenue bill if it passes in time.

Governor Calkins. Mr. Secretary, are you intending to say that the War Savings Organization will be continued to, say, June of 1922?

Mr. Gilbert. Continued to at least June 30th, 1922,
on its present basis.

Governor Fancher. I understand you had in your appro-
priation a certain amount of funds that can continue that.

Mr. Gilbert. There are sufficient funds in our indefini-
nite appropriation, yes, to continue the organization on
that basis.

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(Joint Conference between the Federal Reserve Board and
the Governors of the Federal Reserve Bank follows.)

