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PROCEEDINGS

OF A

CONFERENCE OF GOVERNORS OF THE FEDERAL RESERVE BANKS

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PROCEEDINGS OF A CONFERENCE OF GOVERNORS
of the
FEDERAL RESERVE BANKS

Washington, D. C.,

Monday, March 26, 1923.

A conference of Governors of the Federal Reserve Banks convened in the assembly room of the Federal Reserve Board, Treasury Building, Washington, D. C., on Monday, March 26, 1923 at 10 o'clock, a. m.

Present:

- D. R. Crissinger, Comptroller of the Currency and
ex officio member of the Federal Reserve Board.
- A. C. Miller, member, Federal Reserve Board.
- C. S. Hamlin, member, Federal Reserve Board.
- W. P. G. Harding, Governor, Federal Reserve Bank
of Boston.
- J. H. Case, Deputy Governor, Federal Reserve
Bank of New York

B. A. McKinney, Governor, Federal Reserve Bank
of Dallas.

George W. Norris, Governor, Federal Reserve Bank of
Philadelphia.

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

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

L. C. Adelson, Deputy Governor, Federal Reserve
Bank of Atlanta.

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

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

W. J. Bailey, Governor, Federal Reserve Bank of
Kansas City.

H. A. Young, Governor, Federal Reserve Bank of
Minneapolis.

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

D. H. Barrows, Federal Reserve Bank of New York,
acting secretary to the Conference of Govern-
ors.

P R O C E E D I N G S.

Governor McDougal: Gentlemen, I talked a minute or two with Governor Hamlin this morning, and he told me he understood the plan for the conduct of this meeting contemplated this body going ahead with their work in advance of meeting with the Federal Reserve Board.

I have a telegram from Governor Strong in which he states that he will be unable to attend the Governors' Conference. We have no vice chairman, and he requested me to call the meeting to order which, consequently, I am doing.

The Comptroller of the Currency is here, and I am sure that before we proceed with our conference, Mr. Comptroller and Mr. Hamlin, that we would be very glad to hear from you with regard to the conference.

Mr. Hamlin: I will ask the Comptroller, who represents the Board, in Acting Governor Platt's absence.

Governor Fancher: Gentlemen, I desire to nominate Governor McDougal as Chairman of this conference.

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

Mr. Crissinger: Gentlemen, I have not come to make

a speech to you. This meeting was to have been presided over by Governor Platt, but you are all aware of the bad news with regard to the death of Mr. Milo Campbell, one of the members of the Board, and Governor Platt is attending his funeral. The Board itself will have no formal meeting today, but we have felt that that fact should not keep the Governors from a consideration of their program, with such little time as we might be able to drop in and talk matters over with you in your deliberations.

We have a few matters in addition to the program that we want to call your attention to first, because it will be necessary for you to provide the time.

First of all, Judge Lobdell, of the Farm Loan Board, desires a joint meeting of his board with this board of Governors, probably tomorrow, if you can find time tomorrow to have the meeting. He would like to have you fix the hour, which can then be communicated to Judge Lobdell, and he will bring his board in to discuss with you whatever he has in mind.

Secondly, we have a dinner at the Metropolitan Club tonight, and there Secretary Hoover has agreed to speak to the Governors on some matters which he thinks are of importance, and which I think, and the Board thinks are

of great importance as bearing upon the policy that ought to be pursued by the Governors of the various reserve banks.

I, in looking over this program, find that you have laid out a very ambitious program, which will take quite a little time, even if you consider it briefly; I find in it many subjects that are of great interest to the Board, some of them being of particular interest to the members of the Board, because they have occasioned a great deal of discussion in Board meetings.

It has been thought proper that your meeting with the Board be held on Wednesday. That will give you two days to deliberate upon your program, to meet the members of the Farm Loan Board, and to transact such other matters as may naturally come before you, and I think on Wednesday morning the Reserve Board would like to have its meeting with the Governors. It may be possible that that meeting may have to be postponed another day, and I think you gentlemen who have been arranging for transportation had better not be in too big a hurry to get away, because we feel that the things that will be up for consideration are of such vital importance to the system that we should

thoroughly discuss them and come to some understanding, and that this Board of Governors should not adjourn until we have arrived at a working conclusion.

I do not care to make any further speech, and I believe that covers all the matters that we wish to submit to you now.

(Whereupon, the Governors of the Federal Reserve Banks entered into conference, Governor J. B. McDougal, of the Federal Reserve Bank of Chicago, presiding.)

The Chairman: I realize that you gentlemen have imposed a big responsibility upon me. I feel that it would be difficult, and impossible, for me to take and satisfactorily fill the vacancy temporarily made by the absence of Governor Strong. We regret under any circumstances that he should not be here, but particularly because of the cause which prevents him from being in attendance today.

The first business in order will be the selecting of a Secretary for the meeting. What is your pleasure, Gentleman?

Governor Fancher: I move Mr. Barrows be made Secre-

tary of this meeting.

The Chairman: I might say, in that connection, that Mr. Harrison is also ill. As I understand it, Mr. Barrows has been instrumental in gathering together the necessary data and information for this meeting.

(The motion of Governor Fancher having been duly seconded, was unanimously carried, and Mr. Barrows was appointed temporary secretary of the meeting.)

The Chairman: Now, gentlemen, it occurs to me at this time that it will probably be appropriate to give consideration as to what we should do with respect to Mr. Campbell, if anything. Mr. Campbell's funeral occurs today, I believe, at 2:30. I felt, although I had never met Mr. Campbell but once, that he was a man who was peculiarly fitted, by integrity and intelligence, and his knowledge of agricultural and live stock affairs, to have discharged the duties he was called upon to discharge as a member of the Board. I feel that the Board is at a great loss, and I should like to have an expression of the views of this Conference as to what, if anything, we can do or should do that would be appropriate at this time.

Governor Norris: I move that a committee be appoint-

to draft a report recording this Conference's sense of loss at Mr. Campbell's death, and submit that for adoption by the Conference at the meeting this afternoon or tomorrow.

Mr. Case: I would second that.

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

The Chairman: I will appoint on that committee Governors Norris and Seay, and, if the Committee wishes me to, I will be glad to work with them.

Now, in view of Governor Strong's absence, and because of it, I think we should follow our usual custom and express our regret at his absence.

Governor Calkins: I move the Chairman be requested to send a telegram to Governor Strong expressing our regret at his absence and our hope for his speedy recovery, or whatever he sees fit to say.

Governor Seay: I will second that.

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

Governor Calkins: I would like to repeat that motion, substantially, with regard to Mr. Harrison. Mr.

Harrison has acted as secretary of these conferences for a long time; he is now flat on his back in Baltimore, and I think a message of that sort should be sent to him. I therefore move that the Chairman be requested to take similar action with regard to Mr. Harrison.

Governor Norris: I will second that.

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

The Chairman: The Comptroller has requested that we proceed with our deliberations and meet the Board on Wednesday morning. It is only necessary at this moment that we bear that fact in mind.

Governor Norris: Mr. Chairman, you will also recall that he referred to the desire of the Farm Loan Board to meet with us tomorrow, if convenient to us.

The Chairman: Yes, he expressed a desire that we arrange a meeting for tomorrow, if convenient, with the members of the Farm Loan Board, and it is evidently the desire of the Farm Loan Board that that meeting be set for tomorrow.

Mr. Case: I suggest ten a. m., Mr. Chairman.

The Chairman: If there are no objections to the

plan, I will appoint Governor Young to wait upon the Farm Loan Board and make arrangements for such a meeting, or at least notify the Board of our willingness and desire to meet with it at that time.

Now, are there any suggestions as to action with regard to any other matters before we proceed with the program as arranged? If not, what is the desire of the conference as to the order in which we shall proceed? Shall we take the program as it is arranged, or proceed otherwise?

Mr. Barrows calls my attention to a transposition in the program or a rearrangement of it, so that the topics suggested by the Reserve Board come first. Is it the desire of the Conference that we go on with the other section of this program, or shall we look over those topics suggested by the Board and see if there is anything we can do with respect to them? It seems to me, with respect to Topics 1, 2 and 3 of the Board's program, that the Board would desire to be represented when they are discussed, and if there is no objection, we will set them aside for the present and go on with the rest of the program, the first topic of which is,

Credit transactions and policies

- a. Report of Committee on Centralized execution of purchases and sales of Government securities for account of Federal Reserve Banks. Governor Strong, New York, Chairman.

(See Appendix A, this volume page 205-a)

I presume you have all seen that report.

Governor Seay: Mr. Chairman, I move that the report of the committee be adopted, with special reference to the resolution which was adopted at a meeting of the committee held in Boston, February 5, which reads as follows:

"In view of the present credit conditions, the committee recommends that the present policy be continued and that, for the present, or until the next Conference of Governors, open market investments be equalized between the Twelve Reserve Banks, as far as possible, without putting further Federal Reserve funds into the market through open market operations."

I have particular reference to the opening clause of that,

"In view of present conditions the committee recommends that the present policy be continued" and move the adoption of the report with particular reference to that clause.

The Chairman: If I understand you, you wish to move the adoption of the report, and also that the policy referred to in the opening lines of the paragraph be continued for the present?

Governor Seay: Yes sir; that is the essence of the report. The rest of it is merely a tabulation of the transactions of the committee.

Governor Norris: I had supposed we had all received a letter from the Federal Reserve Board, including Dr. Miller's suggestion as to open market investment policy, and the recommendation which he makes there would not be consistent with the adoption of the resolution which Governor Seay has just offered.

(At this point a recess of five minutes was taken, during which recess an appropriate resolution was drawn up with regard to Mr. Campbell's death.)

Governor Norris: Mr. Chairman, your committee is ready to submit its report.

The Chairman: We will hear it now, Governor Norris.

Governor Norris: Your committee submits for adoption by the Conference, the following resolution:

"The Governors of the Federal Reserve Banks assembled in Conference at Washington desire to record their regret at the news of the sudden death of Mr. Milo D. Campbell, the newly appointed member of the Federal Reserve Board. While they have not had the privilege of meeting Mr. Campbell, they feel that his personal character justified the belief that he would have proved a useful member of the Board, and desire to convey to the members of his family their profound sympathy for the loss which they have suffered, and to the Federal Reserve Board for the loss of a fellow member.

J. B. McDougal, Chairman."

Governor Harding: I move the adoption of the resolution.

(The resolution, having been duly seconded, was unanimously adopted.)

Governor Norris: It is assumed that this will be sent at once by wire, and a copy submitted to the Federal Reserve Board.

Mr. Case: And a copy given to the press?

The Chairman: What is the wish of the Conference with regard to giving to the press a copy of this at this time?

(It was the sense of the Conference that a copy be given to the press, and it was so ordered.)

The Chairman: Now, Governor Seay, will you repeat your motion?

Governor Seay: I move that the report of the Committee on Centralized Execution of Purchases and Sales of Government Securities for Account of Federal Reserve Banks be received and adopted.

Governor Bailey: I would like to interject a question Mr. Chairman. What does that mean? Suppose a member bank has \$100,000 worth and wants to sell them to us? Are we restricted in that?

The Chairman: Governor Bailey, I can speak for the Chicago Bank, by saying that we are transacting a very large business in that regard every day for member banks in buying and selling Government securities.

Governor McKinney: Without passing it through the committee?

Governor Norris: May I say that when this policy was adopted by the Conference transactions between reserve banks and their member banks were expressly excluded.

Governor Bailey: That has been my understanding of

it all the time. I wanted to emphasize it here, that is all.

The Chairman: Your understanding of it is correct, Governor Bailey.

I understand, Governor Seay, that your intention is to approve the report of the committee---

Governor Seay: And continue the committee.

The Chairman: And continue the committee, with the understanding that the policy, as outlined, will be continued for the present?

Governor Seay: For the present, yes.

Governor Calkins: I will second that.

Governor Harding: I would suggest that consideration be given to this memorandum submitted by Dr. Miller before the motion is put, because that memorandum provides for a discontinuance of this committee and its reorganization, as I understand it.

Governor Seay: Does that come before us as a part of the program of the Board, Governor Harding?

Governor Harding: I do not know how many members of the Conference have had their attention brought to it. It was sent to me the other day. I notice your motion

was that this committee be continued, and I would like to make some observations, whenever they are in order, on this memorandum of Dr. Miller's.

The Chairman: May I interrupt just a minute to see how many of you gentlemen have copies of that memorandum? I do not seem to have one myself.

Governor Harding: He might be right about it, and I would like to make some observations on it. I think before the resolution is adopted continuing the committee, in view of the fact that some of us have been put on notice--- I succe^{eded}/Governor Morss as a member of that committee--- and this having been sent to me the other day, that I should at least call the attention of the other Governors to it before the motion is adopted.

The Chairman: I would suggest that we have the secretary read the memorandum.

Mr. Barrows: The memorandum is headed "Open Market Investment Policy", and is as follows:

"Whereas, the Federal Reserve Board, under the powers given it in Sections 13 and 14 of the Federal Reserve Act, has authority to limit and otherwise determine the securities and investments purchased by Federal reserve banks;

"Whereas the Federal Reserve Board has never prescribed any limitation upon open market purchases by Federal reserve banks;

"Whereas the amount, time, character, and manner of such purchases may exercise an important influence upon the money market;

"Whereas an open market investment policy for the twelve banks composing the Federal reserve system is necessary in the interest of the maintenance of good relationship between the discount and purchase operations of the Federal reserve banks and the general money market;

"Whereas no such System policy has been laid down by the Federal Reserve Board nor developed by the Federal reserve banks;

"Whereas it appears that during the year 1922 the Federal reserve banks have made large purchases of investments in the open market mainly for the purpose of assuring the earning of their expenses and dividends, without much regard to the bearing of such purchases upon the money market and general credit requirements of the country;

Whereas the total earning assets of the twelve Federal reserve banks for the year 1922 have approximated 1200 millions, while aggregate earning assets for the twelve

banks of approximately 800 millions would have sufficed to have enabled the banks to have earned their expenses and dividends;

"Whereas approximately 400 millions of money has been put into the money market by the action of the Federal reserve banks and maintained there in excess of their earning requirements into a time when the general credit situation needed restraining influence rather than stimulus;

"Whereas such open market purchases have consisted very largely of United States Government securities; and

"Whereas heavy investments in United States securities, particularly short-dated certificate issues, have occasioned embarrassment to the Treasury in ascertaining the true condition of the money and investment markets from time to time,

"THEREFORE, Be It Resolved, That the Federal Reserve Board, in the exercise of its powers under the Federal Reserve Act, lay down and adopt the following principles with respect to open market investment operations of the Federal reserve banks, to-wit:

"(1) That the time, manner, character and volume of open market investments purchased by the Federal re-

serve banks be governed with primary regard to the effect of such purchases or sales on the general credit situation.

"(2) That in making the selection of open market purchases, careful regard be always given to the bearing of purchases of United States Government securities, especially the short-dated issues, upon the market for such securities, and that open market purchases be mainly commercial investments, except that Treasury certificates be dealt in, as at present, under so-called 'repurchase' agreement.

"(3) That in order to enable Federal reserve banks to earn their dividends with a minimum volume of open market purchases at times when there is no active rediscount demand made on Federal reserve banks, open market purchases made by reserve banks shall be pro-rated among them in accordance with their respective requirements.

"Be It Further Resolved, That on and after April 1, 1923, the present Committee of Governors on Centralized Execution of Purchases and Sales of Government Securities be discontinued, and be superseded by a new committee known

as the Open Market Investment Committee for the Federal Reserve System, said Committee to consist of five representatives from the reserve banks and to be under the ex-officio chairmanship of the Federal Reserve Board; and that it be the duty of this Committee to arrange for the purchase and sale and distribution of the open market purchases of the Federal reserve banks in accordance with the above principles."

Governor Calkins: May I ask whether that resolution was adopted by the Federal Reserve Board?

Governor Harding: I do not think it has been. I have the letter transmitting it to me, which says, "By direction of Mr. Miller, I am sending you a copy of the following memorandums, (1), Open Market Investment Policy, and (2) New Plan for Stating Reserve Position of Federal Reserve Banks."

Both of these matters need the attention of this conference. The new plan for stating the reserve position of reserve banks advances the theory that the Federal Reserve Board has the right to prescribe, from time to time, the amount of gold reserve against Federal reserve notes, and at the proper time I want to discuss that, and shall take

issue with that proposition.

Governor Calkins: I think, before we discuss the memorandum with regard to purchases, we should be informed as to whether the Board itself has acted on the suggestion or not.

Governor Harding: But whether the Board has acted on the suggestion or not, I think there is basis for a discussion, and, if I am in order, I would like to say a few words on the subject.

Governor Norris: I think the fact that it was transmitted in a letter, which speaks of it as a memorandum and not as a ruling, or anything else that has been adopted by the Reserve Board, indicates plainly that it has not been adopted by the Reserve Board. It is Dr. Miller's suggestion for discussion. His suggestion is a very different thing from an approval of the policy recommended by the committee and very different from a continuance of that present committee. In fact, on the contrary, he recommends that the present committee be discontinued and that it be superseded by a new committee. Therefore, if we adopt a resolution approving the report of the committee, continue the committee, and commit ourselves to a continu-

ance of its policies, we are practically precluded, it seems to me, from having any discussion of Dr. Miller's suggestion; in other words, we are turning it down without discussion or consideration.

Governor Harding: If we adopt the resolution continuing the present committee we do it, of course, subject to the approval of the Federal Reserve Board, because the Board has the right to say that they do not approve of the committee.

Governor Norris: If we adopt a resolution now that, upon subsequent discussion of Dr. Miller's memorandum, we conclude to change, we put ourselves in the position of voting on one thing on Monday and for another thing on Tuesday or Wednesday.

Governor Harding: Why not pass the whole thing until we hear from the Board on it?

Governor Seay: I will modify my motion in this way, that the report of the Committee on Open Market Purchases be received and filed, and that will leave open for discussion the entire matter, including the recommendation by Dr. Miller. I feel confident, from the communication which I received, that this is at present merely a memoran-

dum of Dr. Miller's views.

Governor Harding: I think it is really more than that, Governor Seay.

Governor Seay: I mean that it has been presented to the Board but has not been adopted by the Board.

Governor Harding: I haven't talked with any member of the Board, but I am quite sure that the Board is going to adopt this proposition.

Governor Seay: You think it has gone that far, Governor Harding?

Governor Harding: Yes. I think I know of some things that are going on under this roof that will make it very certain that the Board will adopt it.

Governor Seay: I would like the privilege of expressing my sentiments on the subject, also.

Governor McKinney: You think we should defer action on it at this time until we receive the report of the committee?

Governor Harding: There are certain indications here that an argument is going to be made in the Board to reorganize the committee, and why should we be so precipitous to go ahead now, when the matter can be taken up later.

The Chairman: This committee was conceived by the Federal Reserve Board, or, in any event, the appointment was approved by the Board, and any action that we take today or any action that we have taken in the past, has always been made subject to the approval of the Board.

Governor Fancher: And the approval of our respective boards of directors.

The Chairman: Yes, of course.

Mr. Case: It seems to me, if Governor Seay's motion prevails, that the report be received, that it leaves the matter entirely open.

Governor Harding: The Board feels this way on the proposition--- I might say I am in sympathy with Mr. Miller on this, as I see what he has in mind. The Federal Reserve Board has this statutory power and responsibility imposed upon it; there isn't any question about that.

Governor Seay: Including a limit as to the amount of purchases?

Governor Harding: Yes; the whole credit policy. The Treasury's policy has been a very large part, as you all know, of the whole general credit situation for the past four or five years. During the war time, on account

of this situation, the Treasury found it convenient to take these matters up directly with the Governors of the Federal Reserve Banks, or a committee of Governors, and gradually came more and more into a position of ignoring the Federal Reserve Board. We all know to what extent the Treasury's policy dominated the credit situation in 1918. Now, the responsibility for a situation that might arise out of the use or abuse of credits is not imposed by law on the Treasury Department, but is imposed on the Federal Reserve Board. Some of them have become rather restive, sitting here, having that responsibility, without knowing definitely what has been going on, or not being a part of it, and I think the idea is to let the committee proceed, but to have the Treasury understand that the Board must be informed of all these things, and that the Chairmanship of the committee will be here in the Board.

Mr. Case: I saw a copy of this memorandum when I was up at Dr. Miller's, and this suggestion about being under the ex officio chairmanship of the Federal Reserve Board was changed to read "under the supervision of the Federal Reserve Board", and I understood that was the way it was going to be presented.

Governor Harding: I do not know how it is going to be worked out. I am satisfied that the Board, feeling its responsibility, is determined to assert itself, and I think it is prepared to and should.

Governor Fancher: Then this has not been approved by the Board?

Mr. Case: No; I think it is just Dr. Miller's suggestion.

The Chairman: I understand that a motion to receive the report and file it has been made, and that will leave the matter open for discussion.

Governor Harding: We have plenty of time to settle this thing later on, after we have heard from the Board, it seems to me.

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

The Chairman: The next topic is (b) under No. 1.

(b) Report of Standing Committee on Open Market Conditions and Operations, Governor Fancher, Cleveland, Chairman.

Governor Fancher: The report of the committee is as follows:

REPORT OF THE STANDING COMMITTEE ON OPEN MARKET
CONDITIONS AND OPERATIONS TO THE CONFERENCE OF
GOVERNORS OF FEDERAL RESERVE BANKS.

Since its last report in October, 1922, your committee has continued to receive from the several reserve banks weekly reports of conditions in their open markets, which have been summarized for the committee by its secretary. The committee has also received from a number of reserve banks monthly reports of conditions in their districts. Copies of these reports have been furnished by the secretary to the Division of Analysis and Research of the Federal Reserve Board and to the governor of each Federal reserve bank.

Since the last report of your committee the discount market has been more active as is substantially indicated by the volume of dealers' transactions in the New York market. For the four months ending January 27, their purchases aggregated \$615,000,000, an increase of 27% over the previous four months, and their sales totalled \$606,000,000, an increase of about 15%. Slightly increased use of acceptance credit was indicated toward the end of the year. An estimate of bills outstanding at the close of December indicated about \$600,000,000 as com-

pared with \$565,000,000 last October. But since the new year there has been a considerable reduction, which is partly seasonal but which appears particularly in the relative volume of export bills which has been decreasing as the marked advance in American prices progressed. The volume of domestic bills continues to decline.

Early last autumn the distribution of bills was distinctly sluggish at the level of rates then obtaining, say 3-1/4 to 3-3/8%, which were too low in a firming money market to attract investment buying. It was the consensus of open market opinion that those rates were too low compared with increasing yield on Treasury certificates and money rates generally, which were advancing. Bill rates consequently were gradually advanced to bid 4-1/8%, offered 4%, at which level a fairly good distribution was effected. After the turn of the year, when usual release of funds in interest and dividend payments, augmented by heavy Treasury disbursements in the retirement of War Savings Stamps and called Victory notes, caused a temporarily easier money condition, a brisk demand for bills developed. Dealers' portfolios were rapidly depleted and they found considerable difficulty in satisfying the rather captious demand for particular names maturing within

sixty days. Savings banks which had been out of the market for a long period bought a fairly substantial amount of the bills. This demand, acting on a limited supply, resulted in a slight reduction in rates during the last half of January when 4% was bid for the best known names and their 90-day bills were offered at 3-7/8%. At this level demand was not sustained and after a few weeks of effort to move bills at 3-7/8% the old level of 4-1/8% was reinstated and obtains at this writing.

The better distribution and revival of investment demand at 4% is reflected in smaller Federal reserve bank holdings which, on February 14, totalled \$184,000,000 as compared with about \$260,000,000 during November and \$238,000,000 on September 27.

Your committee is mindful of the impediment to the freer use of bankers acceptance credit in a market where discount rate, added to acceptance commission exceeds the cost of money borrowed on the most favorable terms, but is also mindful of the proportion which Federal reserve bank holdings for themselves and for account of foreign banks bears to the total volume of bills. This proportion is estimated to be about 4% of the bills which are

really salable and outstanding at the present time. This large proportion held by reserve banks indicates the limited investment demand for bills at the present price level of 4%, which compares with commercial paper at 4-3/4%, time money at 5% and a yield of income tax exempt to corporations, on six-months Treasury certificates and short Treasury notes of from 3-3/4 to 4-1/2%.

While your committee believes that a larger volume of bills circulating in the market is eminently desirable, it is convinced that this cannot be brought about at this time through lower rates at Federal reserve banks than will permit the primary distribution of bills in the market, upon which depends the acquisition of the indorsement essential to Federal reserve bank purchases.

In the meanwhile discount rates in London continue materially lower than this country, being at present 2-1/2% for 90-day bills, and the freer use of sterling credits, your committee is informed, is increasing, both on account of the lower discount rate and the continued improvement in sterling exchange.

The attention of the conference is called to the vacancy which exists in your committee through the resig-

nation of Governor Morss of Boston, and recommends that that vacancy be filled at this conference.

Respectfully submitted,

E. R. Fancher, Chairman."

Governor Fancher: Now, it would seem to me that the report of this committee should take the same course as the other, because it would seem that if Dr. Miller's suggestion is adopted these committees will be combined.

The Chairman: May we have a motion to that effect?

Governor Fancher: I move that this report be handled in the same way.

Mr. Case: I will second that.

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

The Chairman: The next is (c) under Topic No. 1.

(c) Rates of Discount.

1. Automatic adjustment of -
Is it possible or expedient?

Governor Harding: Mr. Chairman, I think we can dispose of that in short order. I suggested that topic in order to satisfy the Harvard Committee on Economic Research, headed by Professor Bullock. Professor Bullock is very much worried over the situation. I asked him

just what particular features of it worried him, and he didn't know, but he was afraid of the large reserves that were being held. He said that the business community ought to have some barometer to guide them; that it is very important that they should look ahead and foresee, for a period of months, what the discount rate is going to be. Of course it would be a fine thing if they could do that. I told him that it would be equally a good thing if the business community could tell exactly what the weather was going to be for the next six months, so that it could form some definite idea as to the size of the crops. I told him I would bring this up for discussion down here, and I gave him my own views very plainly.

I do not believe that a formula for the automatic adjustment of discount rates is either possible or expedient, because there are so many things that affect rates; the reserve position, for instance; a formula would naturally suggest something based on the reserve position of the Federal reserve banks. Now, Governor Norman, of the Bank of England said once, when he was asked what considerations brought about a change of the discount rate, that when the general board met, which corresponds to our directors, and

it was the consensus of opinion that rates should be changed, the rates were changed; otherwise they were left alone. The very fact that credits are expanding at a given time and under certain circumstances, does not indicate, necessarily, danger, or the necessity of revising discount rates, because if the volume of production increases, distribution is good, consumption is normal, and the ultimate consumer absorbs the goods that are produced, that is a process naturally requiring a larger volume of credit than when production is slack and consumption is limited. The danger in that situation is that, when production keeps up and the manufacturer either is unable to dispose of his goods or sells them to the middleman and throws them into a warehouse and borrows money on them, or, if they reach the retail, he is unable to sell them and they remain on his shelves and he borrows money in order to carry them, why, then there is a credit situation that needs looking into. It is a different proposition, entirely, when those three great economic processes function in an easy way and there is no clog anywhere, generally speaking business is good, and the expansion of credits, if liquidated in due course by the operation of those pro-

cesses, is in a healthy condition. Then, of course, the bank has got to take into consideration the demands made upon it, has got to pay some little attention, of course, to its own reserve position, and to the whole general situation; but the point I want to stress is, that very often there is a sharp demand for credit accommodation, due to some seasonal operation. An advance in the discount rate might have the effect of imposing an unnecessary additional burden upon trade, because experience shows that whenever the Federal reserve bank discount rate advances, the member banks advance their rates in a corresponding way and impose an additional burden on the public without any particular benefit, so far as I can see, and unless there are some elements of danger in the situation a certain reserve percentage at one time may not call for any adjustment in rates, while, at another time, it would call for a very drastic readjustment in rates.

Governor Bailey: Upon what theory or rule could you predicate an automatic adjustment?

Governor Harding: I do not see any rule. I asked the Committee to give me the benefit of their ideas, and they had absolutely no suggestions to make. They merely

said that there ought to be some way devised by which the average business man could look ahead and foresee what the discount rate was going to be. I told them that whenever they discovered that system I wished they would pass it on to me.

The Chairman: Would it suit your purpose to have the record show that this matter was discussed and that any such plan would seem to be not feasible?

Governor Calkins: I think we would be justified in being a little more definite than that, Mr. Chairman. Governor Harding has described the course of business movement in this country in such a way as to indicate beyond question, in my opinion, that an automatic discount rate could not be adopted. We have seasonal operations which cause an increased demand on credit, and which do not justify any alarm or any disturbance or any increase in rates.

Governor Harding: Those very seasonal operations bring about a normal and natural liquidation a little later on.

Governor McKinney: In our district our loans expand very readily, as you know, in June, July and August, and

liquidation comes in October.

Governor Harding: Yes.

Governor McKinney: Perfectly normal operations.

Governor Seay: I would move you, Mr. Chairman, that it is the consensus of opinion that it is the experience of Federal reserve banks that the automatic adjustment of discount rates is neither possible nor expedient.

Governor Harding: That would be very gratifying to me, of course.

Governor Calkins: I would reverse it, by saying neither expedient nor possible".

Governor Harding: I have received many calls from these gentlemen and they seem to be insistent about it.

The Chairman: Is there a second to that motion?

Governor Norris: Before the matter is disposed of I would like to add a word to what Governor Harding has said. I had the benefit of a three hours' call from Professor Bullock also very recently, and in that conversation the point he was driving at was not, to my mind, an automatic adjustment of discount rates. The point he made with us--- and I think it is worthy to be borne in mind--- was this, for example, that New York and Boston banks re-

cently increased their rates at a time when their reserves were high and rising, and at a time when it was generally believed there was nothing dangerous in the situation. Why was it done? The General public is very much at sea as to why it was done. Professor Bullock's theory, as he expounded it to us, was this, that a time will come in the near future when you will consider it advisable and necessary to make a general advance in discount rates; you might do that for the purpose of checking business expansion, and could you not convey an idea to the general public of the sort of conditions that lead you to make advances in discount rates, could not you give a general idea of the kinds of situations that move you to make a change of that kind?

Governor Harding: I lunched with Professor Bullock the day before these changes were announced, and he was urgent and insistent that the rates be advanced---

Governor Morris: Oh, Mr. Harding, he was not criticising you at all, but was discussing the ignorance of the general public and suggesting that when the necessity arose to change them the public be given an inkling or an idea of the conditions that caused us to advance the rates.

Governor Calkins: Of course that has nothing to do

with an automatic adjustment of rates.

Governor Norris: That is why I made the statement that he didn't say a word to me about an automatic adjustment.

Governor Harding: When I submitted this topic I was following his exact language. He said there ought to be some formula or some automatic method of determining discount rates.

Governor Norris: He did not use the word "automatic" with me.

The Chairman: I think this question has been pretty well discussed, and Governor Seay has proposed a resolution to the effect that an automatic adjustment of discount rates would not be possible, nor would it be expedient.

Is that motion seconded?

Mr. Case: I think this question of credit transactions and policies under Item (c), Rates of Discount, and its three subdivisions, automatic adjustment, uniform rates and open market rates, is one of the most important things to come before us. The officers of the New York Bank had the same experience as had Governor Norris and Governor Harding. We had a call from Professor Bullock two weeks ago Saturday, and he spent three hours with us, and one of

the things he said was that we had an abnormally large gold basis, that the public had been educated to look at the reserve ratio, and when they saw it 77 per cent they couldn't understand why a rate increase should take place. I do not think there is any occasion for this Conference to go on record, close the door, and tell the Harvard Bureau that an automatic adjustment is impossible. It seems to me that this Conference should take some affirmative action and should make some statement as to the various factors relating to a change in the discount rate. After our talk with Mr. Bullock, Mr. Jay and I got together and we have just prepared a little memorandum, which might be something for this conference to shoot at and with your permission I would like to have the Secretary read this memorandum for the benefit of the conference.

Mr. Barrows: The memorandum is as follows:

"As usual, the subjects discussed by the semi-annual conference of the Governors of the twelve Federal reserve banks include many questions of operation, as well as business and credit conditions in the various districts, and the general credit policy of the Federal reserve banks. It was reported that following the recent increase of the

rates at the Federal reserve banks of Boston, New York, and San Francisco from 4% to 4-1/2% the question has been raised by newspapers whether rates should be increased while the reserves of the system were so high as at present. In view of these expressions, the conference feels it appropriate to indicate some of the various factors which are given consideration in establishing discount rates.

The reserves of the Federal reserve banks are always a factor. Their maintenance at a level which will sustain public confidence in the entire banking and currency system of the country is the fundamental duty of the Federal reserve banks. Should the reserves fall so low as to cause apprehension, they might become the only factor in determining discount rates. But neither the law nor the experience of other banks of issue indicates that the reserve ratio is a gauge by the rise or fall of which alone discount rates are to be determined.

The Federal Reserve Act provides that discount rates 'shall be fixed with a view of accommodating commerce and business.' In determining whether a rate will accommodate commerce and business several of the following factors,

beside reserve ratio, are given consideration:

1. The relation of the volume of credit in use to the volume of the production, distribution and consumption of goods.

The aggregate loans and deposits of the banks of the country represent the volume of credit in use. Commerce and business are well accommodated when sufficient credit is called into use. The results of the excessive use of credit in late 1919 and early 1920 are fresh in the minds of all.

2. Open market rates for various classes of paper.

These rates are always clear indications of the demand for credit. Federal reserve bank rates, if they reflect prevailing credit conditions, are likely to approximate market rates.

3. Gold movements, existing or prospective.

Gold imports may increase the volume of credit in use and raise the reserve ratio, while gold exports may cause a reverse process, depending upon credit conditions at the time. The high reserve ratios, and the great increase in bank deposits and loans during the past year, are due mainly to the inflow of over \$1,000,000,000 of gold since January

1, 1921. Now much of this gold will remain here permanently cannot be estimated. But experience shows that gold in excess of the needs of a country inevitably flows out in time, and present reserve ratios should be read with this in mind."

Governor Harding: That first paragraph is the crux of the whole matter. The average man talks of the tremendous amount of gold held by the Federal reserve banks, of the very large ratio, and the large volume of credit that it will sustain. We ought to remember that since the Reserve System was established there has practically been no time when the discount rate has operated to have a normal and natural control of the gold supply. Before the war the whole theory in Europe was that an advance in the discount rate restricted the flow of gold from a country and attracted gold to it, and vice versa; but in view of the situation of practically all of the rest of the world, our discount rate for the time being has no effect upon gold movements in and out of this country. At the same time we all realize that there has been a very abnormal movement of gold into this country. I sometimes think that it is unfortunate that it is necessary in this country to have a

statutory reserve. I do not say it is unfortunate that we have them, but unfortunate that it seems necessary to have them. The trouble with the statutory reserves is that they fix a kind of ideal in the public mind. In 1920, for instance, one great problem that we always had to consider was this---suppose the average reserve of a federal reserve bank should fall below 40 per cent, which was the figure the public had in mind on account of the statutory requirements against note issues, and 35 per cent against deposits, and then people thought that the whole credit structure was tumbling, and it seemed necessary to maintain the reserves in the federal reserve banks above that limit. Conversely, when the reserves are 75 or 80 per cent, people very naturally say, "See how very strong these banks are, and how much gold they have hoarded away; their legal reserves are only forty per cent, and they have nearly eighty per cent." If we could only get away from that fetish of a legal minimum and get the public to bear in mind that the whole discount rate structure is based not so much upon the amount of gold held or the actual reserve figures, but upon the general situation, the situation would be greatly improved.

We all know that action invites reaction; that this abnormal flow of gold into this country, which has given us a far greater proportion of the world's stock of gold than we ever had before, and more than our normal proportion of it, sooner or later, as the world becomes stabilized and political and economic conditions abroad become normal, that there is going to be a freer granting of foreign commercial credits by this country to other countries, that our gold receipts are going to cease, and that there will be, naturally, some outflow of gold, and so you see it would be a very foolish and unfortunate proposition to build up on the present abnormal stock of gold a tremendous credit structure which would find itself undermined when the process goes in the other direction and the gold begins to leave us. We have got to bear in mind that in effect we hold a large part of the gold really as trustees, and the public ought to familiarize itself with an idea of anywhere from 60 to 75 per cent as being a normal reserve, instead of 40 per cent.

Governor Calkins: It seems to me that Governor Harding's very lucid statement, reduced to a few words, means that the public must be educated, and, in order to educate

it, it will be expedient to tell it the truth, which is that there is no relation between the rediscount rate, and no possibility of relation between the rediscount rate and the gold reserve of the federal reserve banks at the present time. There was a time when the discount rates in Europe were more or less automatic. As has been recently said, there was a time when the inflow and outgo of gold fixed the rediscount rate and the policy of the Bank of England; but now that is fixed, as Governor Harding said a few moments ago, on the consensus of opinion of the directors, without any relation and without any consideration, as a matter of fact, to the movement of gold. With this country and this system, in possession of the tremendous volume of gold which we hold, the public needs to know that the measure of the gold reserve, or the gold ratio, or anything you please to call it, does not mean anything and cannot be used for the purpose of fixing the discount rate. I do not know how that is going to be gotten home to the public. That seems to be a very difficult matter. The writers, even, in the alleged financial papers, do not understand the situation.

Governor Seay: Governor Harding, you mentioned a few

moments ago, a conversation with the Governor of the Bank of England in which he said that when the Bank of England thought the rate should be raised it raised the rate. It is never the custom anywhere else in the world, is it, for central banks to give out to the public their reasons for raising rates?

Governor Harding: I have never heard of it, no.

Governor Seay: It seems to me that in this country-- while I am prepared to admit that there is necessity for education of the public--- at the same time it seems to me that the less we are drawn into discussion and into giving reasons for our actions, the better it will be for us.

Governor Harding: I agree fully with that. I think any general public discussion of discount rates is very dangerous. You all know of the bills that have been introduced in Congress from time to time in the last twelve months. There have been various propositions turned down in the Senate. One was that the discount rate should at all times be uniform; another was that the maximum discount rate of the Federal reserve banks should never exceed four per cent; another that it should never exceed four and a half per cent, and another five per cent. All of

those propositions have been brought up in the Senate in the past twelve months. It is very desirable, if it can be done, to have the Federal reserve system function without too many bosses or too many people participating in the discussion.

Governor Seay: If you give a reason for everything you do, it is prolific, it seems to me, of unending discussion, puts you in the attitude of always being on the defensive, which is not a strategic position to occupy.

Governor Calkins: I would like to ask, in respect to this discussion, whether the raising of the rediscount rate, without giving any reason for it, does not do more to promote public discussion than anything else we can do? I believe it does, has in the past, and will in the future.

Professor Bullock's request, as I understand it, was that it be highly desirable that, when the Federal reserve banks increase the discount rates, they give some reason showing that it was a rational action and not a mere notion.

Governor Harding: I will tell you the statement I made in Boston when the rate was raised from four to four and a half. Of course, the real, primary reason was because the New York bank had raised its rate. In view of the peculiar relationship between the banks, Boston being

so close by, it was practically a matter of necessity for Boston to follow suit. However, I did not care to say that publicly, so I said the rates were raised in order to conform more nearly to the general rates prevailing in other sections of the country.

The Chairman: Gentlemen, the question before the meeting is on Governor Seay's motion. As I understand it, Mr. Case feels that rather than go on record as it has been suggested, that we might allow this matter to rest, with the understanding that the consensus of opinion is in accordance with the motion as put. Is that the idea?

Mr. Case: My idea, very briefly, was this, that instead of going back to the Harvard Bureau and saying that "we have considered your suggestion and we think there is nothing in it", I should like to see this conference take some affirmative action--- as I say this memorandum I read is something to shoot at--- and I would like to see the conference take some affirmative action which would be an answer, in an affirmative way, if you please, to the Harvard Bureau, rather than to simply say that we see nothing in the automatic discount rate, that it is impossible, not feasible, and so on. I would like to see the conference

undertake a little educational work, as Governor Harding has suggested.

Governor Harding: I suggest, with your memorandum as a basis, if we agree on it, that we submit the matter to the Federal Reserve Board and have them give out the information, because, after all, they have to stand the brunt of this thing, and it is a very fortunate thing for the Federal reserve banks that they do. In fact, one of the most useful features of the Federal reserve Board has been, and will continue to be, the fact that it is a shock absorber between the public and the system. It is better to have attacks on the Board than on the banks.

The Chairman: I think you are right about that. We can adopt it and have the Board's approval and have them give it out?

Governor Seay: Taking the other view, which was what I had in mind, it seems to me that it is not without value to express a clean-cut, definite opinion on the subject without dismissing it abruptly and closing the door, as Mr. Case has suggested; and I had that in mind when I said that the experience of the Federal reserve banks has proved that it is neither possible nor expedient--- and I

believe that is a correct expression of our experience--- that if we are to judge by our own experience and our knowledge of the variable demands of the different districts, then the experience of the Federal reserve banks justified a conclusion up to this point that it is neither feasible nor expedient to automatically adjust in advance, or establish a formula in advance for the adjustment of rediscount rates.

Governor Harding: I think it is entirely possible to reconcile and harmonize Governor Seay's views with those of Mr. Case, and I suggest that a committee of three be appointed to draft a memorandum on the subject and submit it to a later meeting.

The Chairman: I can see no objection to the motion put by Governor Seay, nor can I see any difficulties that might arise because of that action here. It is not my understanding that any action that we take is to be reported back to the Harvard Bureau or anyone else, excepting the Federal Reserve Board.

Governor Harding: If there is anything given out, let the Board give it out.

The Chairman: This would be merely an expression of

the views of the Conference, for submission to the Board, as I understand it. We certainly give no publicity to our action in regard to these matters.

Governor Calkins: The discussion of the discount rates will not end with a discussion of this special question. I apprehend that before the Conference is over there will be a discussion which will be applied directly to discount rates, and it seems to me that this question might be incorporated in some later action to be taken by this Conference, but I think the appointment of a committee at this time would be helpful in preparing us for such a discussion.

The Chairman: The question before the Conference is Governor Seay's motion. Governor Harding has offered a substitute, I presume.

Governor Harding: I will offer that as a substitute to Governor Seay's motion, if he will accept it.

Governor Seay: I will accept it.

Governor Harding: My motion is that a committee of three be appointed by the Chairman to draft a memorandum covering everything included under Topic (c) of Topic 1.

Governor Fancher: I will second that.

(The motion, having been duly seconded, was unanimously

carried.)

The Chairman: I will appoint on that Committee Governor Seay, Mr. Harding and Mr. Case. That committee is to deal with Subtopic C, rates of discount, Nos. 1, 2 and 3 thereunder.

It seems to me we ought to have an expression of opinion from Atlanta with regard to their views on this matter before the committee goes to work. You have submitted the question of uniform rates, Mr. Adleson.

Mr. Adleson: On the question of uniform rates, we recognize that differences in commercial rates prevailing in various sections of the country, and seasonal operations argue against a level rate in the Federal Reserve System; but there is one class of borrowing that has slightly changed from the time when we gave a preferential rate to it, and that is Government bonds. The large subscriptions are practically out of the banks now, they have temporary investments in Treasury certificates, and occasionally, when their deposits decline they have to make a borrowing against it, and if we have one rate in one district and a lower rate in another, we receive criticism. They I see no reason why, against government loans, they must

pay a higher rate in our district, as compared with New York or Boston, where they can get about the same security at a lower rate for short time borrowing. It seems to us that, so far as Government securities are concerned, we ought to have a level rate; or, if we cannot have it in straight out discount rate for short periods, at least, say thirty days, we should have a re-purchasing agreement. Then, after they have gotten out of their class of temporary borrowing, and if the bank still wants to retain that security, put it at the commercial rate of borrowing on a direct note. In that way we would get away from the criticism of one section of the country being more favorable than another.

Governor Harding: Mr. Chairman, I have a good many important matters to attend to while I am down here, and I would prefer to be excused from any committee work, especially something which will take as much time as this is likely to take.

The Chairman: We will, of course, excuse you, and I will appoint Governor Calkins in your place on that committee.

Mr. Adleson: I would like to hear some discussion

on that if the Governors do not agree with Atlanta's view on it.

The Chairman: If I understand it, you want the privilege of according to your borrowers, when there is a disparity between your discount rate and that of New York, or any other city, of loaning against Government securities; is that the idea, at the minimum rate prevailing in any district?

Mr. Adleson: In any district, yes.

Governor Harding: It seems to me your remedy would be to establish a special rate on Government securities and ask the Board to approve it.

Mr. Adleson: But that would be getting back to the old preferential rate on Government securities.

Governor Calkins: Why not handle it with open market transactions and make your own rate?

Governor Young: The same difficulty came up in Minneapolis. We have some Twin City banks who occasionally borrow in New York because they get a lower rate on Government obligations. I looked into it as carefully as I could at the time when there was a four per cent rate in New York, and I found that it simply involved a million

dollars and two or three banks, and I just dropped it.

Governor McKinney: Have you purchased any Government obligations with a re-purchase agreement?

Mr. Adleson: From the loan banks, that is all; never with a member bank.

The Chairman: It seems to be obvious that with a rate of four per cent in New York and Boston and 4-1/2 per cent elsewhere, that the large users of credit at Minneapolis and Chicago, and other centers, who have established their lines both in the east and in the west, will of course go to the east for their money. That was the result, very noticeably, during the period when those conditions prevailed. New York was called upon to a much greater extent than they would have been if the rate had been uniform, and the demands upon us were relatively less, when the rates were adjusted. It was very noticeable, Mr. Case, that customers returned.

Mr. Case: Two weeks after our rate was raised from four to four and a half percent, our earning assets went off \$112,000,000, and, speaking for Mr. McKay, while you were temporarily absent, Governor McDougal, he told me that the loans had gone up something like thirty or forty million

dollars. It seemed to me just a clear case of cause and effect. It effected a redistribution of those loans throughout the other banks.

Governor Young: I would like to say that it works both ways. The other banks reduced their rediscounts long before Minneapolis did, and there was a time when the strain was very heavy on us, and I think that we have kept the rate up deliberately to keep some of the credit income of the other districts.

The Chairman: Mr. Adleson, have you any further comments with respect to sub-topics 2 and 3 under (c) ?

Mr. Adleson: With respect to sub-topic 3, under (c), Open market Rates, since the establishment of the system we have had frequent discussions of creating a broad market for bankers' acceptances. Last year, when the commercial rate was at practically 4-1/2 per cent, except New York, Boston and San Francisco, which had four per cent, the open market rate so closely approximating the commercial rate militates against creating that broad market. We cannot help to establish the dollar credit if the discount rate and the open market rate is 4 per cent as against 2-3/16 or 3 per cent in other countries. I

recognize that we haven't a sufficient number of large corporations or concerns that are attracted to the low rate, and we must find some new source to distribute them in; but before doing that the system should establish the rate and let it be known that it will be stabilized around that figure and kept low; then, if possible, educate the large takers of credit, such as stock brokerage concerns, to invest a part of their working capital in those bills, knowing that whenever they have to make use of the money it will not be subject to the fluctuations of the call money market, but they know they are going to get the money at a very low rate. Before that can be done, however, the Federal Reserve System will have to promulgate a rate and keep it there.

Governor Seay: But isn't that practically done now?

Mr. Adleson: Not to any large extent, because the rates that are established in the open market are too close to the commercial rates. If we take the purchase of two or three hundred million dollars of bankers' acceptances, in the System, at what might be called an artificial rate primarily,

and then begin our process of education and see if we cannot educate them with our reserve position as favorable as it is now--- it looks as if, if we are going to attempt some education of that sort, the time is ripe for it now.

Governor Seay: You might establish an arbitrarily low rate without reference to the real rate for credit in the market.

Mr. Adleson: That is the only way I see that it can be started.

Governor Harding: What do the banks pay in interest on deposits in your district?

Mr. Adleson: Three and a half, and some four.

Governor Harding: Then why should the broker put his money in bankers acceptances at three and a half when he can put it in the bank and get three and a half for it.

Mr. Adleson: I know, but when he needs money, and the open market rate is very high, he knows he can liquidate those bills at a low rate.

Governor Harding: He has a balance in the bank on which he is getting three and a half per cent, and he can liquidate that, can he not?

Mr. Adleson: He could do that, yes.

Governor Seay: Didn't you, a little while back, have experience with a low open market rate, which perhaps was created more or less artificially, one so low as to scare the market, so to speak, and there was no demand for bills at such a rate?

The Chairman: The facts are, while Mr. Adleson may not know it, that the very plan or policy that you have outlined has been followed or endeavored to be followed for a long time after we began indulging in this matter of open market operations. Even last year--- I think Mr. Case will agree with me on this--- our rates were unjustifiably low. The rates current on bankers acceptances were not at all in harmony with the current money rates, and the result was that these bills were lodged in the Federal reserve banks to a much larger extent than we desired, and as a matter of fact, the Federal reserve banks were the only dependable source in which these bills could find a market. The same thing is true at the present time to some extent, and I believe what you would have us do is the thing that we have been doing. Am I not right about that, Mr. Case?

Mr. Case: I think so.

Governor Norris: I think the question that Atlanta

raises, raises in turn a very important question. It is a large subject and I do not want to start a discussion on it unless the members here want it, but that is the fallacy of having a uniform rate for all kinds of paper. I cannot see the logic of it, that any reserve bank should not have two or three rates for different classes of paper.

The Chairman: You feel that it should have?

Governor Norris: Yes.

The Chairman: I had hoped we had gotten away from that for all time.

Governor Norris: I cannot see the logic of having one rate for all kinds of paper and all maturities.

The Chairman: Unless you insist upon it, Governor Norris, we will not enter into a discussion of that now.

Governor Norris: I do not insist.

The Chairman: Mr. Adleson, are you willing to permit these topics to rest with the committee, after what has been said?

Mr. Adleson: Yes, Mr. Chairman.

The Chairman: I assume that in due time we are to have a discussion here with regard to the discount rate question and the rates current now. I do not believe it

is on the program.

Mr. Barows: No sir.

The Chairman: I feel that we should have such a discussion. What is the sense of the Conference as to whether we should discuss the present discount rate at this time? If no one else cares to speak on the subject, and it is in order, I should like to say that it seems to me the conditions under which we are now going in some respects are strikingly similar to those conditions which began to develop in 1919 and continued to 1920. Commerce and industry are going along at a pretty swift pace, and the question is whether we have reached the point in manufacturing goods where the output is in excess of the legitimate demand, which question, I assume, is debatable. We are going to reach that point. I think there is too much money being used now in speculation. I believe the available supply of credit in this country has been pretty well absorbed, and I think we are now at a point where we can expect, unless there is a slowing down, that the member banks will come in to the Federal reserve banks for assistance to a large extent. The rates are now at four and a half per cent in all districts. The rates in the money centers

for all kinds of credit are entirely out of line with that rate. The call money rate has been high. Until last week the rates over the counter in Chicago and New York, minimum rates, are five per cent; rates current were from five to five and a half per cent. That was true in Chicago and New York. The rates on commercial paper until a few days ago, best names, were five per cent in both centers. In the latter part of the week, if I am not mistaken, Mr. Case, those rates were advanced, the commercial paper minimum rate I think to 5-1/4 per cent.

Governor Seay: Have your discounts increased within the last two weeks?

The Chairman: They are increasing.

Governor Seay: Have they increased within the last two weeks?

The Chairman: They did. They increased with us, materially. I think that was due, probably, to tax transactions. We feel it usually after the 15th, rather than on the 15th or before. We have given careful consideration to this question of rates in Chicago, and we feel that the time is opportune for a general advance in the discount rates for the entire system. I would like to

see those rates fixed at 5-1/2 per cent. I am explaining, now, my view, and the view of our board, that they should be advanced. Our board has not gone to the extent of five and a half per cent, but I think that a good, strong advance now, on the part of the Federal Reserve System, would have a desirable effect upon those who are beginning to use credit too freely. I am just submitting this matter for discussion here, and if it is in order I should like to have an expression from those present with regard to the question. In 1919--- and Governor Harding knows this as well as I do--- in our district, at least before we were called upon for credit, the member banks in the agricultural districts, used and misused their own loaning power because of this tremendous speculation, largely in lands, but also in wild cat securities, to an extent that, I believe, if we had any way of measuring it, would make the speculation in the east look like small change. We had no control at that time over the disposition of credit that came from the banks' own lending power; but it drove those banks into our bank early in 1920, and at a time months before they should have come in. That situation does not prevail there now, but in other respects it

seems to me, Governor Harding, the situation is very much like the situation in 1919. Prices are going up; credit is being used in more volume constantly, and I would like to have an expression on that subject from you, Governor Harding, and from others present, because I think it would be very interesting.

Governor Harding: I have been unable, so far, to analyze the credit movements in New England. They seem to be rather peculiar. They do not seem to have any regular seasonal operations there, except in the Fall River, New Bedford and Providence sections, where textiles are manufactured. The banks there borrow more money when they are buying cotton than they do at other times. The Boston banks, in the last two months, have experienced a decline, in deposits. /The banks outside of Boston have increased deposits. A very serious circumstance happened--- I do not know whether it is a coincidence or an effect,--- but I observed within a few days after our rate was increased, that a dozen banks outside of Boston took up their rediscounts in advance of maturity, and got a rebate to the extent of about ten million dollars. They borrowed money at four per cent, and when we put the rate at four and a half they immediately

paid up. I do not understand the psychology of it, but that is what they did.

Governor Bailey: That is probably the margin they were speculating on, that half per cent.

Governor Harding: But why should they pay up in advance of maturity in the face of an advancing money market?

Governor Bailey: We had a lot of money sent to New York to be loaned on call, and that is a disturbing factor with us. I presume they might have used it that way.

Governor Harding: So far as the Boston district is concerned, we have a restraining influence, I think, in the labor situation. I have been unable to observe any disposition on the part of the banks in New England to over-extend themselves. A good many people are looking with some concern upon any tendency towards a run-away market, because they know it is going to have an effect on labor. The American Woolen Company announced the other day an advance of 12-1/2 per cent in the wage scale. The textile operators in the Fall River District have demanded a very substantial increase in wages which the manufacturers have declined to grant. A walk-out was threatened the other day, but they have tided things over until the 15th of April, when they

are going to meet with the manufacturers again and discuss it further.

The Chairman: Governor Fancher, what do you think of the rate situation?

Governor Fancher: We have noticed rather an increase in our borrowings on the part of our member banks during the past few weeks. Up to that time our loans had been down to a low minimum. We think we can attribute it to two causes. The raising of the rate in New York was one, possibly, and we believe that some of the borrowings that had been carried at the low rate came back to us. But I think the important reason for the increase of fifteen to twenty million dollars in our loans to member banks has been the tax paying period. We are very active industrially; our industries have been going ahead, many of them, to capacity, yet the credit situation, generally speaking, in the district, is comfortable. The banks have taken care of it, and we are not anticipating, so far as we can observe the situation, any really marked demand upon our credit resources in the near future. Our minimum rate to larger banks is five per cent to best borrowers, and up to the present time we have not detected an influence

that would make it appear desirable to increase our rate. That may change. I rather anticipate that the borrowing we have experienced in the last two or three weeks will to some extent be liquidated in the near future, that there will not^{be}/as much two weeks from now as there is now.

The Chairman: Governor Biggs?

Governor Biggs: The conditions in the Eighth District are very similar to those outlined by Mr. Fancher. We are having a small demand there. Our merchants and manufacturers are all busy. Every time we have an issue of certificates they increase and then go back again. A year ago we had thirty millions in bills discountable, and Saturday we had twenty-five millions. Last month, at this time we only had fifteen. At this time of the year we expect our loans to go up, and they will continue to go up. Personally, I have not discussed it with our board, but I do not see any occasion for any raise in rates now. I think it would disturb the country materially. If you raised the rates to the extent that you have suggested, it would scare everybody and they would think danger was ahead.

The Chairman: Governor Fancher, you do not fear a mis-use of credit facilities because of the disparity

between rates, with a prevailing rate of four and a half percent as against a rate one-half to one-fourth higher for commercial purposes?

Governor Fancher: I have not detected any such influence. It is a matter that is always a live topic at a meeting of the Executive Committee and of the Board, and was given a good deal of discussion last week; but, as I say, we have not as yet detected any influence.

Governor Calkins: In so far as our district is concerned, there has been no considerable change in the recent past. We had an increase in rediscounting by the city banks, which was partly due to the tax period, and is not important in any sense. There has been, as yet, practically no increase in rediscounting by country banks. They have held fairly level for some time. We anticipate a considerable increase in the near future, which will be purely seasonal. I think probably the same situation prevails in all of the twelve Federal reserve districts, approximately the same, but I do not think that answers the question which it seems to me the Chairman intended to indicate, and that is whether the expansion and particularly the commitments of business at the present time, do or

do not indicate another burst, and my own opinion is that there are indications that are unmistakable that we are going too fast and too far, which of course means that we will have to come back, and that is the most important question that this conference will have to discuss, the question of general increase in the rediscount rate. That is a pertinent question and is, in my opinion, the vital question that we have or will have before us. In regard to the recent increase of one half of one per cent in New York, Boston and San Francisco, it seems to me that we meet this situation, which is not at all new, and which has been referred to by Governor Miller: That a rate increase of one-half of one per cent, with no explanation as to why the increase was made will naturally and inevitably cause the people to raise the question why such an increase was made. If that advance was made in order to check a dangerous tendency to expansion, it was not sufficient for the purpose. If you want to call it a gesture--- a very popular word these days--- the gesture was not sufficiently important; it was a very weak, doubtful and hesitating gesture which the public did not apprehend was of any particular significance. I think

the question that we have to consider is whether a rate increase, a reasonable rate increase, is called for at this time. If there is no reason for it, and if we cannot give a reason for it, we certainly should not arbitrarily sit here and say that we ought to have a rate of five and a half per cent instead of four and a half per cent; but if we must advance the rate materially at this time there should be some basis for that advance, something more than the mere feeling of the Governors here that there is something in the air that justifies it.

The Chairman: If I understand you correctly, you feel there is something in the air that does justify it?

Governor Calkins: I do.

The Chairman: Governor Norris, what is your opinion?

Governor Norris: we have had some increase, quite an appreciable increase, proportionately, in borrowing by member banks, recently, due, particularly, I think, to income tax payments and to some shifting back to our district as a result of New York's increase. Easter is the season of considerable liquidation with us, so that in the early part of next month, I rather expect to see these borrowings go down.

But I think that the enormous expansion in credit in the last year has been made possible particularly by the liquidation of frozen loans. That process is now all over, and I think if business goes ahead there will be, after the middle of April, a very considerable increase in borrowing from us. That is the condition in our district.

I noticed, about two weeks ago, a discussion of this subject in a newspaper, which struck me as so very good that I read it to our Board. It coincided with their views and, as this is a general discussion as to the whole country, I would like to read just a few paragraphs of this. The comment grew out of the increase in the New York rate. It is headed, "The Controlling Factor".

"The direct and controlling factor which caused the Federal reserve bank to raise the rate was the outside money market. Action was forced upon the bank, willy-nilly, when, against its rate of 4%, the rate for business paper in the open market went to 5%. What extraordinary circumstances existed that would lead the central institution thus to consent to "hold the bag" for the money market? Certainly none at present. If commercial paper rates in the market now firm up to 5-1/2% or 5-3/4% it is

conceivable that the Federal Reserve bank may raise its rate to 5%, even with, say, a 90% reserve ratio.

"As regards the second of Wall Street's fallacies in the case there is no evidence of an over-extended credit position, or that the Federal reserve action was directed against it. As a matter of fact, Wall Street "cuts very little ice" in the credit situation today. Its \$2,000,000,000 brokers' loans are inconsequential beside the \$60,000,000,000 of securities listed on the exchange. The call money rate, too, has long since ceased to be a criterion of credit conditions. Wall Street is not encroaching upon the banking credit of the country, nor is it threatening Federal reserve resources.

"PRODUCTION AT CAPACITY.

"It is the commercial demands of the country that have been encroaching upon the credit supply and this has found expression in the commercial paper rate at this and other centers, driving it well above the bank rate, when, by all the tenets of sound banking, the latter should be higher. Production is at, or close to, capacity and that industry has been financed through ordinary banking channels, without recourse heretofore to the Federal reserve

banks to any material extent, is the reason for relatively firm money market rates accompanied by high Federal Reserve ratios.

"That ordinary banking facilities have been able to finance rising industrial activity is one of the phenomena of the present economic situation. In addition to some hesitancy that still exists among the banks of the country to seek accommodation at the central institutions, undoubtedly an important factor has been the liquidation of former frozen loans. But money market rates indicated that the time was approaching when commercial demands would cause member banks finally to go to the rediscount counter of the reserve banks.

"SOME UNWELCOME CONSEQUENCES.

"For the Federal reserve bank to encourage resort to its rediscount facilities at this time by non-protective methods would bring about unwelcome results. Production being practically at capacity, an increase in the credit supply would inevitably cause a sharp rise in prices. This is the answer also to the measure of repentment expressed that the Federal reserve should now seek to shut off the huge potential credit supply based upon the \$1,000,000,000

of gold contributed to the country's monetary stock since the deflation movement of 1919.

"In other words, to allow the full potential credit expansion in the Federal reserve system to take place, so as to cause the reserve ratio to fall to 40%, where it went in 1919, would cause a price upheaval well nigh disastrous.

"It is no idle remark by certain Federal reserve authorities that we should regard our huge gold stock as more or less in the nature of a trust. It is quite possible that Europe will begin some day in the near future to draw some of this gold away from us. Indeed, sterling is already pointing that way.

"Those who are advocating unbridled use of our present credit facilities should pause and consider what would happen if we built up a huge credit structure, forced up prices so as to encourage foreign selling on this market and then brought about an undermining of that structure through the inevitable withdrawals of gold for export.

"During the past year 777 leading banks in the country increased total loans and discounts \$722,000,000, and obligations to Federal reserve banks only \$67,000,000.

In other words, 91% of the trade expansion has been financed out of their own resources and only 9% by loans from Federal reserve banks."

The Chairman: Do you feel, Governor Norris, that conditions now are such as would justify or demand consideration of an advance of discount rates?

Governor Norris: So far as our district is concerned, I would prefer to wait until sometime in the latter part of next month, first, to see whether the Easter liquidation, which I anticipate, occurs, and, secondly, whether the immediate expansion which I anticipate against that occurs.

The Chairman: Do you feel that when the time comes that the action should be uniform?

Governor Norris: Yes, I do. My own feeling is that within a month we will be right up against the proposition.

Governor Young: Mr. Chairman, Minneapolis is one of the districts which has not enjoyed this expansion or prosperity. A rate with us of four and a half, or five or five and a half or even six or six and a half or as high as seven, is not much of a direct penalty upon the member banks in the agricultural and livestock sections, because they get eight, nine, ten and twelve per cent. A very

peculiar feature of this is that even with a four and a half per cent rate our advances to member banks have gone down, down, and down. On March 15th they were only \$15,000,000. In the last couple of weeks the Twin City banks have come to us on account of tax payments, which are only temporary, and there may be some expansion in this country, but not much in some lines. I think this whole question sized up is that the unfortunate conditions that developed in 1919 are too fresh in the minds of many people to permit of a repetition of those things at such an early date. I think you will have to get a new generation of bankers to get bankers that will expand as they did during that time. I do not think there will be any in our district, because too many of our bankers had too many sleepless nights.

The Chairman: Your views in that regard are identical with my own, Governor Young. I do not believe we need fear a recurrence of the conditions which you encountered and which we encountered in the agricultural districts. Our experience with regard to liquidation has been similar to yours, and I think it reflects the condition with regard to agricultural indebtedness everywhere. Nevertheless,

there is a tendency in other directions to overdo, apparently.

Governor Young: In so far as the Ninth District is concerned, I will say that there is nothing in the situation just at the moment that will alarm our people. Of course, whether we raise our discount rate or not will depend entirely upon the action taken by the other reserve banks. We have found that credit flows where it is easiest and cheapest, and if the other banks raise the price of it we have got to raise within twenty-four hours to protect ourselves. I should regret very much to see money increase in cost at this time. Our banks have secured liquidation largely through the floating of farm mortgages. I do not think liquidation is coming out of the crops. During 1919, 1920, and 1921, the price of money was so high that it was almost impossible to float farm mortgages. As money eased up a little bit the farm mortgages were floated, and they are now going in Minnesota at five per cent. Banks that have accumulated have simply transferred them to the insurance companies and investors, where they belong. That has eased their situation.

Governor Harding: Would a member bank give a man the

same line of credit, knowing that the man had his property mortgaged, that they would if he didn't have it mortgaged?

Governor Young: In 1921--- I do not know that you remember this, but it is a fact--- during the seeding period, the summer period, and the harvesting period, the Federal reserve bank of Minneapolis made no advances at all. Instead of that the advances went down. The same thing happened in 1922. The difficulty in our district is just this. The people are afraid of the banks in a great many sections; they have sold their crops, secured the cash and are carrying it in their pockets; they have sufficient seed for the coming season and they are afraid to be caught; they are afraid to deposit with the banks. They want the money. As this situation eases they will get over that feeling and will redeposit again. If money rates get pretty high in the east it has an indirect effect upon our banks out there.

The Chairman: Mr. Case, what is your opinion?

Mr. Case: Mr. Chairman, the directors and officers of the Federal Reserve Bank of New York are watching the credit situation, I think, at the present time more closely than we have at any time during the past year or two.

I said a few minutes ago that when New York, one of the three banks which raised the rate to four and a half per cent, raised the rate, we lost within two weeks \$112,000,000 of earning assets and, incidentally, perhaps twenty or thirty millions of securities that we sold to other banks. Take one bank, the First National Bank, which very frequently runs against the tide, and while the other banks, the big city banks, were off our books, they were borrowing up as high as \$100,000,000 against Government securities solely. When we raised our rate they immediately began to pay off, and when I left, a week ago, they were down to about \$30,000,000. There has been abundant evidence of increased activity in business, but I feel, as Governor Young and others have said, that the memory of 1920 is too fresh in the minds of our merchants and manufacturers, as well as in the minds of our bankers, for them to run into any such period as they went through then.

We have been reviewing very carefully the financial statements of the commercial concerns, and the new statements, as they are coming out now, as of the end of the year, whereas two years ago they showed tremendous inventories, you will find, almost without exception, that they

are living from hand to mouth. None of the concerns have big inventories. That is the great factor for safety in the situation at the moment, and I think we all feel it must not be permitted to get out of bounds. Let us take this operation of March 15th, as related to money conditions. The Treasury has called in from the money market two hundred millions of dollars. They took up from the Federal reserve banks fifty millions in certificates and redeemed notes. That money came from the money market. Mr. Gilbert told me yesterday he had a balance in the Federal reserve banks today of upwards of a hundred million dollars, \$105,000,000, and that on Saturday it would probably be \$130,000,000 or \$140,000,000, and that without any ill effect on the money market. \$200,000,000 have been pulled in within the last ten days or thereabouts, without creating any great distress. Now, happily, the Treasury Department is committed to a policy of paying the going rate for money. They do not undertake to curb the actions of the Federal reserve banks in raising rates. I do think, however, that the Federal reserve banks have a reasonable obligation to see to it that when they do change their rates they do it at a time that is neither immediately

after an issue of certificates, such as now, without giving a chance for redistribution, or immediately prior to a new issue. In other words, I want to point out that if we were to wait, perhaps until April 15th, it would be a month after the present sale of certificates, and a month before a new issue. In other words, there will be a new issue on May 15th; that we would have to take a look at those transactions and make any change we were going to make somewhere in between. Incidentally there are the June 15 operations. So, looking ahead, the Treasury is going to be in the market for large amounts of money, and I do think we should consider any action that we propose to take in the light of their transactions, because we have got a pretty efficient machine in the member banks in distributing these securities, and we want to be careful that our rate action does not leave them piled up with a lot of low rate securities.

As I stated a moment ago, Mr. Chairman, New York is watching the situation very closely. We feel that it may be necessary presently--- I think the officers have in mind possibly around the middle of April--- but we would take a very careful look at the situation, but they consider that

the most opportune time to make a change if one should be necessary.

Someone spoke about the call money market, and I think it might be interesting to the Governors to give them this bit of information. Just before I came away we had a little talk with the president of the New York Stock Clearing Corporation, and he pointed out that within the last three years there had been nearly four billion dollars in securities listed on the New York Stock Exchange; that they had gone up from twenty-one to twenty-five billions of dollars, and I think we ought to be careful to recognize that some of this deflation that has taken place has been largely a refunding of obligations. Armour and other concerns had seventy-five or a hundred millions floating in banks, and a large part of it has not been liquidated, but it has been refunded, and of course the increase of securities on the Stock Exchange requires a larger amount of money to finance it. The Stock Exchange loans during the past year or thereabouts, have gone about double, from one billion to two billion, half of that money coming from outside of New York.

The Chairman: I suppose the amount of money on call,

or in the market, as you express it, is as high or approximately as high, as at any point in the history of the Exchange.

Mr. Case: Yes, it is; but of course, in making the statement, when you consider that that increase of billion dollars--- I feel that if a rate increase is necessary it will be helpful, perhaps, perhaps not necessary, but helpful, if some little educational propoganda, along the lines expressed by Governor Harding, could be instituted. They have been educated to look at the total reserve ratio. If some little educational statement that we might agree upon here, to be improved upon by the Federal Reserve Board, could be issued, it would be very desirable to do it in advance of a rate increase.

The Chairman: I assume that the New York banks are advising caution, are they not?

Mr. Case: Yes. We should not lose sight of the fact, however, that our big New York banks are financing out of their own resources, and are not calling on us for practically a nickel, unless they have gone up within the last few days. I think when I came away the Bank of Commerce, which uses us very freely, just as they would any

other instrument, was borrowing ten or twelve millions, but the other banks, such as the Chase and the Guaranty Company, and the Bankers' Trust Company, are all off our books.

The Chairman: I assume that the New York banks are throwing out words of caution to their customers, so that they will not come to a situation, which you say you do not believe there is danger of, and that is of surplus inventories and everything of that sort.

Mr. Case: I should hope they would not come to it. I should think there was too much common sense among the merchants and manufacturers, as well as bankers to immediately fall into that condition again. But there is no question but what our labor is fully employed, and production is really a hundred per cent.

Governor Fancher: Mr. Case, are you advised as to the amount of outside money that is loaned on call in New York?

Mr. Case: Yes, just about a billion dollars.

Governor Fancher: About half the total?

Mr. Case: About half. Roughly, you can always carry that in mind. It may be 45 or it may be 55 per

per cent, but just about half.

Governor Fancher: So that the demand back home, at rates better than the call rate, would take a very substantial amount of that?

Mr. Case: Yes. Perhaps this is not the time to discuss it, but I do think that all the Governors of the reserve banks should have a very intelligent appreciation of the situation that if there is a demand for money because of a low rate, and the other banks say that money is being loaned on Wall Street and insist on calling it back, the burden is immediately thrown on New York and you cannot get away from it.

The Chairman:

With regard to that very point it must be borne in mind that our banks in New York City are as ambitious at present as they have ever been in the past for business, and that with respect particularly to the banks in the smaller cities, institutions which put money out in New York, that they are offered the services of the New York banks in the matter of putting money out on call, and they are invited to touch the button at any time and call on them.

Mr. Case: Surely, and that is perfectly normal. But

if all the other Federal reserve banks were to put pressure on the member banks, it would create a very unhappy situation in New York.

Governor Calkins: I would like to ask you whether you think the low inventory situation has gone far enough for you to say that the larger concerns of the country do not show large inventories---

Mr. Case: Absolutely.

Governor Calkins: I think that is not true in some lines, and with some concerns.

Mr. Case: Well, comparatively. We have a group of three men who are following that very carefully. I had a long conference with them just a day or two before I came away. We have had something like 150 statements come in which they have reviewed carefully and compared, and have said that there was nothing in those statements to frighten anyone. They said that the "scorched cat dreads the fire"; and they did not propose to get right into the fire again.

Governor Calkins: You get an earlier opportunity to review those things than the rest of us. Do you know what the situation in the automobile industry is in detail?

Mr. Case: No, but I should think that that might possibly be an exception at the moment-- the automobile industry.

Governor Norris: Bearing on the statement by Mr. Case that "a scorched cat dreads the fire", I think I have noticed this situation. When business commenced to pick up and prices commenced to advance last fall, a great many people were afraid to plunge, and make commitments to buy goods. Those who had the courage or the rashness to do it have, in the last six months, made a great deal of money. Those who did not have the courage to do it are now envious of those who had more courage or more foresight than they had, and they now have the disposition to jump in, before the cream is all off. Of course, there is no way of knowing, but I would guess that inventories at the end of March are generally very much larger than they were at the end of December.

Governor McKinney: Mr. Chairman, the conditions prevailing in the Eleventh District are somewhat similar to those obtaining in the Minneapolis district, as related by Governor Young. We have secured our liquidation, though, more out of the sale of commodities than probably is the

case in his district. For example, our cotton crop was sold for \$209,000,000 more in our district last year than the year previous, more than double the amount, and we have secured some liquidation in the manner indicated by Governor Young. Our loans at the present time are only \$17,000,000, only \$3,000,000 above the low water mark for us. I do not think an increase in the rate in our district would have a deterrent effect at all.

The Chairman: Yours is primarily an agriculture and live stock district. How do you stand with respect to rate, as compared to Governor Young, who states that the rates run anywhere from ten per cent up?

Governor McKinney: I am satisfied they would run right along with him, and perhaps beat him in some cases. Our deposits on the 31st day of December, both member and non-member banks of the District, were only 30 per cent below what they were at the high water mark in the middle of 1920. Nevertheless the member banks of the district, and the non-members, have probably profited by the experience which has been referred to here, and, therefore, I do not think we need in our district to increase the rate to restrain them from abusing the privilege.

Governor Harding: I wonder if Governor McKinney would object to answering two or three questions that I would like to ask him. If he does, I will withdraw them.

Governor McKinney: I would be glad to answer them, Governor Harding.

Governor Harding: I would like to know how many banks you have on the special list, as compared with this time a year ago?

Governor McKinney: We had, a year ago, practically a hundred banks at the head office, on what we regarded as our daily scrutiny list. At present we have 45 banks on that list, and of our total loans of \$17,000,000 to member banks, I approximate that about ten millions are to those forty-five banks.

Governor Harding: So you only have about seven millions from banks on the daily scrutiny list?---

Governor McKinney: Yes, and a very interesting thing is the fact that we are along in our planting season and yet the member banks are not making any demands. We have attached to the Houston Branch 140 banks. Cotton is up in the southern portion of Texas, and yet those 140 banks have used only a million dollars, exclusive of their obligations secured by government issues.

Governor Harding: Do you note any improvement in the banks on your daily scrutiny list?

Governor McKinney: Yes. We have been able to eliminate 55, and the remaining banks show substantial improvement. I do not believe, applying to our district alone, that it would serve any useful purpose to advance the rate. However, it is only fair to say, as Governor Young has stated, that a four and a half per cent rate is a very low rate, as compared to a similar rate in New York, when you take into consideration the rates charged by our member banks. I believe we have on call in New York from the Dallas banks twelve to fifteen million dollars, which is almost as much as our rediscounts.

The Chairman: Are those banks borrowing from you?

Governor McKinney: No, not one of them. None of the city banks are borrowing a cent from us.

Mr. Adleson: We have recently received from the country banks in the extreme southern sec-^{tions} some scattering demands, but our city banks are borrowing very little. They are taking care of their decline, much of which represents income tax period, by calling call loans. I understand they have gotten them down pretty low. We do not

anticipate any great demand for several months. The acceleration in business in our section is not like that which has occurred in other districts. They are so very hesitant to step out. Before we would want the rate increased in our section, we would like to see the effect of a higher rate in the sections that are affected by the acceleration which has already occurred, thus driving back to us a lot of the loans that are in those sections, and then we can tell better what should be done with our rate.

The Chairman: You would be in favor of advancing rates elsewhere and you retaining your lower rate?

Mr. Adleson: For the time being, yes.

Governor Bailey: We are in just about the same fix as Minneapolis and Dallas, I would say. We have got a lot of call money loaned from our district in New York. Practically no clearing house city has any money borrowed from us. It is practically all from the small banks in the country. We have increased our rediscounts with the small country banks, which represents seasonal demands, something like ten million dollars in the last month, and we were at a low point then. I have talked to some of the large bankers there, and they do not feel that they are going to

call on us for any great amount, but that the banks will take care of the situation, and the small banks, the banks with half a million or a million of deposits, are writing for commercial paper all the time. There is a feeling among the people out there that they got stung so hard that a great many of them haven't any idea of getting easier credit, but they are trying to get out. It is more a proposition of getting out than it is of getting in. As we used to say, they are playing close to the table. That is a thing that is going on out there now. I do not think we would be affected at all, other than to create a suspicion in the minds of people that something was wrong up here. I have that suspicion now.

Governor McKinney: In connection with the heavier borrowing of the smaller banks, you give them individual treatment, rather than raising the rate, don't you?

Governor Bailey: Yes. We are going to have a seasonal demand for cattle movement. We have great pastures out there, and we expect that seasonal demand. In a general way our member banks have improved wonderfully in the district. We have the scrutiny list pretty nearly wiped out. There are a few banks that are going to get through

if we have a good crop--- if we don't, good night, We will have more failures. It will depend on the crop. In a general way the financial situation in our district is very satisfactory and we are right comfortable.

Governor Calkins: You say the conditions in your district are normal and cause no apprehension. Would you say that you think the condition of the country is normal?

Governor Bailey: No, I do not mean that it is normal in our country, but I say that there is a restricted feeling, that the fellows are not going out on the limb again, as Governor Young said, I don't believe.

The Chairman: Governor Seay?

Governor Seay: Mr. Chairman, the situation seems to show be quite healthy, or at least to/very remarkable recuperation. I think any increase in the rate would be premature and very harmful and could not be justified. There are two very good and substantial reasons for the increased use of credit. One is the increased activity of business, and when I say that, I mean a legitimate increase; the other is the increase in prices. Construction prices, raw materials, and so forth, have increased 11 or 12 per cent, or something of that sort, which in itself always absorbs a

larger amount of credit. It seems, therefore, that we would have no ground for raising our rates, except upon apprehension, and apprehension is a very poor reason for raising rates.

Governor Bailey: If you advanced the rate to 5-1/2 per cent out in our district the little country banks would close up; they would be scared to death.

Governor Seay: The activity is to a considerable extent seasonal, and for that reason it takes more money. That knowledge justifies to the fullest extent the argument advanced by the Federal Reserve Board and the Federal reserve banks that money rates were not controlled by the Federal Reserve banks, but were controlled by the demand for credit and capital in the open market.

It is that demand now, and a legitimate demand, I believe, which is raising the rates on commercial paper, and the raising of those commercial rates has not resulted in throwing any unusually heavy demands on the Federal reserve banks. When there is activity there always will be a certain degree of speculation, both in commodities and naturally in securities of those activities which have securities on the market.

Now, going back to January 10, and taking the Board's statement, which I sent for for the purpose, you will find that the total earnings assets of the Federal reserve banks were \$1,243,000,000. They are \$1,154,000,000 now. Of course there has been some change in the nature of those assets. I find that their bills discounted were \$230,000,000, and they are only \$278,000,000 now; but that is a trifle.

The Chairman: Liquidation has been largely in government securities.

Governor Beay: Bills bought in the open market, \$225,000,000, and \$237,000,000 now, a difference of \$12,000,000. That makes about \$60,000,000, which is a mere bagatelle. Of course there has been considerable liquidation in Government obligations, and there has been some slight increase in our gold holdings, but you cannot justify, by taking a comparative statement of the Federal reserve banks, an increase in rate at the present time.

The Chairman: Not based on the demands upon the system.

Governor Beay: Not based on the demands upon the system, no.

The Chairman: But based upon the observation of practically all the variable credit outside the system, and based upon the gathering momentum.

Governor Seay: As long as it remains so, yes; as long as, in your judgment, there are indications, rather than apprehensions that demands on the Federal reserve banks are going to increase largely, then I do not believe that you would be justified in raising your rate, certainly to that extent. Mr. Case mentioned something about the figures showing increased uses for money on the Stock Exchange, which has had a great revival in speculation. He is perfectly right in saying that if all the Federal reserve banks should single out those institutions which might be lending money on the stock Exchange and call it, that it would create an unfavorable condition. It strikes me that to a certain point it is not the particular concern of the Federal reserve banks what the member bank is doing with its money. It is always the concern of the Federal reserve bank what an excessively borrowing bank is doing with its money; but the reasonable use of money by any borrowing bank I think is within their discretion. There was one thing that absorbed the extraordinary amount of credit in

this country before, and that was the activities of the larger banks. I do not care so much about the interior country banks, because, in the aggregate, they would not absorb such an extraordinary amount of credit; but there is no reason for believing that the larger banks have not learned a lesson which they could not forget in this short time. Their present activities show that they do remember it. I noticed in Mr. Warburg's address before the Acceptance Council a little while back he takes the position that the largest and proudest banks ought to resort to the Federal reserve banks only in case of necessity; that ordinarily they ought not to be borrowing. I believe that the largest and proudest banks have almost come to that conclusion. I do not think there is anything in the position of the Federal reserve banks that could afford an argument that could be sustained for an advance in discount rates at this time. In my judgment it would be premature. I do think that it would be a very wholesome thing if the Governors of the banks would get together more than once every six months and talk about this proposition. The situation is such that it justifies their coming together at least every sixty days to exchange opin-

ions with each other.

Governor Harding: I would like to add to my remarks that there isn't anything in the Boston district upon which we might predicate any advance in rates, so far as the district itself is concerned. We have only one large trust company that is disposed at times to make demands that apparently would be regarded as too heavy.

I was advised of the situation as soon as I went to Boston, and made it my business to familiarize myself with that business. I had it all tabulated and examined the reports and so forth. An advance in rates would not have any effect upon that concern at all. All the other rates would be advanced pari passu, so I went to the president of that bank a few days ago, and showed him what information I had, what information I had about his business, and asked him why he was in so steadily. He remarked that he found it expensive to be a member of the Federal Reserve System, and admitted, practically, that he was rediscounting for the sake of profit. I delicately advanced some views to him and I do not anticipate any trouble with him whatever, because I told him I was going to watch his deposits, watch his general business, and whenever his line got out

of proportion I would scrutinize with particular care his offerings, and see that they did not get excessive.

Governor Seay: There is one other thing I would like to say, and that is that the city banks in our district have complained that the rates have been so low that business has not been profitable. They have not been able to make a great deal of money in the past ten or twelve months. They are very glad to have any pretext for advancing rates. I can recall when some of the larger banks lowered the rate to four percent, we exchanged experiences with some of our city banks, and they ventured to express the hope that that action would not be followed in our bank, that it might produce artificially low rates and demands from their customers for discount rates to which they were not entitled.

The Chairman: What interest rate do your city banks pay on bank deposits?

Governor Seay: They pay approximately 3 per cent, 2-1/2 to 3.

The Chairman: That is the general rate, is it?

Governor Seay: Yes.

The Chairman: And on savings, what do they pay?

Governor Seay: Not over three per cent on savings.

The Chairman: I think this discussion is interesting and will be helpful in what may come later. I acknowledge that I was surprised at the views expressed by Chicago, which expressed the views of our board, were not in harmony with those expressed generally here. I would take it from Governor Seay's remarks that he feels we need have no concern because of the increasing spread between the going rate and the Federal reserve bank rate. That is interesting, but I do not agree with him on it. However, gentlemen, it is now five minutes after one, and unless there is objection, the Conference will take a recess at this time until 2:30 o'clock p. m.

(Whereupon, at 1:05 o'clock p. m., a recess was taken until 2:30 o'clock p. m.)

A F T E R R E C E S S .

The conference reconvened, pursuant to the taking of recess, at 2:45 o'clock p. m.

The Chairman: The conference will please come to order.

The following telegram has been prepared to be sent

to Governor Strong:

"March 26, 1923.

"Benj. Strong, Esq.,

Cragmore Sanitorium,

Colorado Springs, Colo.

Conference has requested me to send you this expression of the sincere regret of the Governors assembled in Washington that your ill health prevents your attendance. All miss you and hope for your speedy and effective recovery.

J. B. McDougal, Chairman."

And the following telegram has been prepared to be sent to Mr. Harrison:

"March 26, 1923.

George L. Harrison, Esq.,

Union Protestant Infirmary,

1514 Division Street, Baltimore, Md.

Conference requests me to send this expression of sincere regret that ill health prevents your attendance. Governors extend sympathy and hope for your early recovery.

J. B. McDougal, Chairman."

Governor Young: Mr. Chairman, I wish to report that the Farm Loan Board will be very glad to meet with us at

10:30 o'clock tomorrow morning.

Mr. Case: I would like to say that Under-secretary Gilbert would like to meet with the Conference some time when it is convenient.

The Chairman: I suggest that the Secretary communicate with Mr. Gilbert and tell him we would be glad to have him at any time other than tomorrow morning, at which time we meet with the Farm Loan Board.

Now, gentlemen, the next topic on the program is (d).

(d) Rebates of discounts.

That is submitted by Richmond.

Governor Seay: Mr. Chairman, the resolution or recommendation embraces both the argument and the conclusion, I think. I will read it.

"That the policy of granting rebates should be uniform among the Federal reserve banks; that it should not be the regular practice of reserve banks to grant rebates; and if and when rebates are granted, there should be some good reason for such action and the benefit should accrue to the customer of the member bank; that rebates should not be made on member bank obligations (except on obligations secured by Government bonds, when the bonds are sold prior

to maturity of the obligation); that rebates on rediscounted paper should be granted only in cases where such paper is anticipated by the member bank's customer, necessitating repayment of the paper in advance of maturity by member bank, and where the member banks make rebates to such customers; that when Federal reserve banks grant rebates in such cases, the rebate should be at the rate at which the paper was rediscounted, provided that rate was not higher than the rate prevailing at the time the paper is paid, in which case rebate should be made at the rate then prevailing.

The whole subject of rebates has come before the Federal reserve banks and did come before them very early in their organization, and while I cannot find that any conclusion was ever arrived at, nor that any ruling by the Board, in so far as it lay within the province of the Board to make rulings, was ever given, there did arise an understanding, as I recall, and what is recited in this recommendation was the understanding arrived at.

I find that the matter was submitted to the Federal Reserve Board, and if you will look in the report of the Board for 1915, you will find that the language of the

counsel of the Board is that if and when rebates are granted there should be some good reason for such action, and the benefit should accrue to the customer of the member bank. That was the position taken at that time by the Board, and it has always been understood, I believe, that in cases where we were asked to rebate paper which had been anticipated by the customer of the member bank, that we made the rebate to save the bank from loss.

During the war there grew up the practice, when the banks were greatly expanded and the resources of the Federal reserve banks were fully loaned out, of allowing the borrowing banks to anticipate, almost at their pleasure, particularly with obligations secured by Government securities. The matter has come before us several times recently upon complaint of some of our member banks that have been informed, so they write us, that member banks in other districts are able to obtain rebates at their pleasure; that they were allowed to rebate at will, and that the Federal reserve bank has made full rebate.

Governor Harding: The Board has always taken the position that that was a matter for administration in each bank rather than for a ruling by the Board. I can see no

objection to having the same uniform practice agreed upon. if we can agree upon it in conference.

Governor Calkins: I do not think Governor Seay intended to say that the twelve banks have reached an agreement as to what the practice should be, except in a general way. If they did reach an agreement they violated the agreement at once, because there has been no uniform practice, in my opinion. I disagree with almost all included in Governor Seay's resolution, except that I agree with him that banks should ^{not} be permitted to withdraw rediscounts and secure rebates unless they had good reason to do so. Now, the term "good reason" is a broad one. I also agree that rebates made should be at the same rate unless that rate is higher than the prevailing rate. A good reason for recalling rediscounts before maturity is the condition of the bank. Banks' rediscounting facilities are for the purpose of enabling them to maintain a reserve. If the operation of the bank brings on a condition wherein the bank has an excessive reserve and wishes to recall rediscounts, that is a good reason to do so, and it should be permitted to do it. The suggestion is that they should only be permitted to anticipate maturities when the maturi-

ties are anticipated by their customers. That does not meet the situation at all. A man might have rediscounted paper which is anticipated, but which his customer did not anticipate, and have other paper which it had not rediscounted anticipated, and be left with very large reserves, and frequently is. I think we should take the heart out of his resolution and say that we should not accept anticipation of maturity except when there is good reason for it, which will leave it entirely in the judgment of each individual bank.

Governor Seay: Mr. Chairman, I was interrupted in the midst of my remarks---

Governor Calkins: I beg your pardon, Governor Seay, I thought you had finished.

Governor Seay: I had not fully stated everything I intended to say.

There is one thing I do believe to be desirable, and that is that in the practice of making rebates there should be uniformity among the Federal reserve banks. This does not place me, necessarily, in the position of advocating everything that I put down here, but it had to come before this Conference for discussion, and in order to do it it

was necessary to state something, and therefore I attempted to state the different phases of the situation.

One thing I do believe to be desirable is that there should be a uniform practice in this respect among the Federal reserve banks. I am prepared to give independent judgment to each Federal reserve bank as to what is good and sufficient reason, but that there should be a varying practice I do not think is very wholesome. I recall that at our last meeting this matter was brought up by Mr. Mitchell of the Board. It was not on the program, but I remember he, at that time, expressed the opinion that certain practices of the Federal reserve banks displayed lack of unanimity, and that in his opinion it was very desirable and also, at the same time very easy, to bring about uniformity. I am not prepared to admit that in all practices it is possible to bring about uniformity in the federal reserve banks, nor would I argue that; but I think this is one in which we might very well arrive at a uniform conclusion. I doubt the advisability of allowing the member bank to anticipate at will.

The Chairman: What is your practice?

Governor Seay: Our practice has been what has been

described. A very few of the Governors who are here were here from the beginning. I do not think I am wrong in saying that when this matter was discussed in the beginning the conclusion was arrived at that if the member banks desired to rebate, there should be a good reason for it, and that its customers should get the advantage of the rebate. That was stated then, and stated directly, I think, by Mr. Warburg who, at that time, was regarded as the best informed man on central banking practice. I remember he said it was not the custom of central banks to resell their bills; it was not the custom with central banks to resell their bankers acceptances,---

Governor Harding: I think we want to avoid the theory that the position of the Federal reserve banks is analogous to that of the central banks of Europe. It is not.

Governor Seay: I want to avoid that, too, sir.

Governor Harding: This is not a question of bills; it is a question of rediscounts to member banks. I think it would be very unwise for this Conference to put itself in the attitude of asking the Federal Reserve Board for a ruling on this matter. The Federal Reserve Board is not a legislative body; it has the Federal Reserve Act for its

license, and can make rules and regulations in conformity with that act. To ask the Federal Reserve Board, without any specific authority in the Act, to rule, would be a species of legislation concerning the internal operations of the Federal reserve banks, which are expressly covered in the provisions of Section 4, and would, I think, be a step in the wrong direction, would lead to other legislative actions by the Board, which would get the Board and probably the whole system into trouble. I do not think this is a matter that ought to be brought to the Board or that the Board ought to consider. When I was on the Board it was brought to the attention of the Board several times and I have been consistent in that attitude. If the Federal Reserve Banks can agree on some uniform principle, I think that is all they can do, and I think you have made a forward step.

Governor Seay: It is far from my intention to ask the Federal Reserve Board to rule on the subject. I have always regarded that as the peculiar province of the Federal reserve banks, and what I stated before I repeat now, that there are some practices of the Federal reserve banks that I think should be measurably uniform, and it would be very

desirable if we could arrive at a common understanding on the subject. I did not desire to submit it to the Board. I am very much opposed, as I said before, to centralizing the administration of Federal reserve banks in Washington or anywhere else.

The Chairman: I do not believe you have answered the question yet as to whether or not you do rebate interest on request, on rediscounts?

Governor Seay: Not at the will of the member bank, no, we do not. We follow the practice which has been outlined here, and we do not let a member bank anticipate at will; but if it is paid to the bank's customer, and the bank makes a rebate, we rebate to the member bank.

The Chairman: I am going to ask those whose banks do make a practice of rebating at request of the member banks who want to pay in advance, to signify it by raising their hands.

(Eleven of the Governors raised their hands.)

The Chairman: Speaking for Chicago, this matter was very carefully considered in the early days and we reached the conclusion that, not operating for profit, that we should certainly accord the member banks the privilege

of paying in advance if they wanted to do so. Our plan is, and it is a matter of record, at least on our minutes, that we will rebate on request of member banks, and we rebate at the current rate of discount, that is, the rate current at the time the request is made. I do not think we have suffered any evil results. I think it is impossible, or at least it is impractical, Governor Seay, to follow that thing through and take the responsibility of determining that, when a rebate is granted, that the customer gets the benefit of it. I do not think it should be confined to such paper which we may have under rediscount, but I think the privilege should be permitted, particularly because we are not in business for profit. Among the commercial banks, and probably some of you know more about it than I do, although I remember something about it, there is no uniform custom. Usually the bank will permit payment in advance. It depends a good deal on the money market.

Governor McKinney: The vast majority of them rebate, I think.

The Chairman: I know of one bank in Chicago that has a rule under which they do permit the customer to take

the paper up, but they charge a slight fee for it, possibly a half of one per cent.

Governor Bailey: In the commercial banks I am interested in, it depends on the customer. If it happens to be some fellow I don't care anything about I don't give it to him, but we always rebate to our regular customers. I believe this thing would restrict the rediscounting by member banks, and I believe what we want to do is to make the banks feel good natured toward us.

Mr. Case: I think it would tend to drive some borrowing by small banks into the big city banks instead of coming to the Federal reserve banks. I have had the country banks say to me time and again, with respect to their New York correspondents, that all they have got to do is to get on the wire, call the bank and ask for a credit of \$50,000 on demand, which gives them the right to borrow for a few days and pay off when they like.

Governor Fancher: Without stamping the note.

Governor Calkins: They don't even have to do that, Mr. Case, but they leave instructions to draw against the account whenever there is a balance worth while.

Governor Seay: We would have no objection whatever

to following the practice which is uniform among the Federal reserve banks, but I am quite sure I am correct in saying that in the early history, when these bills were offered to us, we did not permit our member banks to take them back at their will. So far as I can recall, that is what we have stated here, and if you will go back into the history of the discussions that have taken place you will find that what I have put down here was the practice we adopted then. Of course, if conditions have grown up in the various banks making it judicious or wise to adopt a different practice, that is perfectly agreeable to us; but these are things that were done in the early history of the banks, when we had a few bills and did not like to part with them when we got them.

Governor Fancher: The procedure outlined in the resolution was the procedure followed in the early days and continued until the banks began to borrow freely from us, during the war period. Then we waived the restrictions as to rebates, and ever since have allowed rebates any time they were asked for.

Governor Seay: If that is regarded as good practice and desirable practice, we are perfectly willing to con-

form to it, but I believe it is desirable there should be a consensus of opinion to that effect. I believe it was eleven to one just now. I am perfectly willing to conform to it, and that will make it unanimous.

(After further discussion.)

I will make a motion that when a Federal reserve bank grants a rebate the rebate should be at the rate at which the paper was rediscounted, provided that rate was not higher than the rate prevailing at the time the paper is paid, in which case the rebate would (be-made) at the rate then prevailing.

The Chairman: We have followed for a long time the policy of rebating unearned discount on the basis of the current rate, and in the long run I think it works out well.

Governor Fancher: You rebate at a higher rate than your prevailing rate?

The Chairman: Yes, we would, and we have not suffered from it at all.

Governor Harding: For the purpose of ascertaining the sentiment I will move the question.

The Chairman: Governor Seay, will you restate your

motion?

Governor Seay: The motion is that when Federal reserve banks grant rebates the rebate should be at the rate at which the paper was rediscounted, provided that rate was not higher than the rate prevailing at the time the paper was paid, in which case the rebate should be made at the rate then prevailing.

The Chairman: I could not vote for that.

(There were calls for the question, and the motion, having been duly seconded, was carried.)

The Chairman: I would have to be recorded as voting against that and in favor of rebating at the current rate.

Governor Biggs: I will vote with you on that, Mr. Chairman.

Governor McKinney: I would like to inquire what you would do with partial payment? Do you accept partial payments and rebate the interest?

Governor Bailey: We make adjustments on that.

Mr. Case: On this matter that Governor Seay brought up, we all agree that it is desirable to have uniformity, and I think Governor Seay has very nicely given way to the views of the other Governors with respect to this prac-

tice, and in view of the fact that there were ten here who voted to follow the practice of rebating at the rate at which the paper was discounted, or, if there is a lower rate, at the lower rate, I am wondering if you would not be willing to come along with the rest of us, Mr. Chairman, and have an absolutely uniform practice.

The Chairman: I should like to do that, but there are some questions involved there; I do not know what they are, but they came up at the time we were following that practice and caused us to change our plan; and consequently, as much as I regret it, I would not be able to vote with the rest of the Conference on that.

Governor Seay: I am quite sure that the thing is somewhat twisted in your mind, Mr. Chairman. It seems so logical and forceful that I cannot imagine a reason for contrary action, and I cannot imagine an argument which would support the position you take, if you will pardon me.

Mr. Case: If you discounted fifty million dollars of paper today at four per cent for ten days, and tomorrow you should raise your rate to 4-1/2 per cent, you would permit a bank to rebate for nine days at 4-1/2 per cent, and then come back the following day?

The Chairman: No.

Mr. Case: That is just where I think you have it twisted, Mr. Chairman.

The Chairman: I say, as the result of operating under our plan there has never been any abuse of it; we do not tolerate it.

Governor Seay: If it is done at all it is an abuse. It seems to me you are paying them for the privilege of handling the paper.

Governor Harding: I think the Federal Reserve Board, under its authority to approve discount rates, would at least take jurisdiction over this phase of the question, and I think they would make a ruling on that subject, as to what rate should be allowed the bank receiving the rebate. I think it would be very proper for the Board to assume jurisdiction over that phase of it.

Mr. Case: It should not be at a higher rate than the rate at which it was discounted; that is the whole point. The New York bank, under our present practice, has rebated whenever requested to do so, and rebated at the rate at which the paper was discounted or the advance made, except when rates have been reduced since the paper

was discounted, and then the rebates are made at the lower rate.

Mr. Adleson: Don't you have criticism from the member banks on keeping that extra half of one per cent?

Mr. Case: Absolutely not. That is the custom. A commercial bank will discount paper at six per cent, and when rebate is requested they will rebate at four, frequently.

Governor Seay: I can recall when it was the practice in some of the reserve banks to retain one per cent in the beginning.

The Chairman: I think you are right about that. I believe in uniformity, but I do not believe it is absolutely necessary that we have uniformity in everything; I fail to see anything brought out of this discussion which indicates that anybody has ever gotten into trouble because of lack of uniformity in this question, and I am not in a position to state that we will be willing to go along with you on that, because there is a feature involved there that, while I am not informed about it now, I am sure a question did come up and we settled it in this way.

Governor Calkins: Originally the Federal reserve

banks refused to permit any banks to anticipate maturities; they were adamant on that point. Since that time they have learned a good deal by experience, and as a result of it they have changed their views and come to the view that has been expressed here today. We should reach a conclusion in regard to this matter, and that conclusion should be unanimous, and I can see no reason whatever for insisting on the rebate at the current rate. You are liable to be taken advantage of in every way, and you can not be if you reverse the process.

The Chairman: I do not anticipate any trouble at all and I will ask that my vote be recorded as stated.

Governor Harding: I think we should ask the Board for a ruling on that, because it is related to the discount rate, which they have to approve.

Governor Calkins: Their ruling will unquestionably be in favor of our position. They could not rule otherwise.

Mr. Case: Do you want to present that matter to the Federal Reserve Board?

Governor Harding: I do. I move that it be referred to the Federal Reserve Board for a ruling on the rebate

proposition.

Governor Fancher: I will second that.

The Chairman: What is your motion?

Governor Harding: That the question of the rate at which rebate should be allowed be referred for adjudication to the Federal Reserve Board.

The Chairman: I thought I understood you to say that that question should not be put up to the Board?

Governor Harding: I said the general question of whether they should allow rebating was a banking question and not for the board; but here is a question intimately connected with the Board's statutory authority to approve discount rates.

(Discussion followed, and Governor Harding withdrew his motion for the time being.)

The Chairman: That brings us to topic (e).

(e) Repurchase agreements in connection with rediscounted paper.

That was submitted by Richmond.

Governor Seay: I would like to refer to our experience when the stamp tax law was passed. It was intimated to us then that paper might be taken from member banks, under a repurchasing agreement in bulk, and I believe that

we were, perhaps, the first Federal reserve bank, or among the first banks to institute that practice.

We have found it has now become the practice of all city banks to discount with us in that way. It was at a time when our resources and loans were gradually expanding and, looking ahead when the time would come when we would be still further extended than we were extended, and we thought we would not have sufficient paper in proper form to enable us to rediscount. The bulk paper we had all came from the city banks in that form, and of course it was for the purpose of avoiding stamp taxes on their obligations. We think it is bad practice from a good many points of view, and one of them is this: It does not enable us to keep track of the quantity of paper we have of any one borrower, and if the Federal Reserve Board should ever rule upon the proper interpretation of the word "borrower" and should take a view contrary to the view expressed by a majority of the counsel of the banks, that the word "borrower" means the maker of the note, then I think it would be impossible for us to keep track in our liability ledgers of all paper of any one borrower that we had. We know the member banks themselves are

accustomed to taking paper from merchants and granting credit on the endorsements of those who own the paper and offer it to them; they do not keep liability ledgers to show the quantity of paper that they have of any one name. I do not see how it is possible to keep liability ledgers in a way which will keep track of the paper that will be offered if we were to accept repurchase agreements in any number, and it should come to be a general practice.

We, therefore, do not believe, under the provisions which permit member banks to borrow on fifteen day's time, on bills receivable as collateral, that we should take that paper in bulk and give a fictitious maturity to it and permit them to borrow in that way. We are opposed to the repurchase agreements.

Governor Calkins: It appears to me it is impossible, under the provisions of the law, to refuse to permit the member banks to do that. The only thing you could do is to impose a penalty in the shape of a stamp tax on the member bank's note. The law provides they shall rediscount any maturity, not exceeding fifteen days, with exactly the collateral you are talking about, and the only restrictive provision is the requirement of the stamp.

Mr. Case: And that makes the rate prohibitive.

Governor Galkins: Exactly. In other words, you are taking away by indirection a privilege granted to the member banks by the Federal Reserve Act.

The Chairman: With instruments of that character, Mr. Case, do you not require the member banks to execute their own notes?

Mr. Case: No.

The Chairman: You take them in bulk?

Mr. Case: We take them in bulk, for the period agreed upon, five, ten or fifteen days.

Governor Seay: Do they give any obligation to take them up at a specified time?

Mr. Case: Yes, they give a memorandum or letter.

Governor Seay: Have you had counsel pass on the question of whether or not that agreement to take them up at a specified time requires a revenue stamp?

Mr. Case: Yes, our counsel has passed on that.

Governor Seay: Our counsel has taken the position that it would require a revenue stamp. Has the matter been passed on, to your knowledge, by the Commissioner of Internal Revenues?

Governor Harding: I took it up informally with Mr. Roper, and he said it would not require stamps.

Mr. Case: The brokers in New York today borrow on straight loans and do that very thing.

The Chairman: I would like to inquire how many of the Federal reserve banks do make advances in the way that New York makes them, against bills receivable in bulk, without the execution of a note on the part of the borrowing bank?

Governor McKinney: We do not.

Governor Bailey: We do not.

The Chairman: We do not.

Governor Seay: We do not.

Governor Young: We rediscount and permit rebates.

The Chairman: What action do you want with regard to this topic, Governor Seay?

Governor Seay: A consensus of opinion of those here. That always has great weight with me, the consensus of opinion.

Governor Fancher: It is our policy in the centers, to take long time paper under agreement to purchase at a shorter time, within fifteen days, say, and I would say

that 60 to 65 per cent of the borrowings of those cities are done in that way. That practice has been so thoroughly established that you could not very well disturb it.

The Chairman: I have stated that we do not loan money in that way. I think I am right about that, and I do not think it should be done. I believe we insist upon taking the member banks' note when they borrow against maturities of that sort. However, Governor Seay wants an expression of opinion as to whether it is deemed advisable to continue that practice.

Governor Seay: I would like to call attention to one thing before asking for an expression of opinion on that. I think we all agree that the tendency is toward relying upon the credit of the bank and not upon the eligibility or goodness of the paper offered by the bank, because, under that plan, you won't be able to keep track of it. Does any bank assume to keep track of liability paper offered in any one day?

Governor Fancher: That is exactly what we do. We take the paper and run it through the lines absolutely; we post it out and post it in; we apply the same tests to paper offered for fifteen days that we do to that offered

for discount, because oftentimes the same paper will be offered at the end of fifteen days for discount---

Governor Seay: You pass the paper through the liability ledger?

Governor Fancher: Yes.

Governor Seay: You are quite positive of that?

Governor Fancher: Yes.

Governor Seay: Is that the practice in New York, Mr. Case?

Mr. Case: Yes.

Governor Fancher: To bring the matter to a conclusion, I move it is the sense of the Conference that advances under repurchasing agreements extend a facility to which member banks are entitled, and which they should not be precluded from using.

Mr. Case: I second that motion.

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

The Chairman: The next topic is 1 (f), interpretation of word "borrower" in Section 13 of the Federal Reserve Act.

Governor Norris. There hasn't been any opinion by the Board's counsel as yet, has there?

The Chairman: No. I do not think so.

(After discussion:)

Governor Calkins: In order to save time, I offer a motion that the Federal Reserve Board be requested to make a ruling upon this question.

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

The Chairman: The next topic is 1 (g),

(g) Desirability of making eligible for discount sight drafts with bills of lading attached.

I think that has been disposed of by the Act of Congress.

Governor Harding: That is covered by the new law.

The Chairman: If there is no action necessary on that we will pass to the next topic,

(h) Liability of Federal Reserve Banks for securities accepted for safe-keeping, where knowledge exists that they are property of someone other than member bank from whom accepted.

Governor McKinney: Dallas submitted that topic. We have had a good many bank failures in our district, and in

the course of liquidation of those banks we have developed a great many legal questions that perhaps haven't shown up in other districts more fortunate than ours. We have followed the practice of issuing trust receipts to member banks in the past for government securities, where we were on notice that the securities really belonged to customers of the member banks. We have reached the conclusion that we have some liability, possibly, and also that it is bad practice generally. We had a case some months ago where a member bank left \$80,000 worth of Liberty bonds with us; we issued a trust receipt in that particular bank's name, without anything being put on the receipt to indicate whose bonds they really were. Within our knowledge, however, an individual in Dallas had a sort of equity ⁱⁿ or claim against the bonds, the member bank withdrew the bonds and sold them, and subsequently failed. That individual now asserts a claim against us for about \$4,000, representing the difference in the price of the bonds at the time they were left with us and the time he says we unlawfully converted them.

In addition to that we have had a great many member banks ask us to keep bonds for municipalities and counties,

where they advise us at the time that they belonged to those subdivisions of the government, and, as a matter of fact, aside from the legal liability, we felt we were not called upon to perform that service, and that upon redelivery of the bonds we might incur some liability, especially in the event the bank was closed after the redelivery, we having knowledge at the time of delivery that somebody else had a right to those bonds.

We had still another case where a member bank failed and at the time the bank failed they had presumably in their own possession \$77,000 worth of Liberty bonds belonging to the city in which the bank was located. The bank failed and the city made inquiry of us whether we had ever had the bonds, and fortunately it developed we had not. Apparently their idea was if we had had them and had delivered them back to the bank, knowing their ownership was in the city they would probably have tried to have held us accountable for delivery back to the bank that was, in our knowledge, insolvent.

Our theory is that the right to deposit bonds or money with a Federal reserve bank or with a commercial bank does not necessarily carry with it the right to with-

draw, and I wanted to find out from the members of the Conference what they thought with reference to obligations of that character, where you had knowledge that the securities did not belong to the member banks offering them for safe-keeping.

The Chairman: The only way to get that information is to go around the table.

Governor Bailey: we have no such condition. no

Governor McKinney: If you are not on knowledge as to ownership you might receive some securities from member banks.

Governor Bailey: we receipt right straight to the bank, and it has never been drawn to my attention that we have had a case of that kind.

Governor Seay: We do not, with knowledge, receive no for safe keeping any securities that are not the property of the bank offering them. We do not think it is good practice, and we think it interferes with the safe deposit business of member banks, and we think it is subject to risk.

The Chairman: Does that extend to Government securities?

Governor Seay: All securities.

Governor Harding: I do not know of any case of that ^{no} sort that has ever come up in Boston, certainly not within the last sixty days. If it should, we would either decline to receive them, or we would issue a receipt under which the parties at interest would have to agree to the surrender.

Governor Fancher: I do not recall such a situa- ^{no} tion arising in the Bank of Cleveland.

Governor Biggs: I do not recall that we have had ^{no} any. If we did have any we would refuse to take them. We are not situated to take them. We haven't the vault space.

Governor Calkins: I do not recall any such instance, ^{no} but I think it is safe to say if securities were offered to us with information that they were not the property of the bank offering them, we would decline to accept them; but if we have not that information we are not chargeable with liability.

Governor Norris: We only extend the safe keeping to ^{no} securities owned by the member bank depositor. If we knew that anybody else owned them, we would decline to accept

them. Since this question was put on the program by Dallas, I directed that there be added to the form of receipt that we give for securities the words "which are the property of this bank".

Governor Young: We accept securities for safe keep-
ing from member banks only, but I am satisfied a great
number of those belong to customers of the banks. I
never had this question brought up before. 700

Governor McKinney: In those cases you would not be
on notice of somebody else's ownership?

Governor Young: Oh, yes, I think we are on notice.
That arises in this way. Minneapolis and St. Paul are
full of a lot of hold-up men; bank robberies are common
out there; the banks in the country have small safes
that do not amount to very much and can be easily broken
into, and we have simply done it to help protect our member
banks. In addition to that we have banks deposit Govern-
ment securities with us for state treasurers and township
treasurers, and things of that sort, and that receipt goes
right to the state treasurer.

Governor McKinney: Do you think that is a service
you are authorized to perform?

Governor Young: I do not know whether it is or not, but it is a condition out there that is a pretty bad thing. We may be wrong about it, but the question never came to me before. We have experienced no difficulty with it so far. We consulted our attorney about it. I do not know of anything in the law that would prohibit us from accepting that stuff. For instance, we took the other day---I do not know who it belonged to--- \$80,000, of the money that was stolen at the Denver Mint. That is in our bank now.

Governor Bailey: No, we have it.

Governor Young: Oh, it has been sent down to you?

Governor Bailey: Yes.

Governor Young: At any rate, the Secret Service men came in; they had to deposit the money somewhere. They wanted to keep those bills to use them as evidence, and we took the money for safe-keeping, giving the Chief of Detectives in St. Paul a receipt for it, subject to his order.

Governor Seay: That was a special case, of course.

Governor Young: Yes.

Mr. Case: We would not think of taking securities from member banks where they are the property of their

no

customers.

I have here a long legal opinion from our counsel upon it; I won't read it, but he makes the point that where the bank is a gratuitous bailee its responsibility runs only for gross negligence; where it receives compensation it is responsible for ordinary negligence. Then he goes on to say that it would seem the Federal reserve bank has the right to receive property of that kind in trust for member banks for their customers, without any obligation to inquire as to the terms of the trust. Of course, if the member bank violated the terms of the trust and the Federal reserve bank had knowledge of such violation, or if the bank profited in any way for such violation, it would be liable, but otherwise it appears not.

Mr. Adleson: We do not knowingly accept securities that belong to any one else.

Governor Harding: If Governor McKinney would have his counsel look up the Alabama Reports I think he would find that about ten years ago a case was tried by the Supreme Court of Alabama which involved some of the principles that he has laid down. It seems there was a bank

that received for safe keeping from a customer certain securities. That bank turned over for safe-keeping to another bank and told the bank to take good care of them, that they were not theirs, and although they put that bank on notice, they did not reveal the name of the customer. However, they did have notice that they didn't belong to the bank from which they received them. Then, later on, the small bank went back to the larger bank and asked for the securities, stating that the customer wanted them, and they were surrendered. Still the larger bank did not know the name of the customer. Then it turned out that the small bank made improper use of those securities and the owner of them brought suit against the larger bank and the courts, all the way through, took the position that the owner of the securities was not damaged by the larger bank, because he, himself, had picked out the smaller bank as the custodian of his securities, that the smaller bank had put the securities with the larger bank and that after the smaller bank received them back, so far as the owner was concerned he was exactly in the same position as though those securities had been locked up in the vaults of the smaller bank all the time.

Governor Bailey: I would like to ask whether it is customary for the Federal reserve banks to take any kind of security from the member bank. We have confined ourselves absolutely to Government bonds and municipal bonds lately. We are not taking any other kind.

Governor Seay: There was a time when we came into possession of securities, put up as collateral by a member bank for Government deposits, and when those deposits were paid off we were left with many of these securities on hand, and have continued to hold a number of them. We do not, however, invite promiscuous securities. We have it understood that we will accept government securities, and if there are others occasionally sent to us, we do not decline them or send them back.

Governor Young: We take anything.

The Chairman: I would like to have the Governors indicate by vote those banks which take securities other than Government securities.

(The count indicated that eight Governors voted in the affirmative.)

Governor Calkins: We came into possession of everything by reason of the fact that the banks deposited all

sorts of securities for Government deposits, and we took them and held them.

Governor Morris: Could you take them, now, anyhow?

Governor Calkins: No sir.

Governor Bailey: We advertise that we will take Government and municipal bonds, but that is as far as we go.

The Chairman: In Chicago we take negotiable securities owned by the banks. We take a signed certificate to the effect that they are owned by the banks, and we have recently issued a bulletin which contains the provision that the Chicago bank will be responsible only for the same diligence that it would use in caring for its own property.

(after further discussion:)

Mr. McKinney, do you wish any action on this subject?

Governor McKinney: I think not, Mr. Chairman.

The Chairman: Then we will pass to the next one.

Governor Case: Before passing to the next topic, there is one matter that may be of interest to the Governors. Down in New York we do hold miscellaneous securities for member banks. We recently, after very careful con-

sideration, have declined to execute orders for member banks for the purchase or sale of stocks. We have absolutely discontinued that practice. We buy or sell for them Liberty bonds or municipal bonds, such as are eligible for collateral, either for loans or in the War Loan deposit account, but we will not execute orders for the purchase or sale of stock. We have discontinued that. We have found that we will be asked to execute an order to buy or sell a thousand shares of Maricopa oil, let us say, and the person for whom we did it would say, "Why, the Federal reserve bank is the purchaser of this," and so we got out of it.

The Chairman: That question was discussed here at length some time ago, and I think it developed that the banks, generally, were not doing anything of that sort.

Governor Norris: I would like to ask Mr. Case if he refuses to accept orders for the purchase or sale of bonds?

Mr. Case: No--- I said Liberty bonds and municipal bonds, but I am wrong about that, but we do not execute orders for stock.

Governor Norris: We will execute an order for the

purchase or sale of any security that a bank would be likely to invest its own funds in, but we do not accept orders for stock or speculative bonds.

The Chairman: The next topic is (i),

(i) Importance of New York Call
Loan Market.

Mr. Case: I think that was touched upon this morning during the discussion of the credit policy. I do just want to point out that today the call loan market employs two billion dollars of money, one billion of which comes from banks located in the other eleven Federal reserve districts. I am not holding a brief for Wall Street, but I do feel, and have felt at times, that there was a misunderstanding about the importance and desirability of the call loan market. When we stop to consider that during the past three years, during the period of so-called liquidation, there has been a tremendous amount of refunding, so that the liquid securities have gone up from 21 billion to 25 billion dollars, we must keep in mind that that is a very important machine for melting down, if you please, frozen loans, and it is merely that we should all have a sympathetic understanding of the importance of the call loan market and not pursue drastic methods if presently we

get into a little blow and the demand for credit increases, because if it isn't treated in a reasonable way, it can cause quite a flurry in the financial centers.

Governor Bailey: I think most of the call money in our section of the country is lent therebecause it is the best market, and to maintain an equilibrium and to be used as a convenience.

The Chairman: The call money market dominates the open market rate for money. I remember a long while ago a committee was appointed charged with the responsibility of investigating the feasibility of doing away with the call money market and establishing in its place something else.

Mr. Case: That was referred to the Warburg American Acceptance Council, and they never made a report. The fact of the matter is that it is a very hard nut to crack.

(Discussion followed on this subject.)

The Chairman: Let us proceed to the consideration of our next topic,

- (j) Credit statements of holding corporations. Should statements of subsidiary companies be required by Federal reserve banks?

Governor Seay: I would like to read a memorandum

which was prepared in our bank on this matter, which is as follows:

"From time to time during the last few years our Credit Department has had^a more or less embarrassing situation with reference to the paper of certain corporations arising out of the fact that the statement of the borrowing corporation did not disclose the true assets and liabilities of the corporation but was made up by combining its assets and liabilities with the assets and liabilities of one or more independently chartered corporations known as subsidiary companies. In some cases the information is given that the parent owns all of the stock of the subsidiaries. In other cases, it has only a partial ownership.

Under these circumstances, it is manifest that the borrowing corporation may be purely a finance corporation, with no liquid assets of its own, while the subsidiary corporations may hold a sufficient amount of liquid assets to make the consolidated statement reflect a satisfactory excess of quick assets over current liabilities. Since each corporation is acting under its own charter, they are independent persons before the law, and the assets of

one of the subsidiary companies could not be held in all cases for the debts of the borrowing corporation. Moreover, when the parent corporation is doing all of the borrowing and for the purpose of making advances to subsidiary corporations, you cannot escape the conviction that the paper of the ~~subsidiary~~ parent corporation comes under the following description quoted from Regulation A of the Federal Reserve Board defining eligibility: "It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used * * * * for the purpose of lending to some other borrower."

In addition to this consideration there are, in our opinion, many objections from a credit standpoint. Suppose the parent corporation has borrowed a considerable sum for the purpose of lending to subsidiaries B, C and D, while subsidiary A owns the quick assets which give proper color to the consolidated statement. What could prevent the parent corporation from borrowing additional sums and pledging as collateral the capital stock of subsidiary A? This, if done, would, upon receivership give a preferred claim to the second class of lenders and deprive the first class of all the security which they had

relied on in lending to the parent corporation on the consolidated statement.

In January, 1919, Governor Harding of the Federal Reserve Board addressed a letter to Mr. Treman, Deputy Governor of the Federal Reserve Bank of New York, in which this subject was reviewed and in which Governor Harding wrote:

"From time to time the attention of the Board has been called to the present custom of a number of large corporations of submitting to banks for use as a basis of credit, financial statements with or without an Auditor's Certificate, showing the condition of the parent or principal corporation only, without reference to the inter-corporation accounts or bank loans and other indebtedness of its subsidiary corporations.

"Such statements are incomplete, and if credit grantors are to be fully advised, the Board believes that the information submitted should include a consolidated statement of parent and all subsidiary corporations in addition to separate statements for each subsidiary company."

While the problem was approached in the letter quoted

from a different angle, it is perfectly clear that the Board expressed the opinion that the Federal reserve bank was entitled to have, and in fact should have, not only the consolidated statement but separate statements of the subsidiary corporations. In our opinion the Federal reserve bank should undoubtedly have at least the separate statement of the borrowing corporation showing its assets and liabilities, and showing also its stock holdings in other or subsidiary corporations as stock investments.

We have had a number of experiences during the last few years, in which an insistence upon complete information has caused us to change materially our attitude toward paper offered, upon presentation of the complete information, and we are inclined to the opinion that Federal reserve banks should refuse to rediscount paper

if after a reasonable time has been allowed in each case, proper information which will enable the bank to determine the eligibility of paper offered and its acceptability from a credit standpoint is refused.

Seven years ago our credit files contained very few borrowers' statements of any description. There was a very general feeling at the time that satisfactory informa-

tion could not be obtained in anything like the majority of cases, and the banks would be seriously embarrassed if they were required to ask borrowers for statements to be submitted to the Federal reserve bank. While our policy of requiring statements was developed gradually and diplomatically, it was nevertheless developed with firmness. In the case of any given bank, when we felt that sufficient notice had been given and sufficient time allowed in which the bank could procure borrowers' statements, we began declining to take the paper unless accompanied by satisfactory credit information. As a result, we have in our files today something like twelve or fifteen thousand borrowers' statements, many of which reflect conditions year after year for several years.

We have had cases involving consolidated statements in which the parent corporation, upon our refusing to accept their paper without satisfactory information, has furnished us directly and confidentially with all necessary information.

It is true that other Federal reserve banks are asking for complete information in many cases. Nevertheless they are taking paper of a number of corporations having

subsidiary companies in spite of the flat refusal of the corporation to give proper information. It has been urged in this connection that the Robert Morris Associates is engaged in educational work along this line, which it is hoped will eventually result in a change of heart on the part of some of the larger corporations. How can we expect the Robert Morris Associates by expressions of opinion to fight our battle for us when we clearly have more power in a day to accomplish our legitimate object than they could expect to exert in years? The demand for complete information before advancing money on the paper of any particular borrower is thoroughly reasonable, provided, of course, the borrower is given reasonable time in which to collect and furnish the information. Failure to require it under reasonable conditions in any particular case makes it exceedingly difficult to obtain it in other cases, and the known practice of one or more Federal reserve banks of first asking for information and then acting without it must of necessity put other Federal reserve banks in a very embarrassing position, not only with reference to cases in which the paper involved circulates in several reserve districts at the same time but also with reference to cases confined to single reserve

districts.

We think it would be a step towards a very desirable end if the Federal Reserve System would take the position that when a corporation of that character, which offers its paper over the country generally, offers paper to the Federal reserve banks, that the banks should require from that corporation a statement with regard to its subsidiaries. In the case of Armour & Company, whose last statement indicated what the situation would be after consolidation was accomplished, shows that it is impossible for us to take the paper of that corporation except upon the general theory of its high standing, and so forth, and know what you are doing, unless you get the statements of the subsidiary corporations.

Inasmuch as we require very complete credit information from other smaller borrowers, I do not see why we should not take the position that the Federal Reserve System should require in the case of either large or small corporations, whose paper is offered to it for discount, credit statements which will enable the bank to have a comprehensive view of the financial situation of the company, and you cannot get that view, in the case of holding

corporations, without statements of their subsidiary companies. Because a company is large and has high credit we do not think a sufficient reason for making it an exception, and we should like to see, if there is any unanimity of opinion or vision taken by the Federal reserve banks, that such statements as they see fit to call for in order to perfect their credit information, should either be furnished by the corporations which are asked for them, or that it be given out that such paper is not otherwise acceptable.

Mr. Case: In New York it is our practice, and I am reading from a memorandum furnished by our loan department, when the facts clearly demonstrate that the borrower is purely a holding company, not engaged in direct operations, its subsidiaries being the actual operating companies, to decline such paper on the ground that it is ^{not} issued for business purposes and therefore is not eligible for rediscount. I think it is very desirable to pursue the course you suggest and have complete statements, not only of the parent but of the subsidiary company as well. I do think, however, if you are going to follow that practice, for instance in the case of Armour & Company, that you men-

tion, that we would have to put forward the date after which you would not discount such paper. In other words I do not think you could say arbitrarily that we would not take any more Armour paper until we had a statement in accordance with your views, but that on and after January 1st we will not discount the paper of any large concern, with three or four subsidiaries, without having a complete statement of the subsidiaries.

Governor Seay: I hold that identical opinion, and discussed that very point, and to make a local application, in the case of the Virginia-Carolina Chemical Company, we made a demand a few years ago on them and they at first declined to accede to it, and we simply advised them that the paper would not be acceptable. We told them that if they so elected they might give us those statements in confidence, and they decided to give us the statements. We were unable to get such complete information as we desired to enable us to absolutely determine on the eligibility of the paper that was offered to us until we got the statements; we insisted upon them and got them.

Governor Bailey: We have a great many lumber companies that have fifteen or twenty plants

and we have insisted on the subsidiaries filing statements with the parent company.

Governor Seay: We do know generally that during the war the acceptance business was very much abused by meat packing corporations.

Governor Calkins: And others.

(After further discussion:)

Governor Norris: It seems to me it would be best to let a committee be appointed to frame a recommendation on the subject, to define it a little more accurately and state what would be required. A report should be made to the conference later, and adopted.

Governor Calkins: We have never hesitated to demand information which we thought was necessary to enable us to determine the acceptability of any paper.

The Chairman: As I understand Governor Norris' motion it was that a committee be appointed to formulate this in definite terms and submit a recommendation to this conference for adoption. Is that your pleasure, or do you desire to further discuss the motion.

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

The Chairman: The Chair will appoint on that com-

Mr. Norris
mittee/Mr. Calkins and Mr. Fancher. (3)

I understand Mr. Gilbert has signified his desire to come into the conference, and until he gets here we may proceed with Section 2 of the program.

II. Collections and Clearances.

(a) Report of Standing Committee on Collections.

The Chairman: Before taking that up, however, I would like to state, in the interest of uniformity, that Chicago will reverse its vote with regard to the matter of rebating. Without going into detail, there was a very good reason at the time that rule was put into effect, and I think there is good reason yet, but there is no need to go into a discussion of the matter. That leaves it eleven to one, as I understand it.

Governor Biggs: I will be very glad to reverse my vote also, Mr. Chairman.

The Chairman: That makes it a unanimous vote.

Now, we will ask the Secretary, Mr. Barrows, to point out the salient points in this Collection Committee's report.

Mr. Barrows: Mr. Strater, in his letter transmitting the report, states that in his opinion the report is

such that it cannot be approved and adopted as a whole by the Conference of Governors, that many of the points covered do not carry with them a recommendation regarding the course to be followed; that the really vital part of the report is contained in the first few pages, where he points out that eight of the Federal reserve banks have adopted circulars embodying the identical wording as recommended; that is, Boston, New York, Philadelphia, Cleveland, Chicago, St. Louis, Kansas City and San Francisco, and that the Federal reserve banks of Richmond and Atlanta have signified their intention of issuing new circulars at an early date, embodying therein the recommendations of the committee as approved. The report of the committee is:

"To the Conference of Governors:

In the report of the Standing Committee on Collections made to the Conference of Governors, held on October 10, 1922, it was recommended that each Federal reserve bank issue new check collection and non-cash collection circulars, in which certain portions or paragraphs should be used with identical wording, in order that certain very important conditions necessary to the circulars of all of the banks might be uniform and identical. The report of the

Committee was approved by the Conference with the proviso that each Governor might discuss with the Chairman of this Committee the propriety of making slight changes or suggest possible amendments thereto for current consideration by this Committee. The following eight banks have since issued new circulars embodying, in identical wording as recommended, the various portions or paragraphs which in the opinion of your Committee should be uniform:

Boston	Chicago
New York	St. Louis
Philadelphia	Kansas City
Cleveland	San Francisco.

The Federal Reserve Banks of Richmond and Atlanta have signified their intention of issuing new circulars at an early date embodying therein the recommendations as approved by the Conference of Governors.

"Several changes or additions have been suggested by the Federal Reserve Banks of Minneapolis and Dallas. These changes or additions affect only the paragraphs defining general conditions under which Federal reserve banks will receive checks and non-cash collection items from their member banks and from other Federal reserve banks and branches

or direct sending banks of other districts. The Committee has given the suggested changes or additions very careful thought and is of the opinion, as stated in its previous report, that the paragraphs defining general conditions should state as clearly as possible, in a general way, the liability of the Federal reserve banks. It is apparent that the changes or additions are suggested in an effort to provide protection in the event of possible future complications, but your Committee is of the opinion that such a contingency is already covered in the uniform paragraph in general terms. Your Committee has recognized from the outset that a paragraph to be uniform and acceptable to all Federal reserve banks could not be phrased to cover particular cases or temporary conditions peculiar to a district but must be in general terms to be susceptible of interpretation as covering all conditions.

"The Federal Reserve Bank of Minneapolis has indicated its willingness to adopt, for use in its check collection circular, the uniform liability paragraph suggested by the Committee, but desires also to insert in its circular under the heading, "Items Received", a clause intended to eliminate liability in certain specific cases. This clause, which the Committee believes is in effect no more

than an amplification of the uniform general liability paragraph is as follows:

"The practical way of collecting checks not drawn on banks in Minneapolis or St. Paul is to forward them direct to the drawee banks. As exigencies may arise making this inadvisable, this bank reserves the right on receipt of any check to so advise the sending bank by wire, to hold the check for special instructions, and thenceforth, at the risk of the owner, handle the check in accordance with instructions received."

"As explained to the Committee by a representative of the Minneapolis reserve bank, this addition is proposed in order to meet a condition which is more difficult to handle in that district than it is in certain other districts. The Committee, notwithstanding the conditions as explained to it, is unanimously of the opinion that if the Minneapolis reserve bank, knowing these conditions, takes this precaution to protect its endorsers, it is certainly exercising due diligence and care, as provided in the uniform paragraph recommended by this Committee, and that particular reference to specific cases would only tend to weaken the uniform liability paragraph.

"The Federal Reserve Bank of Dallas proposes to insert in the liability paragraph of its check collection circular, the following addition:

"That the Federal reserve banks will not be held liable for the acts or omissions of any other banks or collectors to which such checks or other cash items may be transmitted as herein provided or for the loss in transmission." and in the liability paragraph of its non-cash collection circular the following addition:

"That the Federal reserve banks will not be held liable for the acts or omissions of any other banks or collectors to which such non-cash collection items may be transmitted as herein provided, or for loss in transmission, either of the items themselves or documents attached thereto."

"The Federal Reserve Bank of Dallas states that the addition of this language is desirable because it formed the basis for a decision by the Supreme Court of Texas in favor of a commercial bank which used this language in outlining the terms and conditions under which it received checks.

"As stated previously in this report, paragraphs to be uniform and acceptable to all Federal reserve banks could

not be phrased to meet particular cases or conditions and the Committee is of the opinion that the uniform liability paragraphs, as approved, afford the Dallas reserve bank ample protection, since the bank only agrees to exercise due diligence and care on its part and consequently cannot be held responsible for the acts or omissions of others or for loss in transmission.

"The last report of the Standing Committee on Collections recommended form letters to be exchanged between Federal reserve banks on the subject of direct routing of checks and non-cash collection items by their member banks. This letter provided that each Federal reserve bank would be authorized by the other Federal reserve banks to receive and handle checks and non-cash collection items from member banks or non-member clearing banks of other districts in all respects in the same manner and subject to the same terms and conditions that are prescribed by the receiving Federal reserve bank from time to time for the handling of items forwarded to it by other Federal reserve banks or by its own member banks. On the other hand, the circulars issued by each Federal reserve bank prescribe the terms and conditions under which it will receive items from its member banks. The recommendation of the Committee, therefore,

that these letters be exchanged was predicated upon the absolute uniformity of the liability paragraphs recommended in the Committee's report and the Committee is unanimously of the opinion that unless these paragraphs are uniformly used in all of the Federal reserve banks, with identical wording, there is great possibility of confusion, by reason of the fact that the terms and conditions applicable between a Federal reserve bank and its members will vary from the terms and conditions applicable between its members and other Federal reserve banks, and under such conditions no Federal reserve bank could say to its member banks in its liability paragraphs that "every bank sending items to us or to another Federal reserve bank for our account will be understood to have agreed to the terms and conditions of this circular." It can be plainly seen that, if the Federal Reserve Banks of Minneapolis and Dallas insist upon the changes or additions which they propose, the other Federal reserve banks will be compelled to alter and revise their circulars, eight of which, as stated before, have already been issued embodying the uniform paragraphs suggested by the Committee. The Committee also thinks it is probable that if the essential uniformity does not exist,

some of the reserve banks may feel it necessary to withdraw the letters, which they have already sent out, giving blanket guarantee of endorsement on all items forwarded direct by their member banks to other Federal reserve banks. The letters referred to have already been sent out by all of the reserve banks except Minneapolis.

"The Committee is strongly of the opinion that, in order to obtain the necessary uniformity, each Federal reserve bank, which has not already done so, should adopt all of the uniform paragraphs approved at the last Conference of Governors, at least until such a time as it seems advisable to issue new circulars on these two subjects, when any changes that experience might prove to be desirable and susceptible of being adopted by all the Federal reserve banks could be made. It seems to the Committee to be unnecessary to point out to the Conference of Governors that, in the event any reserve bank issued circulars embodying any wording which may possibly be construed as a variation from the identical language which has already been used by eight of the banks and which two other banks have signified their intention of using, the long desired uniformity of regulation and procedure between Federal reserve banks will

become impossible of achievement."

Mr. Case: This is a very long report, but it is a very important one, and it develops that ten of the banks are of one mind with regard to the circular. We have just had a beautiful illustration of uniformity, and I am wondering if the other two banks would not be willing to join with the ten banks for the sake of uniformity, and if, later on, the practice should prove, say within the next six months, that it would be necessary to revise the circular, that could be brought up, and it could be amended. I think it would be certainly most desirable if we could have a uniform circular at this time.

The Chairman: If Dallas is willing to accede to the judgment of the Committee on that one point, to the effect that Dallas is afforded all the protection that it seeks, then Dallas would be on the right side, but I understand from Governor Young that there were some things concerning which he wanted to express himself.

Governor McKinney: As the report of the committee indicates, the language embodied in our addition is language construed by the Supreme Court of Texas and was used on a cash letter that was construed by the Supreme Court of

Texas, and, knowing that both judges and lawyers do not always exactly understand the technical details of banking, we thought it was very desirable to get what the lawyers sometimes call a "horse case" on them--- in other words, this language has been approved by the Supreme Court of Texas, and we thought if we had it in our circular we would go a long ways toward getting our circular in satisfactory shape. However, we are just as much impressed with the necessity and desirability for uniformity as the rest of you, so we have determined to waive this addition and go along with the rest of the banks.

Governor Beay: I would like to say, supplementing what Mr. Case said, that this is one of the most perplexing things to handle that this Conference has ever had to consider. It has been pending for two years, and I believe that all the Federal reserve banks have been compelled to give and take in order to get it into this present shape. I know that we have surrendered some of our views and opinions. The opinion to which Governor McKinney refers was laid before our counsel, and he considered it and advised us that notwithstanding the decision of the State Court, he was, nevertheless, of the opinion that you would be suffi-

ciently protected. I do not know of any subject on which there is as great necessity for uniformity as there is on this collection subject. We can accept that report in statu quo, and then, as Governor Case has said, if conditions arise subsequently which make it necessary, amend it by a subsequent Conference; but unless we start with something we will have expended on nothing a great deal of labor.

Governor Young: We have agreed on this report, practically on everything, but this is one clause that we do not like to give in on. [The report of the committee is either right or wrong.] If it is wrong and does not protect Minneapolis in the proper way, we should not have that uniform circular, and there can be no question about that. We have employed the best legal talent of the Northwest; we have some \$96,000 worth of items now, and it is a question whether we should pay them or not. We have already settled with regard to \$20,000 of them, paid the money. There are conditions in our district that apparently you people do not realize and do not understand. Every day there is laid upon my desk a list of the banks that are a day or more late in their remittances to us, and that will run to approximately 1200 banks every day, that are from one

to ten days later. With the Helena Branch it runs up to 200. In Minneapolis it involves \$1,500,000, and in Montana about \$400,000. Our banks is willing to take that chance, so long as we can, and to try to work that situation out; but in the State of South Dakota right at the moment, those banks are being held up by the State Department. I do not know when they are going to get to the end of their resources, but they are at some time, and in all probability we will have first notice of it, and we do not propose to send checks out to a bank that we know cannot pay the checks, because we feel that we are not exercising due care and diligence in cases of that kind. We cannot send those checks out there. The War Finance Corporation refused to send notes out to them, and the Twin City Banks refused to send notes to them. [The best legal talent we can employ says that this gives us all protection, this liability clause that we want to add, and we ought to either use that or discharge the attorney.] [This is simply the opinion of collection men in the Federal reserve banks.] [I may be wrong.] [It centers right down to a legal question, and I believe that before this report is approved, it ought to be referred to the counsel of the Federal Reserve Board to

find out whether the Federal Reserve Bank of Minneapolis is right, or whether it is wrong.] Our people are satisfied that they are going to lose some money, but there has to be a limit to the amount of money to be lost under those conditions.

Governor Seay: We have a great many similar cases, which are exceptions, and we are willing to take whatever risk may be involved. It may be that you are right legally and technically. We know that we will have to do the same thing, nevertheless, when we do that thing we are willing to take the risk involved, because we do not believe it is going to amount to anything practically.

Governor Young: Have you paid any checks yet?

Governor Seay: No, we have not.

[Mr. Case: As I understand it, Governor Young is willing to go along with the rest of the Governors on this report, subject to approval of counsel for the Federal Reserve Board that Minneapolis is protected.]

Governor Young: [No, I will not do that.]

Mr. Case: I thought you said you would do that.

The Chairman: The clause that you want to insert, Governor Young, according to the judgment of the committee--

I think they express it in this way--- is apparently nothing more than what they call an amplification; it does not strengthen the thing in any way.

Governor Beay: As far as this being only the report of collection men of the Federal reserve banks is concerned, I think it is a good deal more. I know one of the officers of our bank was on the committee which prepared it, and I know he consulted with the superior officers of the bank, and I know they consulted counsel of the bank, and I know that probably the same course was taken in other Federal reserve banks. Therefore, I believe it is more than an expression of opinion of the Collection men of the banks. We recognize that in some of the exceptions, to which Governor Young has alluded, there may be risks on the part of the Federal reserve banks, but we do not shrink from taking that risk.

Governor Young: Minneapolis has not been negligent in this. [Over a year ago I took this up with Mr. Harrison and he agreed that our suggestions were all right to put in that circular.] Still nothing was done by the committee. It went on from one meeting to another until we were forced to an issue on it. I had to ask permission of this colle c-

tion committee to permit our man to appear before them.

[I think this is a legal question, and I do not know anything about it.]

Governor McKinney: Does your circular embody this language---

Governor Young: Yes. We got tired of waiting for the other banks to get up a uniform circular and we put out our own, the same as New York did.

Governor McKinney: On the question of diligence, the sending of a wire back to the sending bank might involve some delay, might it not?

Governor Young: I do not think so, if it is done the same day.

Governor Calkins: Governor Young's position, as I understand it, is this--- and I might say that an informal conference was held on the train coming from Chicago to Washington, of which Governor McDougal was chairman--- that by inserting the clause proposed by the Minneapolis Bank it will be protected to a greater extent than it is by the clause contained in the uniform circular proposed by the committee. [That is a legal question, he says, and

while it might be submitted to the counsel for the Federal Reserve Board to render an opinion on it, that would be only one more opinion. Other counsel might render a contrary opinion. There is no means of ascertaining until that question is adjudicated, and so I think we should take up the question in this conference of whether the clause that Governor Young wishes to insert ^{or does} does not offer him any more protection than the other one. It does not get us anywhere to say it is a legal matter. It is also a question of policy and judgment, and not necessarily only a legal matter.

Governor Seay: Another point is that already eight of the Federal reserve banks have issued circulars of a uniform nature, and the desirability of having all of the circulars precisely uniform is a very strong one and a very justifiable one.

Governor Calkins: I have due regard for the opinions of counsel, but sometimes I think practical men are quite as competent to give opinions on subjects of this kind as are the legal men.

Governor Harding: Does your counsel understand the proposition thoroughly, Governor Young?

Governor Young: You mean our counsel in Minneapolis?

Governor Harding: Yes.

Governor Young: We have had cases in which he has considered the arguments of the other side and told us to settle. Take the case of a member bank that we have every reason to believe--- in fact we know--- is insolvent; the bank should be closed, and there is a possibility of a 100 per cent assessment or action by the directors to get money in, which takes time. Any action taken by us under those conditions precipitates the closing of the bank when it might be a good thing to keep the bank open.

(After further discussion:)

The Chairman: In order to get down to something concrete, I am going to ask the Secretary to read the paragraph in the so-called uniform circular, and also to read the paragraph which Governor Young would like to substitute.

Governor Young: Not substitute, but put in in addition.

(The Secretary thereupon read the two clauses.)

Governor Young: As I say, I am not prepared to discuss this legal question. That is what our counsel tells us to do, and I am quite willing to drop the whole subject and

have our counsel put up his argument in writing to the other counsel, and have it determined who is right. If our counsel is right, then that ought to go into the uniform circular.

The Chairman: As I understand the situation we are eleven to one on it, and it doesn't seem that we are going to be able to reconcile the matter. What is your pleasure?

Mr. Case: Mr. Chairman, I move that the matter be referred back to the committee with instructions to take the matter up with Governor Young's counsel and see if they cannot come to some agreement or have him agree to the uniform circular which has been approved by the other eleven banks.

The Chairman: I am afraid that will not suit Governor Young.

Governor Young: Yes, it will.

The Chairman: Then, if there is no objection on the part of the Conference, that course will be taken.

There are other topics in this report which I will ask the secretary to point out.

Mr. Barrows: The next heading is "Liability of Federal reserve banks in making unqualified endorsements on checks

received for collection.

"This topic was submitted to the last Conference of Governors by the Federal Reserve Bank of Dallas and by the Conference submitted to the Standing Committee on Collections. The Committee has received from Governor McKinney a letter setting forth his views in connection with the topic, and, the Committee has given the matter careful consideration. The principal point brought out by Governor McKinney in his communication is that the phrase guaranteeing prior endorsement used by the Federal reserve banks in their endorsement is ultra vires under Regulation J of Series of 1920, issued by the Federal Reserve Board, which reads, in part, as follows:

"In handling items for member and non-member clearing banks, a Federal reserve bank will act as agent only. The Board will require that each member and non-member clearing bank authorize its Federal reserve bank to send checks for collection to banks on which checks are drawn, and except for negligence such Federal reserve bank will assume no liability."

"There appears to be some question as to the application of the above-quoted section of Regulation J. Was it in-

tended to prevent a Federal reserve bank from assuming the liability of a guarantor of endorsements as between itself and the paying bank? If intended to prohibit the guaranty of endorsements to the paying banks, it appears doubtful as to whether or not the provisions of the regulation would be held binding upon non-member banks which have no occasion to examine the regulations of the Federal Reserve Board or the circular letters of instruction issued by the Federal reserve banks.

The Committee is of the opinion that the point raised by Governor McKinney is a legal one and that it should, therefore, be referred to the Counsel of the Federal Reserve Board for an opinion.

In order to place before the Conference of Governors the practical problems involved in the possible elimination of the guaranty from the endorsement of Federal reserve banks, the Committee desires to submit the following:

1. Although at the last Conference of Governors it developed that several of the banks were not using the guaranty of prior endorsements, the Committee is now advised that the guaranty is being used uniformly by each of the several Federal reserve banks. Therefore, as a matter of

practice the use of the guaranty is now uniform.

2. The guaranty of prior endorsements is in use by the large majority of banks in the United States and in some cases its use is required under clearing house regulations.

3. If the guaranty were omitted from the endorsement of Federal reserve banks, it is extremely likely that the prompt and expeditious collection of checks would be seriously interfered with, since in many cases the paying banks know nothing of preceding bank endorsers which are often located in obscure sections. The paying bank would therefore hesitate to rely upon an unknown endorser for protection in case it should later develop that a previous endorsement was a forgery.

4. If the Federal reserve banks should be successful in evading liability on such guaranty, the Federal Reserve System will probably be subjected to serious criticism and the impression would be created among both member and non-member banks that the position taken by the Federal reserve banks was technical and unfair.

The Committee believes that the point raised by Governor McKinney is a very important one and that immediate action should be taken to clarify the situation.

If, as contended by Governor McKinney, the Federal reserve banks, under Regulation J of the Federal Reserve Board, have no right to guarantee prior endorsements, the guaranty should either be abandoned completely or the Federal Reserve Board by revision of Regulation J should expressly sanction the guaranty by Federal reserve banks in their own behalf."

(After discussion of this section of the report, the following occurred:)

Governor Norris: I move that this Conference unanimously agree upon the form of uniform endorsement recommended by the Committee, and that its action be communicated to the Federal Reserve Board in order that the Board may make any changes that it might consider necessary in Regulation J.

Governor McKinney: I will second that motion.

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

Mr. Barrows: The next subject in the report is headed: "In advising payment or non-payment by wire on cash or collection items, should the telegram show all wire charges?"

"This question was submitted to the Committee by the

Federal Reserve Bank of San Francisco and evidently arises out of a desire on the part of that bank to be in a position to credit member banks with the proceeds of collection items, less all deductions, so that no further claim for expense need be made.

"The San Francisco reserve bank refers to a recommendation made at a Transit Conference held in Cleveland on June 23, 1919, and approved by the Federal Reserve Board, which reads as follows:

"That definite advice of payment of a collection item from a Federal reserve bank or branch closes the incident so far as exchange is concerned."

"This recommendation was adopted as a practice by all of the Federal reserve banks, in order that there might be no possibility of a collection item being credited at par and followed by a charge for exchange at a later date and was not intended to include telegraph charges, as at that time these charges were being absorbed by the Federal reserve banks.

"The Committee is of the opinion that it would be impractical to include a memorandum of the telegraph charges incurred in all telegrams advising payment. To do so would probably result in unnecessarily delaying the dis-

patch of the telegram and in some cases might result in the collecting bank absorbing charges of which they were not aware at the time the telegram was sent. Furthermore, it is the understanding as a result of custom that the payment of a collection item is subject to further deductions for cost of handling which in the majority of cases consist of the cost of telegrams. This being the case, the Committee believes that member banks will not protest against a subsequent charge for such costs."

Governor Jalkins: I move that we adopt the Committee's recommendation, which is that such advice by wire should not include charges incurred in the telegram.

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

Mr. Barrows: The next subject in the report is "Uniform method of handling demand and time certificates of deposit, drafts with passbook attached and drafts on Railroad Companies."

"The Committee was also asked by the Federal Reserve Banks of St. Louis and Kansas City to consider the varying practices which now exist with respect to the handling of certificates of deposit, both demand and time, drafts on railroad companies, and drafts with passbook attached.

"It appears from a summary of replies to letters sent out by the above-mentioned banks that in some cases these items will be handled as non-cash collections only, and in other cases, they will be received and handled as cash items in exactly the same way as checks are received.

"The Committee in considering this matter has had in mind that the Federal Reserve Board has defined the word, 'check' as applying only to demand drafts drawn upon banks by their customers or correspondents and that the Board has ruled that under this definition certificates of deposit may be handled as collection items.

"In many districts certificates of deposit circulate as freely as checks and the paying banks prefer to receive them in their regular cash letters. The Committee believes that any variation in this practice in those districts would result in adding an unnecessary burden to the non-cash collection departments of the Federal reserve banks, as well as in annoyance to the paying banks. It is also true in many districts that drafts on railroad companies are payable through the local clearing houses and circulate quite as freely as bank checks. It is undoubtedly true that in the districts where this practice prevails the elim-

ination of railroad drafts from the class of items which will be handled as cash would make their collection much more burdensome and difficult.

"The Committee is of the opinion that inasmuch as custom and practice prevailing in the various Federal reserve districts should govern the manner of handling items of this character that it would be practically impossible to make a recommendation which could be uniformly applied to all districts."

The Chairman: If there is no objection, the Committee's suggestion in that regard will be concurred in.

Mr. Barrows: The next subject is "should a Federal Reserve Bank collect notes and drafts in cities and towns where there is not a par remitting bank?"

"This question was submitted to the Committee by the Federal Reserve Bank of New York and apparently arises out of the procedure followed by some of the Federal reserve banks which decline to handle and return without presentation non-cash collection items payable at points in their district where they are unable to collect checks at par.

"While the principle underlying this question involves a question of policy, there are certain physical problems

to be met which the Committee has given careful consideration and which it believes will be of interest to the Conference of Governors and may possibly aid in formulating a uniform policy with respect to the matter.

"The Federal Reserve Board in its letter X-3014, dated January 4, 1921, commenting upon the recommendations made by the Governors of the Federal reserve banks at their Conference on October 14, and 15, 1920, quotes from the action taken at that Conference, in part, as follows:

"The propriety of Federal reserve banks sending collection items to member and nonmember banks in other districts, with instructions to remit to the nearest Federal reserve banks for the credit of the sending Federal reserve bank.

"ACTION: The Conference voted that 'this privilege should not be permitted, unless the time involved in the collection is such that the Federal reserve bank must necessarily send the items direct, in order for collection to be made before the maturity of the items. Reference is invited to the recent ruling of the Federal Reserve Board permitting Federal reserve banks to receive collection items direct from member banks of other districts, and allowing them to permit their member banks to route

collections direct to other Federal reserve banks, after the permission of such other Federal reserve banks has been obtained by the Federal reserve bank of the district in which the member bank requesting the privilege is located. It is recommended that member banks be permitted to send collection items direct to Federal reserve bank of other districts, and that all Federal reserve banks be required to accept non-cash items for collection when received from member banks of other districts; it is also recommended that the Federal Reserve Board make a mandatory order ruling to that effect, * * * *.

COMMENT: The Board concurs in the above, and makes the mandatory ruling requested through the medium of this letter."

"In issuing circular letters covering non-cash collection items, it appears to be the general practice of all of the Federal reserve banks to enumerate certain classes of negotiable instruments which will be received by them for collection without restriction of any kind as to their place of payment.

"The Committee believes that the circular letters as issued, in connection with the mandatory ruling of the

Board, above referred to, justify the assumption on the part of every Federal reserve bank that non-cash collection items forwarded by it or by its direct sending banks will be handled in accordance with the terms of the non-cash collection circular of the collecting Federal reserve bank. Consequently, when such items are returned bearing a notation to the effect that the points at which they are payable are not on the par list or that the receiving Federal reserve bank prefers not to handle, the sending Federal reserve bank or its direct sending member is placed in a rather difficult position and may incur some liability by reason of the delay in presentation.

"It will be noted that a Federal reserve bank receiving back from another Federal reserve bank a collection item which has not been forwarded to the point of payment, will under the terms of the Board's letter (X-3014) be helpless to make collection of such item, because it is prohibited from routing collection items direct to banks in other Federal reserve districts. Consequently, under such conditions no Federal reserve bank could say to its member banks in its non-cash collection circular that it will collect maturing notes, drafts, and other non-cash collection

items payable anywhere in the United States.

"Conditions existing in some of the districts may justify this procedure. The Committee is of the opinion, however, that for the protection of all of the Federal reserve banks each of the reserve banks should undertake to collect non-cash items payable anywhere in its district. If for sound and sufficient reasons this is impractical, some effective means should be devised which will make it possible to determine in advance whether or not a collection item will be forwarded to the point of payment in accordance with the terms of the receiving Federal reserve bank's circular letter."

Governor Beay: Mr. Chairman, I move that we acquiesce in the conclusions of the committee on that topic.

(The motion, being duly seconded was carried.)

Mr. Barrows: The next subject is "Advice of no returns."

"The Committee has also had under consideration the existing practice of all of the Federal reserve banks in advising the endorsing bank of failure to receive returns from member or non-member banks to which cash letters have been dispatched but covering which no remittance or advice

of credit has been received.

"The form of advice used varies somewhat in the different districts. Inasmuch as the purpose of the advice is merely to protect the collecting Federal reserve bank and the endorsing banks against possible loss arising from delay in presentation or notice of non-payment, it is essential that it be in such form as will readily enable the receiving bank to locate its endorsers and advise them in a similar manner.

"When returns are received covering items which have been reported as outstanding, a similar advice reporting that the outstanding items have been accounted for, is forwarded through the same channel as the advice of no returns.

"The Committee feels that an advice of no returns covering items which have been outstanding more than a reasonable time is advisable and necessary. It also believes that this practice can be carried to extremes. The indiscriminate use of such a form covering every item outstanding longer than the scheduled time for receiving returns will result in such a volume of advices being issued as will detract from the effectiveness of the advice.

"The Committee, therefore, recommends that the use of

this form be restricted, as much as possible, and, that when used care should be exercised to give only such information as is valuable to the bank to whom sent. The Committee believes that it is very desirable to show the date and the total of the cash letter of the depositing bank, place payable, and the amount of each item. The advice should also clearly state that it does not necessarily imply non-payment, but that advice of credit, or remittance for the items has not been received. This should be followed as promptly as possible when returns have been received by a similar advice showing the date of the advice of no returns, a complete description of the item or items, and stating that they have been accounted for either by remittance or by return and are no longer outstanding. The Committee does not think it practical or necessary that the second advice be in the form of an advice of actual payment.

"The attention of the standing Committee on Collections has been called to a certain degree of confusion arising out of checks drawn on banks located in cities other than Federal reserve bank or branch cities where arrangements have been made for the payment of such items, either through clearing houses in Federal reserve cities or by

immediate credit at the Federal reserve bank of the district.

"In many cases, checks on these banks which indicate on their face that they are payable at, or receivable for immediate availability in a Federal reserve city, are handled as deferred items by banks in other districts and as a result the banks forwarding them for collection lose the benefit of the shorter time required to collect and the banks upon which they are drawn are subject to criticism from their depositors because their checks apparently do not circulate as freely as special arrangement for their collection would warrant.

"The Committee, therefore, recommends that each Federal reserve bank incorporate in its time schedule the following notation:

"Checks drawn on banks not located in a Federal reserve city but bearing upon their face a notation that they are payable at or receivable for immediate availability in a Federal reserve city will be accepted on the same basis as checks drawn on banks located in that city."

Definition of the Terms "Wire Fate", "Wire Payment or Non-Payment" and "Wire Credit."

"The Federal reserve bank of New York placed before the

Committee a subject regarding the terms "Wire Fate", "Wire Payment or Non-Payment", and "Wire Credit", now used by the Federal reserve banks and their direct sending members when forwarding collection items and asking for information.

"It would seem that the terms "Wire Fate" and "Wire Payment or Non-Payment" were formerly used by commercial banks to mean that the endorser or drawer of the item was interested in its fate and not in a transfer of funds. Since the Federal Reserve system has come into existence with its private wire system and free transfer of funds, it has not been possible at all times to determine the meaning of the phrase "Wire Payment or Non-Payment". It would seem that these terms should be given a definite meaning so that there will be no confusion between the Federal reserve banks in wiring credits on collection items.

"The Committee, therefore, recommends that the use of the phrase, "Wire Fate" be used only when a bank is not interested in the actual credit but only desires information as to whether the item itself has been paid: that the use of the phrase "Wire Payment or Non-Payment", be discontinued and in its place the phrase "Wire Credit", should be used. This is in accord with the recent decision of the Governors'

Conference, which states that a wire coming from another Federal reserve bank passing credit must read, "We credit your account". The Committee also recommends that each Federal reserve bank, as far as possible, should educate its members in the correct use of these terms.

Respectfully submitted,

H. F. Strater, Chairman,
O. M. Attebery,
J. S. Walden, Jr.,
C. H. Coe,
J. M. Toy."

Governor McKinney: With regard to the question of returns, it is our judgment that the member bank is entitled to definite and specific advice as to the final fate of an item concerning which previous advice has been given to the effect that the Federal reserve bank was without return. The Committee doesn't agree with us in that connection, but we feel that when the integrity of the final payment of check has been challenged or raised by notice of the fact that the bank is without returns, that the member bank and its customer, or its endorsing customer, is entitled to definite and specific information as to what happened with regard to that check.

Governor Seay: Explanation is subsequently made;

sometimes a letter is lost or delayed in transit. If it is an unreasonable time, or if for other reasons a notice of no return is given, because an unusual time has expired in the matter, it may be that the bank will receive returns for that, and therefore the committee recognizes that when it does receive returns, it cancels its no return notice. That leaves it in the situation in which it would have been when originally received and advice of final payment will be made in due course.

Governor McKinney: We have notified our endorser and it, in turn, notifies its endorser, and that causes everybody to withhold payment if they are not satisfied of the solvency of the endorser, and it seems to me that the bank is entitled to definite advice as to just how the item was disposed of. The item may be returned or it may be misplaced in the mails, and the member bank, in making up the transaction in its own office, would not know exactly what sort of information to give to its endorsers.

What is the difficulty about saying just what happened?

Governor Peay: A very practical one. It would entail waiting for a much longer time, until final payment

had been received, before you would advise the sending bank that the no-return proposition had been cleared up. When you wait for final payment it entails further waiting.

However, to bring the matter to a head, and in order not to prolong the discussion unnecessarily, I move that the report of the committee in this respect be adopted.

The Chairman: You refer to receipt of advice of no returns, and definition of "wire fate"?

Governor Seay: That the report of the committee with regard to those points be received and adopted.

Governor Norris: I will second that.

(On a vote taken by the raising of hands, the motion was carried nine to three.)

Governor Calkins: Will the vote just taken compel us to abandon our practice of advising the banks so they will know what has happened?

The Chairman: This action should be followed ^{with} / uniformity, but I do not think it will be. I wish you would state your position with regard to this report, Governor Seay.

Governor Seay: Mr. Chairman, the point that we have just decided upon there, in accepting that report of the committee, does not bear upon the formulation of the

phraseology of the uniform circular. It is just a discussion of what should be the uniform practice of the Federal reserve banks, with regard to the interpretation which might be put upon notices which were sent by the Federal reserve banks; in other words, if one Federal reserve bank should cancel its no-return notice, then another Federal reserve bank, after having accepted the report, should not construe that as final and actual payment, that is all. I do not see anything to prevent Governor Calkins from making his advice as broad as he chooses to make it, but mere cancellation of no-return notice by one Federal reserve bank, should not be notice to another Federal reserve bank that actual payment has been received on the item.

Governor Calkins: I take it that leaves the situation in such a way that, if we see fit, we may render better service to our member banks than the rest of you, and that there will be no objection to that.

Governor McKinney: What is the particular objection to meeting our position in this matter?

Governor Seay: There would not be a single objection on my part, whatever. If everybody would agree to putting that in the report and sending it back to the committee, and

having the committee re-write a report which they have spent two years in formulating, continuing the matter indefinitely, there would be no objection whatever. If that had been put in the report I would have agreed to it, but as long as it is not in the report, we must adopt something, either now or subsequently.

Mr. Case: We can adopt the report and then amend it, and there is nothing to hinder us from doing that right now.

Governor Young: May I ask if the other Federal reserve banks have the same difficulty that we do in Minneapolis? We send items out to banks and they remit on Chicago or Milwaukee or Sioux City, or Bismark or where-not--- we try to keep them down as well as we can, but we haven't been successful in getting Minneapolis exchange in all cases, or St. Paul exchange, or available exchange. I assume that the reason for sending out a notice, such as is recommended by the committee, is because we do not know whether it is paid or not, or that the items have been accounted for. They at least express a willingness to pay the items by sending us a draft on Sioux City, but we cannot give advice of definite payment.

Governor McKinney: In that case we would not send out the check notice until the draft given in payment has been converted into available funds.

Governor Seay : I am sorry to have spoken so much on this topic, but I was told by the officer of our bank who has been on the committee that the committee felt that unless this report should go through that it was in despair; that there was practically no use for it to attempt to frame a report; that if it was not objectionable and could be acquiesced in it would relieve the committee of a burden which had been upon it for two years, and subsequently if we found that it needed amendment in any of its particulars it could be amended; and it is for that reason I ask your indulgence for talking so much on the subject which, I feel, is of great importance.

The Chairman: My understanding of the situation now is that the committee report has been received and has been adopted, with exception of the part to which Governor Young wants to have his counsel take it up directly with the committee, with a view to a satisfactory conciliation of the question involved. Is that the way it stands?

Governor Seay: With one other point, that in adopting

this report the Federal Reserve Board be asked whether any provision of it is in conflict, by reason of guaranteed endorsements, with Regulation J.

The Chairman: Then we can proceed to the next topic.

Governor Norris: How about the blanket guarantee which has been exchanged by all the banks but one. It seems to me that bank ought to give the other eleven banks a guarantee or they ought to withdraw their guarantee from that twelfth bank.

Governor Young: Minneapolis is tying it up again. Our people refuse to give that guarantee, largely because of the condition of a lot of our member banks out there. I understand the committee wants this guarantee because they feel that it is not necessary for them, with it, to check anything; they can handle items through member or non-member clearing banks without checking any lists to see whether they are protected. It occurs to me that it is dangerous for our bank to give a blanket guarantee of that kind for all the banks in our district, and in so far as saving any work is concerned, I do not see how they save any work. For instance, if the Federal Reserve Bank of Cleveland gets items from Clark Brothers in Montana, they

have got to refer to some list to find out whether Clark Brothers are members; after referring to that list, if they find they are not member, they have to refer to another list to find out whether they have a non-clearing account. If they find out that they haven't a non-clearing account, or find that it is possible they may have come in within the last few days, they wire to find out whether they can handle that item or not, and therefor , it seems to me that the only practical way of handling this is to get a guarantee covering each specific bank. Consult one list and that would end it. With respect to a national bank, a national bank is a member up until the time it closes, and when it closes it is not a member, so our attorney tells me.

Governor Calkins: It is a member until it goes into the hands of a receiver.

The Chairman: Governor Norris, do you want any action with regard to this matter. It is not on the program.

Governor Norris: Yes; I think it is.

Governor Fancher: On page 4 of this report, and it is as follows:

"The last report of the Standing Committee on Collections recommended form letters to be exchanged between Federal

reserve banks on the subject of direct routing of checks and non-cash collection items by their member banks. This letter provided that each Federal reserve bank would be authorized by the other Federal reserve banks to receive and handle checks and non-cash collection items from member banks or non-member clearing banks of other districts in all respects in the same manner and subject to the same terms and conditions that are prescribed by the receiving Federal reserve bank from time to time for the handling of items forwarded to it by other Federal reserve banks or by its own member banks. On the other hand, the circulars issued by each Federal reserve bank prescribe the terms and conditions under which it will receive items from its member banks. The recommendation of the Committee, therefore, that these letters be exchanged was predicated upon the absolute uniformity of the liability paragraphs recommended in the Committee's report and the Committee is unanimously of the opinion that unless these paragraphs are uniformly used by all of the Federal reserve banks, with identical wording, there is great possibility of confusion, by reason of the fact that the terms vary from the terms and conditions applicable between its members and other Federal reserve

banks, and under such conditions no Federal reserve bank could say to its member banks in its liability paragraphs that "every bank sending items to us or to another Federal reserve bank for our account will be understood to have agreed to the terms and conditions of this circular." It can be plainly seen that, if the Federal reserve banks of Minneapolis and Dallas insist upon the changes or additions which they propose, the other Federal reserve banks will be compelled to alter and revise their circulars, eight of which, as before stated, have already been issued embodying the uniform paragraphs suggested by the Committee. The Committee also thinks it is probable that if the essential uniformity does not exist, some of the reserve banks may feel it necessary to withdraw the letters, which they have already sent out, giving blanket guarantee of endorsement on all items forwarded direct by their member banks to other Federal reserve banks. The letters referred to have already been sent out by all of the reserve banks except Minneapolis."

(further discussion followed, and at 5:55 o'clock p. m. Under Secretary Gilbert of the Treasury Department entered the Conference room and the following occurred:)

The Chairman: Mr. Gilbert, we are very glad to have you here with us, and we will be glad to hear from you with respect to any matters of importance that you may have in mind in which we are mutually interested.

Mr. Gilbert: I am not sure how far along you are in these matters, the question of credit policy. I might open my remarks by making you an offer. The tax payments for this quarter have come through very well. We were estimating \$400,000,000 and we are going to get about \$450,000,000. That has a very helpful effect on the whole course of the year's operations. \$50,000,000 more in March roughly means \$200,000,000 more for the calendar year, and it means that much less borrowing on the certificates and notes. It has an immediate effect in that we have much more money with the Federal reserve banks than we ought to have and much more than we can use for any ordinary current purposes. The Treasury's balance with the reserve banks to day, taking into account the gold which we could deposit, is a little over \$150,000,000, and our normal balance is around 35 or 40 millions, sometimes running less than that. I am surprised that there has not been more stringency in the money market than has already

shown up as a result of these balances, but the whole market seems to have withstood these exceptional withdrawals very well.

The Treasury has maturing on May 20th, about \$800,000,000 of Victory notes. We have tried by every means at our command to get hold of some of the notes, by offers to redeem sinking fund operations, and we have also advertised to the limit on the redemption of the gold notes, of which there are still \$80,000,000 out, but it seems almost impossible to get a substantial amount of those notes in. What we would like most of all would be to redeem a large amount of those notes in advance. We propose to continue to try to get them, but our prospects are very slim.

Governor Harding: What is the amount of Victory's outstanding?

Mr. Gilbert: \$800,000,000 not called and \$80,000,000 called. We have maturing on June 15, \$227,000,000 of Treasury certificates. Those are the only remaining maturities for this fiscal year, and to a large extent they merge into one, because the Victory notes are not likely to come in all at once, those being the remainder of four and a half billion dollars of a popular loan.

The Federal reserve banks hold \$53,744,000 of the June 15th certificates, and \$17,000 in uncalled Victory notes. We are quite prepared, from the point of view of the Treasury, to redeem all of those notes at par and accrued interest out of our balances, and to do it right away.

Governor Calkins: How many uncalled Victories?

Mr. Gilbert: \$17,350. It seems to me that has a good many advantages. The withdrawal of those funds from the market has really already been accomplished. There are \$150,000,000 in the reserve banks, and if we redeem \$50,000,000 there will still be \$100,000,000, and we hope to pay that out gradually in the course of the next two or three weeks, by making calls ourselves and paying interest, particularly around April 15th. But having in mind the fact that really that money is already in, it seems to me that is an ideal way of clinching it and retiring those certificates.

Governor McKinney: Have you a record of how it is segregated?

Mr. Gilbert: Yes. These figures are as of March 15: \$3,850,000 in Boston; none in New York; \$3,610,000 in Philadelphia; \$9,826,500 in Cleveland; none in Richmond;

\$7,500,000 in Atlanta, \$15,525,000 in Chicago; \$1,343,000 in St. Louis; \$184,000 in Minneapolis; \$3,785,510 in Kansas City; \$994,500 in Dallas, and \$7,125,500 in San Francisco.

Governor Seay: That would not relieve the market any; it would just relieve the Treasury of some \$50,000,000 of its funds; but the money would still be in the banks.

Mr. Gilbert: It does not relieve the market, but at the same time, I have put in an order today for \$10,000,000 of Victory notes, and we will have some difficulty in filling that order very quickly in the present narrow market.

There isn't much else we could buy in the market. We will, of course, be paying out these balances in the next two or three weeks, but the cost of payments is against us as a rule, and I think the market will gradually be relieved.

Mr. Case: That is only another way of saying that you would like to use \$50,000,000 of excess receipts that you had not counted on?

Mr. Gilbert: In debt redemption. That is its proper purpose anyway.

Governor Fancher: What is the total outstanding for June 15?

Mr. Gilbert: \$227,000,000 on June 15, and we will

have a considerable hang-over of Victory notes, probably at least a couple hundred million that will still be out. There will be heavy interest payments, so that there will be heavy enough payments on June 15. The \$53,000,000 of certificates in the reserve banks do not help, so far as the market goes, in meeting the tax payments anyway. It is all in the banks. So I do not see that on June 15 we will be any worse off for having done that, and it means the saving of interest on \$53,000,000 for probably several weeks.

Mr. Case: Your offer is to take those at par?

Mr. Gilbert: At par and accrued interest. That happens to be a little above the market, but I think this may be treated as a redemption.

Governor Norris: At 3-3/4?

Mr. Gilbert: Yes, all 3-3/4.

Governor Calkins: Have you wired that offer?

Mr. Gilbert: No; I haven't communicated it to anybody. I thought I would put it up to you over here. I have a particular reason for wanting to do it within a day or two, because if we relieve the Treasury balance we ought to do it before the next statement. I do not like to see \$150,000,000 on deposit.

Governor Norris: You mean before the Federal Reserve consolidated statement?

Mr. Gilbert: On Wednesday, yes.

Mr. Case: With 6 per cent call money in New York today, it might properly be pointed out that the Treasury is causing some embarrassment in the money market by having an abnormally large balance.

Governor Fancher: This would not relieve it.

Mr. Case: It would relieve the balance, and it would not be such a large target to shoot at.

Governor Seay: It would furnish a rational explanation for it, which is always a good thing.

Mr. Gilbert: Yes, it does that very well.

Governor Seay: It would still further reduce the earning assets of the Federal reserve banks.

Mr. Gilbert: It will do that unless the banks will borrow. They have apparently not had to borrow as much as our excess balance. With that amount of money we are almost forced to consider something like redeposits, unless we do this, and I hope that we will not have to go into the question of re-deposits.

Governor Seay: That shows a right healthy state of the money market.

Mr. Gilbert: Of course re-deposits would quite automatically put the rate down to four per cent. I think that is the only other alternative, because that has the effect of easing the market.

Mr. Case: With money at 6 per cent in New York today, I have no doubt it has had a more or less depressing effect on what has been a very bouyant stock market.

Governor Calkins: Do you think six per cent will really depress the operators on the stock market?

Mr. Case: I think it has had that effect.

Governor Seay: It does until they get used to it.

Mr. Case: This is going to mean, with the redemptions of March 15th, really \$100,000,000 taken in from the market, plus the \$100,000,000 that you have remaining, so that the money market really ought to feel the effects of that withdrawal to some extent, and I should think that would have quite an effect on the stock market and tend to bring down the Street loans.

Governor Norris: As to our \$3,000,000, I will recommend to our Executive Committee, which meets at half past ten on Wednesday morning, that we sell you those.

Mr. Case: New York has not any, or otherwise we would

be glad to offer them to you. We have \$10,000,000 of Treasury notes, all we have remaining, and we will offer you those at any satisfactory price.

Governor Young: Our holdings are small, and it is a question whether some of them do not belong to the Land Bank---

Mr. Gilbert: It is understood that they are not repurchase agreements.

Governor Young: We will be glad to turn in what we have.

The Chairman: The Chicago Bank seems to be the bellwether. We have \$15,000,000 in those notes, and I should be very glad to take the matter up by telephone tomorrow morning and recommend that we permit their retirement in advance.

Mr. Gilbert: Do you meet on Wednesday morning?

The Chairman: We do not, but I think I can find out the situation, and I prefer to submit it before acting.

Governor Fancher: Our holdings are \$500,000 more than are shown on that paper you have there. They are \$10,300,000 and some odd. We acquired \$500,000 recently. I will take the question up with our people tomorrow and see

what their attitude is.

The Chairman: How do you feel in regard to the matter, Governor Fancher?

Governor Fancher: I think we are likely to accept the Treasury's offer, but I will see what the situation is.

Mr. Gilbert: Is it likely that either Chicago or Cleveland has those under repurchase agreement, or any part of them?

The Chairman: I am speaking now of the approximately \$15,000,000---

Mr. Case: It doesn't show, but the repurchases are in the last line of that statement you have there, Mr. Gilbert. They are not included, apparently.

Governor Calkins: I will be very glad to get on the wire and to recommend to our Committee that we sell the seven million that we hold.

Governor Biggs: I am quite sure that we will let you have what we have.

Governor Bailey: I will wire recommending the sale.

Governor McKinney: I will wire Dallas tonight and

advise you tomorrow, Mr. Gilbert.

Governor Calkins: Would it not be wise for you to wire each of the banks making the offer, and then the Governors can wire their banks recommending the acceptance of the offer?

Mr. Gilbert: I will do that in the morning. I will wire each of the banks as suggested, and then you gentlemen can wire recommending the acceptance of my offer.

The Chairman: We have not heard from Mr. Adleson on it.

Mr. Adleson: I will be very glad to take it up with our bank and recommend the sale, Mr. Gilbert.

(Whereupon, Under Secretary Gilbert retired from the Conference room, to meet with the Governors tomorrow morning, Tuesday, March 27th.)

The Chairman: Now, gentlemen, shall we proceed with further discussion of our program?

Governor Fancher: Mr. Chairman, I move that we adjourn, until tomorrow.

The Chairman: Is that seconded? A motion to adjourn is always in order.

(The motion, having been duly seconded, was carried, and accordingly, at 6:20 o'clock p. m. the Conference adjourned until tomorrow, Tuesday, March 27, 1923 at 10 a.m.)

REPORT OF THE COMMITTEE OF GOVERNORS ON CENTRALIZED
EXECUTION OF PURCHASES AND SALES OF GOVERNMENT SECUR-
ITIES, BY FEDERAL RESERVE BANKS SUBMITTED TO THE
GOVERNORS' CONFERENCE ON MARCH 26, 1923, COVERING
ACTIVITIES SINCE REPORT SUBMITTED AT CONFERENCE
HELD OCTOBER 10, 1922.

Herewith is presented a brief survey of the activities
and operations of the Committee covering the period from
September 20, 1922, (the date of the last report) to
February 21, 1923, inclusive.

meetings: Formal meetings of the Committee were held at the
Federal Reserve Bank of Cleveland on October 31, 1922,
and at the Federal Reserve Bank of Boston, February 5,
1923.

At the meeting of the Committee held in Boston,
February 5, 1923, the following memorandum was adopted:

"In view of the present credit conditions,
the Committee recommends that the present policy
be continued and that for the present, or until the
next Governors' Conference, open market investments
be equalized between the twelve reserve banks as far
as possible, without putting further Federal reserve funds
into the market through open market operations."

With the exception of a small amount all of the transactions since that time by Federal reserve banks for their own accounts have been consummated within the system, the New York bank having sold from its holdings \$6,500,000 Treasury certificates to the Federal Reserve Bank of Atlanta, and \$1,500,000 Treasury Notes to the Federal Reserve Bank of Kansas City.

Transactions in Government
Securities by Federal Re-
serve banks for their own
Accounts.

Operations by Federal reserve banks covering transactions in Government securities affecting their own investment accounts since the report dated September 20, 1922, submitted to the Governors' Conference on October 10, 1922, have effected a reduction in the total holdings of all Federal reserve banks (including Pittman Act certificates and sales contracts) of \$84,000,000 from the total holdings of \$438,000,000 as shown in the following schedule:

DEDUCTIONS

Tr. Ctfs. due Oct. 16, 1922	-	\$15,000,000
" " " Dec. 15, 1922	-	62,000,000
Victory Notes	-	36,000,000
Treasury Notes	-	9,000,000
Pittman Act Certificates	-	52,000,000
Sales Contracts	-	<u>26,000,000</u>
Total		\$200,000,000

ADDITIONS

Tr. Ctfs. due Mar. 15, 1923	-	\$14,000,000
" " " June 15, 1923	-	16,000,000
" " " Sept. 15, 1923	-	31,000,000
" " " Dec. 15, 1923	-	35,000,000
Sales Contracts	-	<u>20,000,000</u>
Total		<u>\$116,000,000</u>
Net Deduction		<u>\$ 84,000,000</u>
Holdings, February 21, 1923		\$354,000,000.

During the entire period covered since the Committee has been in operation, the Government security holdings of the Federal reserve banks (including Pittman Act Certificates) have shown a reduction of approximately \$275,000,000

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from the high point of \$629,000,000 on June 14, 1922. Of the \$354,000,000 now on hand \$20,000,000 is in the form of Sales Contracts.

In considering the question of further reduction from the present total of \$354,000,000 it should be borne in mind that about \$62,000,000 are Treasury certificates maturing on March 15, 1923.

The Treasury has suggested that this \$62,000,000 of March 15, 1923, certificates be allowed to run off at maturity without replacement.

Treasury
Orders.

Treasury orders pending at the time of the last report and those subsequently given to Federal reserve banks covering the purchase and sale of Government securities are as follows:

(T O P U R C H A S E)

<u>Date of Order</u>	<u>Account</u>	<u>Issue</u>	<u>Price</u>	<u>Amount</u>
Sept. 21, 1922	Civil Service Retirement & Disability Fund.	Dec. 3-1/2% Ctfs.	market	\$2,000,000
" 22, 1922	Redemption	Ctfs.	Par	2,000,000
" 18, 1922	Cumulative Sinking Fund	Called Victory Notes	100.50	10,086,700

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Sect. 18, 1922	Alien Property Custodian	Ctfs. any Issue	Market	18,500,000
" 26, 1922	Alien Property Custodian	Sept. Ctfs.	Par	10,000,000
" 26, 1922	Farm Loan Board	Treas. Notes	Market	8,500,000
" 29, 1922	Cumulative Sinking Fund	Liberty Bonds	Market	10,000,000
Oct. 2, 1922	Redemption	Dec. Ctfs. 3-1/2%	Par	938,000
" 5, 1922	Cumulative Sinking Fund	Third L.L. 4-1/4% Bonds	Par	10,000,000
" 3, 1922	Alien Property Custodian	Sept. Ctfs.	Market	2,000,000
" 7, 1922	Cumulative Sinking Fund	Liberty Bonds	Market	25,000,000
" 7, 1922	War Finance Corp.	Treasury Notes	Par	25,000,000
" 7, 1922	War Finance Corp.	L.L. Bonds	Market	20,798,000
" 16, 1922	Alien Property Custodian	June Ctfs.	Par	3,800,000
" 17, 1922	Alien Property Custodian	4 1/4% Treas. Bonds	Market	26,314,000
" 15 to 30, 1922	War Finance Corporation	Treasury Notes	To Yield 4 1/4% or better	10,000,000
" 17, 1922	Cumulative Sinking Fund	Called Vic. Notes	Market	15,000,000

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Oct. 25, 1922	Alien Property Custodian	Treas. Bonds of 1952	Market	\$2,000,000
" 27, 1922	Alien Property Custodian	Treas. Bonds of 1952	Market	1,500,000
" 31, 1922	Cumulative Sinking Funds	Called Victory Notes	Market	10,000,000
Nov. 14, 1922	Cumulative Sinking Fund	Called Victory notes	Market	10,000,000
" 27, 1922	Cumulative Sinking Fund	Called Victory Notes	Market	4,975,350
Dec. 6, 12 & 14, 1922	Cumulative Sinking Fund	Uncalled Victory notes	Market	30,000,000
" 6, 1922	Alien Property Custodian	March 4 $\frac{1}{4}$ % Certificates	100-1/8	5,000,000
" 9 & 12 1922	Alien Property Custodian	Any Certificates	Par	15,000,000
" 18, 1922	Purchases from Treasury notes.	June 15, 1925 4 $\frac{1}{2}$ % Notes	Par	20,000,000
" 29, 1922	Cumulative Sinking Fund	Uncalled Victory Notes	Market	5,000,000
Jan, 8, 1923	Cumulative Sinking Fund	Third 4 $\frac{1}{4}$ % L.L. Bonds	Market	8,000,000
" 8, 1923	Farm Loan Board	Dec. 15, 1923 4% Ctfs.	Par	14,400,000
" 22, 1923	Alien Property Custodian	Dec. 15, 1923 4% Ctfs.	Par	10,000,000
" 31, 1923	Alien Property Custodian	March 3 $\frac{1}{2}$ % Ctfs.	Par	5,000,000

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Feb. 2, 1923	Alien Property Custodian	March 3-1/2% Certificates	Par	\$10,000,000
" 5, 1923	Alien Property Custodian	March 3-1/2% Certificates	Par	5,000,000
" 16, 1923	Alien Property Custodian	March 3-1/2% Certificates	Par	1,000,000
Miscellaneous Orders				9,302,800

(T O S E L L)

Nov. 9, 1922	Postal Savings System	Second 4 1/4% L.L. Bonds	Market	<u>9,375,000</u>
T O T A L				\$375,489,850

These orders have been completed through purchases by the different banks as shown in the following figures, which figures also reflect the distribution of all Treasury orders from the time the Committee began operations to September 20, 1922, as well as during the entire period covered:

Treasury Orders Executed

	<u>From May 17, 1922 to Sept. 20, 1922</u>	<u>From Sept. 20, 1922 to Feb. 21, 1923</u>	<u>From May 17, 1922. to Feb. 21, 1923.</u>
Boston	\$ 30,249,500	\$ 27,891,350	\$ 58,140,850
New York	83,900,250	273,167,550	*357,067,800
Philadelphia	17,733,000	23,603,900	41,336,900
Cleveland	3,300,000	-0-	3,300,000
Richmond	199,300	41,450	240,750
Atlanta	2,532,200	972,150	3,504,350
Chicago	41,474,000	38,779,500	80,253,500
St. Louis	6,183,700	2,419,900	8,603,600
Minneapolis	1,200,000	3,011,950	4,211,950
Dallas	-0-	-0-	-0-
Kansas City	-0-	1,952,600	1,952,600
San Francisco	\$ <u>12,940,600</u>	<u>3,649,500</u>	<u>16,590,100</u>
	\$199,712,500	\$375,489,850	\$575,202,400

* Of this amount there were purchased and sold on the New York Stock Exchange Liberty Loan bonds and Victory notes amounting to \$147,371,000 on Treasury orders which contained instructions that these transactions be executed in this manner.

Statements reflecting the result of the Committee's activities are as follows:

Exhibit "A" - Government Security Holdings of Federal reserve banks as reported to the Committee of Governors at the close of business February 21, 1923.

Exhibit "B" - Comparison of the Government Security Holdings by maturities of all Reserve Banks Combined as of May 17, June 30, September 20, 1922 and February 21, 1923.

Exhibit "C" - Weekly Statement of United States securities (Exclusive of Pittman Certificates) held by Federal Reserve Banks from January, 1922, to Date.

Exhibit "D" - Synopsis of United States Securities as Compared with All Other Earning Assets Held by Federal Reserve Banks and reflecting the Net Change of Each Class during the Period Covered.

Exhibit "E" - Statement Showing Changes in Gold and Government Security Holdings of Reserve Banks as Compared with Record of Gold Imports and Exports of the United States.

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Exhibit "F" - Statement of Estimated Earnings and Expenses of All Federal Reserve Banks for the Year 1923, Based on Expenses for 1922 and Earning Assets held February 21, 1923.

Exhibit "G" - Purchases and Sales of United States Government Securities by Federal reserve banks affecting their Investments - January 24 to February 21, 1923, inclusive.

Exhibit "H" - Chart Showing Comparison of Earning Assets of All Federal Reserve Banks Since Formation of the Committee.

EXHIBIT "A"

GOVERNMENT SECURITY HOLDINGS OF FEDERAL RESERVE BANKS
AS REPORTED TO THE COMMITTEE OF GOVERNORS AT THE CLOSE OF BUSINESS FEBRUARY 21, 1923

<u>Maturities</u>	<u>Boston</u>	<u>New York</u>	<u>Philadelphia</u>	<u>Cleveland</u>	<u>Richmond</u>	<u>Atlanta</u>	<u>Chicago</u>	<u>St. Louis</u>	<u>Minneapolis</u>	<u>Kansas City</u>	<u>Dallas</u>	<u>San Francisco</u>	<u>Total</u>
March 15, 1923	\$13,525,000.	\$15,000,000.	\$ 116,500.	\$ 6,456,000.	-0-	\$ 5,030,000.	\$14,865,500.	\$ 394,000.	\$ 50,000.	\$ 6,351,500.	\$ 569,000.	-0-	\$62,357,500.
Victory Notes 5-20-23	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
June 15, 1923	3,850,000.	1,000,000.	3,610,000.	9,813,500.	-0-	4,500,000.	15,525,000.	1,349,500.	84,000.	3,785,500.	944,500.	7,125,500.	51,587,500.
September 15, 1923	4,844,000.	-0-	557,000.	3,898,000.	-0-	-0-	17,549,000.	2,994,000.	410,500.	1,414,500.	2,075,000.	-0-	33,742,000.
December 15, 1923	-0-	-0-	345,500.	5,015,000.	-0-	-0-	17,990,000.	6,009,000.	-0-	171,500.	5,000,000.	-0-	34,531,000.
Treas. Notes 1924/7	4,680,700.	10,000,000	22,638,400.	11,420,200.	150,000.	483,000.	1,787,900.	10,934,700.	4,699,700.	27,232,400.	1,100,000.	17,463,300.	112,590,300.
Miscellaneous	535,150.	1,148,750.	1,799,700.	949,400.	1,190,900.	-0-	4,425,600.	7,314,400.	6,210,110.	3,497,800.	2,029,500.	10,157,800.	39,259,110.
<u>T O T A L</u>	\$ 27,434,850.	\$27,148,750.	\$29,067,100.	\$37,552,100.	\$1,340,900.	\$10,013,000.	\$72,143,000.	\$28,995,600.	\$11,454,310.	\$42,453,200.	\$11,718,000.	\$34,746,600.	\$334,067,410.
Sales Contracts	1,269,662.	16,441,500.	-0-	-0-	-0-	-0-	2,254,600.	-0-	-0-	-0-	-0-	-0-	19,965,762.
<u>AGGREGATE</u>	\$ 28,704,512.	\$43,590,250.	\$29,067,100.	\$37,552,100.	\$1,340,900.	\$10,013,000.	\$74,397,600.	\$28,995,600.	\$11,454,310.	\$42,453,200.	\$11,718,000.	\$34,746,600.	\$354,033,172.

EXHIBIT "B"

COMPARISON OF THE GOVERNMENT SECURITY
HOLDINGS BY MATURITIES OF ALL RESERVE BANKS
COMBINED AS OF MAY 17, JUNE 30, SEPTEMBER 20, 1922
AND FEBRUARY 21, 1923

	<u>Holdings when Committee</u> <u>was formed May 17, 1922</u>	<u>Holdings on</u> <u>June 30, 1922</u>	<u>Holdings on</u> <u>September 20, 1922</u>	<u>Holdings on</u> <u>February 21, 1923</u>
Certificates and Victory Notes matured 1922	\$ 321,622,450.	\$ 218,454,900.	\$ 114,897,600.	-0-
March 15, 1923	46,131,500.	48,635,500.	47,812,500.	\$ 62,357,500.
Victorys maturing 5-20-23	-0-	-0-	-0-	-0-
June 15, 1923	-0-	29,896,500.	35,818,000.	51,587,500.
September 15, 1923	-0-	-0-	3,211,000.	33,742,000.
December 15, 1923	-0-	-0-	-0-	34,531,000.
Treasury Notes	87,542,600.	123,816,900.	121,721,200.	112,590,300.
Miscellaneous Govt. Bonds	<u>53,681,010.</u>	<u>39,201,566.</u>	<u>37,175,990.</u>	<u>39,259,110.</u>
<u>TOTAL</u>	\$ 508,977,560.	\$ 460,005,366.	\$ 360,636,290.	\$ 334,067,410.
 Pittman Act Certificates	 80,000,000.	 74,000,000.	 52,000,000.	 -0-
Sales Contracts	<u>-0-</u>	<u>-0-</u>	<u>26,245,400.</u>	<u>19,965,762.</u>
<u>AGGREGATE</u>	\$ 588,977,560.	\$ 534,005,366.	\$ 438,881,690.	\$ 354,033,172.

EXHIBIT "C"

WEEKLY STATEMENT OF UNITED STATES SECURITIES, (EXCLUSIVE OF PITTMAN CERTIFICATES)
 HELD BY FEDERAL RESERVE BANKS
 FROM JANUARY 1922 TO DATE
 (In Millions)

Date 1922	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco	All Banks	Date 1922
Jan. 4	3.3	62.6	2.4	5.8	1.2	10.3	15.8	1.4	.2	9.0	2.6	3.6	118.1	Jan. 4
11	25.8	30.3	2.7	6.1	1.2	10.2	12.2	1.4	.1	8.9	2.6	4.6	106.2	11
18	26.5	20.6	9.3	6.1	1.2	7.5	24.9	1.3	.1	8.9	2.6	5.0	113.9	18
25	28.3	28.8	11.7	6.1	1.2	5.8	32.3	1.3	.1	8.9	2.6	9.9	137.1	25
Feb. 1	29.0	72.4	11.8	15.4	1.2	2.8	34.0	2.0	.6	9.0	2.6	11.4	192.4	Feb. 1
8	30.2	98.7	14.0	21.9	1.2	.9	41.7	4.4	.6	14.4	2.6	13.0	243.6	8
15	30.4	129.4	14.5	22.0	1.2	.1	45.9	8.8	1.0	17.9	2.6	12.2	286.1	15
21	29.8	92.5	14.7	26.5	1.2	.2	50.1	9.8	1.1	17.4	2.6	12.1	258.0	21
Mar. 1	29.8	130.3	14.7	32.6	1.2	.1	59.9	10.9	1.4	21.7	2.6	12.3	317.6	Mar. 1
8	30.2	143.0	14.7	35.6	1.2	.1	61.8	11.9	3.1	30.5	2.8	14.9	349.9	8
15	28.3	119.6	14.7	35.6	1.2	.1	63.5	13.4	5.4	30.5	3.1	23.8	339.4	15
22	29.2	114.8	14.8	36.8	1.2	.1	73.8	16.5	5.7	31.3	3.1	25.4	352.7	22
29	29.5	102.2	14.8	37.8	1.2	.1	79.3	16.7	6.5	35.2	3.1	25.6	351.8	29
Apr. 5	27.4	105.7	14.7	41.6	1.2	.1	80.0	18.2	7.3	35.3	3.1	40.8	375.3	Apr. 5
12	27.1	134.4	17.8	43.7	1.2	.1	79.4	21.0	8.5	37.4	3.1	51.6	424.5	12
19	28.0	139.9	18.3	45.7	1.2	.1	86.7	21.4	9.8	40.3	3.1	51.7	446.2	19
26	41.9	161.8	20.3	45.7	1.2	.2	86.7	21.4	9.3	39.4	3.1	51.7	482.6	26
May 3	42.9	187.2	24.3	55.8	1.2	.2	85.7	21.4	10.2	39.4	3.1	54.7	526.2	May 3
10	44.0	190.1	24.4	57.4	1.2	.1	88.7	24.1	10.5	37.7	3.1	54.7	536.0	10
17	42.6	166.3	24.4	59.4	1.2	.3	90.6	24.7	10.7	37.2	3.1	54.7	515.0	17
24	42.7	164.3	24.4	65.9	1.2	.2	87.9	25.7	10.6	37.2	3.1	54.7	517.7	24
31	42.6	171.8	24.4	66.5	1.2	.3	88.3	25.6	10.9	37.2	3.1	54.7	526.4	31
June 7	52.5	170.8	25.7	69.5	1.2	.2	87.2	27.1	1.2	37.5	3.3	54.7	540.9	June 7
14	54.1	184.4	26.2	70.1	1.2	1.1	81.2	28.1	12.3	37.5	3.3	54.7	554.2	14
21	38.7	119.7	24.9	66.5	1.2	.4	63.1	22.5	8.9	40.3	3.6	54.8	444.6	21
28	43.1	159.0	27.4	70.2	1.2	2.2	48.5	22.0	9.3	41.3	3.6	55.3	482.6	28
July 5	41.5	151.2	29.0	70.3	1.2	2.2	46.9	22.6	9.5	41.3	4.6	56.8	476.5	July 5
12	40.5	179.8	29.0	70.8	1.2	2.2	25.2	22.2	9.0	41.5	4.6	56.8	482.7	12
19	43.0	168.0	29.0	70.8	1.2	2.3	23.9	22.5	8.0	41.4	4.6	53.2	467.8	19
26	43.2	168.7	29.0	70.9	1.2	2.1	24.2	22.7	7.8	41.4	4.6	53.2	468.8	26
Aug. 2	37.9	139.1	29.6	62.9	1.2	2.6	25.6	21.6	7.5	41.4	4.6	53.2	426.9	Aug. 2
9	37.2	138.9	29.2	63.6	1.2	2.2	23.7	21.1	7.1	41.2	4.1	53.2	422.7	9
16	38.2	137.1	29.2	63.7	1.2	2.2	27.3	21.6	6.2	41.2	4.1	49.2	421.1	16
23	40.4	133.6	39.0	65.7	1.2	2.3	23.5	22.7	6.1	40.9	4.1	49.2	418.7	23
30	44.8	135.0	30.1	67.7	1.2	2.2	27.9	24.0	6.8	40.9	4.1	50.2	435.0	30
Sept. 6	45.8	147.6	30.1	67.8	1.2	2.1	29.9	25.2	6.7	40.9	4.1	50.2	451.6	Sept. 6
13	46.3	138.0	30.5	67.8	1.2	2.2	28.9	25.1	7.2	40.3	4.1	50.3	441.8	13
20	21.9	115.6	29.2	56.6	1.2	2.2	26.5	24.7	15.5	40.7	3.6	49.2	386.9	20
27	24.7	128.3	29.4	56.7	1.2	2.2	26.0	23.1	15.9	40.6	3.7	49.1	400.9	27
Oct. 4	28.0	151.2	31.4	57.0	1.2	2.2	28.9	23.2	16.0	40.5	6.6	49.1	435.3	Oct. 4
11	28.8	142.9	30.1	56.7	1.2	2.2	37.3	23.0	10.0	40.6	6.6	49.1	428.5	11
18	28.3	124.2	29.8	46.4	1.2	2.2	42.3	23.0	10.2	37.5	9.2	49.1	403.4	18
25	26.4	89.1	29.3	46.5	1.2	2.2	40.4	23.0	9.4	39.6	11.4	49.1	367.6	25
Nov. 1	25.0	58.5	29.3	41.1	1.2	2.2	38.3	21.1	10.1	39.4	11.1	45.0	322.3	Nov. 1
8	24.7	53.0	29.1	35.7	1.2	2.2	39.5	21.2	10.1	39.3	11.1	45.0	312.1	8
15	18.2	50.5	29.1	36.0	1.2	2.2	37.3	19.7	10.1	39.2	11.0	39.7	294.2	15
22	18.0	43.0	28.1	25.7	1.2	2.2	34.6	19.6	10.1	38.1	11.0	35.0	266.6	22
29	18.5	53.4	28.1	25.7	1.2	2.2	37.8	19.6	10.3	37.9	11.3	35.0	281.0	29
Dec. 6	18.3	60.2	28.1	25.7	1.2	2.6	40.6	19.6	10.1	37.9	11.0	35.0	290.3	Dec. 6
13	17.6	59.3	28.1	25.7	1.2	2.2	40.1	19.5	10.9	38.3	11.6	34.8	288.7	13
20	30.5	125.0	34.8	29.7	3.2	2.2	62.2	25.5	12.1	41.3	10.9	39.8	417.2	20
27	31.3	113.7	42.1	31.7	7.2	2.2	77.7	30.6	13.6	40.1	10.9	44.8	445.9	27
1923														
Jan. 3	40.8	121.4	34.1	48.8	6.3	9.3	56.8	24.5	17.3	45.2	13.3	38.8	456.6	Jan. 3
10	38.7	146.5	39.6	45.8	9.3	9.4	70.7	25.7	15.8	43.1	13.8	49.8	508.2	10
17	28.1	110.0	29.2	38.7	5.8	2.2	65.9	24.5	11.3	43.5	12.4	40.8	412.4	17
24	29.2	96.9	29.4	26.3	1.3	2.4	48.6	24.2	8.8	38.5	12.4	34.8	352.8	24
31	29.1	79.1	29.2	26.3	1.3	3.5	68.0	26.8	9.9	38.5	7.2	34.8	353.7	31
Feb. 7	28.1	52.3	29.1	36.3	1.3	5.8	74.9	28.9	10.9	38.5	12.2	34.8	353.1	Feb. 7
14	28.3	53.2	29.1	36.4	1.3	5.1	75.2	28.8	10.9	38.5	11.9	34.8	353.5	14
21	28.7	43.6	29.1	37.6	1.3	10.0	74.4	29.0	11.5	42.4	11.7	34.7	354.0	21

EXHIBIT "D"

SYNOPSIS OF UNITED STATES SECURITIES AS COMPARED WITH ALL OTHER EARNING ASSETS HELD BY FEDERAL RESERVE BANKS
AND REFLECTING THE NET CHANGE OF EACH CLASS DURING THE PERIOD COVERED
(000 Omitted)

Federal Reserve Bank of:	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco	TOTAL	Aggregate
<u>October 4, 1922</u>														
All other earning assets	44,081	139,153	58,774	63,482	43,560	42,374	83,766	37,200	24,531	22,318	32,138	78,277	669,654	1,152,995
U. S. securities	30,748	162,692	34,380	59,960	4,701	5,181	35,565	26,778	19,010	43,869	8,481	51,976	483,341	
<u>October 11, 1922</u>														
All other earning assets	55,044	235,856	60,122	73,041	42,582	36,517	83,572	32,203	23,861	19,788	30,625	78,195	771,406	1,245,970
U. S. securities	31,549	154,401	33,071	59,711	4,201	5,170	43,514	26,564	12,519	43,408	8,481	51,975	474,564	
<u>October 18, 1922</u>														
All other earning assets	54,518	187,907	68,745	78,248	44,504	43,669	99,034	34,483	23,275	24,190	30,110	79,241	767,914	1,214,815
U. S. securities	31,094	134,247	32,807	49,381	4,201	5,164	47,967	26,563	12,701	40,313	11,056	51,407	446,901	
<u>October 25, 1922</u>														
All other earning assets	56,241	164,596	63,129	72,010	42,996	41,997	85,172	37,930	23,958	23,557	35,623	79,881	727,090	1,135,726
U. S. securities	28,633	99,111	31,762	49,016	4,201	5,232	45,039	26,614	11,939	42,416	13,275	51,407	408,636	
<u>November 1, 1922</u>														
All other earning assets	70,797	240,654	68,997	76,720	42,639	48,106	93,056	41,070	23,175	26,547	33,974	82,687	848,422	1,208,733
U. S. securities	27,291	67,007	31,765	43,551	4,201	4,665	42,950	23,689	12,602	42,198	13,025	47,367	360,311	
<u>November 8, 1922</u>														
All other earning assets	92,966	258,947	68,488	92,908	41,641	48,905	91,779	40,237	22,420	27,862	35,028	77,887	899,068	1,245,657
U. S. securities	26,440	61,522	31,619	38,217	2,701	4,155	43,136	23,715	12,594	41,098	13,025	47,367	346,589	
<u>November 15, 1922</u>														
All other earning assets	100,664	269,656	70,176	93,876	44,043	45,956	87,628	41,732	21,456	30,467	36,665	71,380	913,699	1,239,413
U. S. securities	19,984	57,520	31,135	37,506	3,701	4,173	40,972	22,215	12,586	40,992	12,938	41,992	325,714	
<u>November 22, 1922</u>														
All other earning assets	93,416	221,202	54,217	92,965	47,205	50,306	97,969	39,298	21,340	28,884	35,596	79,498	811,596	1,166,715
U. S. securities	19,244	49,521	30,135	27,202	3,701	4,189	37,704	21,709	12,104	39,943	12,864	36,803	295,119	
<u>November 29, 1922</u>														
All other earning assets	105,952	193,397	76,642	108,897	49,400	50,013	105,386	42,846	21,883	29,260	36,209	89,437	909,322	1,213,783
U. S. securities	19,725	58,943	29,635	26,685	3,201	3,693	39,953	21,710	11,758	39,192	13,164	36,802	304,461	
<u>December 6, 1922</u>														
All other earning assets	96,959	266,971	77,093	107,318	46,989	43,522	114,076	42,230	21,445	32,128	37,472	85,569	971,772	1,283,574
U. S. securities	19,519	64,727	29,635	26,719	3,201	4,074	42,761	21,210	11,593	39,197	12,864	36,302	311,802	
<u>December 13, 1922</u>														
All other earning assets	91,506	235,106	73,083	115,184	51,164	42,079	96,706	40,369	21,299	31,747	39,321	84,766	922,330	1,229,568
U. S. securities	18,860	63,316	29,135	26,709	2,601	3,195	42,254	21,116	12,384	39,597	11,963	36,098	307,238	
<u>December 20, 1922</u>														
All other earning assets	87,629	183,581	75,351	109,805	53,094	43,670	93,958	41,475	21,431	34,668	40,437	82,187	867,286	1,298,526
U. S. securities	31,214	128,468	35,343	30,233	4,601	3,209	63,828	26,118	13,107	42,092	11,939	41,098	431,240	
<u>December 27, 1922</u>														
All other earning assets	95,677	190,599	76,455	103,983	58,451	40,247	99,862	42,810	21,079	30,838	37,597	78,580	876,178	1,334,061
U. S. securities	32,086	116,687	42,575	32,223	8,601	2,673	79,389	31,117	14,108	40,886	11,439	46,099	457,883	
<u>January 3, 1923</u>														
All other earning assets	75,287	237,380	69,953	99,108	51,002	39,348	93,889	39,447	21,251	35,135	39,558	81,469	882,827	1,339,381
U. S. securities	40,806	121,369	34,100	48,759	6,291	9,344	56,795	24,546	17,311	45,158	13,308	38,767	456,554	
<u>January 10, 1923</u>														
All other earning assets	58,138	205,576	59,648	75,163	43,881	32,398	80,532	28,939	19,565	25,157	38,852	69,960	737,809	1,245,985
U. S. securities	38,696	146,479	39,600	45,765	9,291	9,442	70,745	25,711	15,809	43,114	13,758	49,766	508,176	
<u>January 17, 1923</u>														
All other earning assets	61,177	212,127	61,216	69,047	38,621	28,905	70,838	28,300	18,372	19,134	38,264	68,579	714,680	1,127,112
U. S. securities	28,099	110,049	29,214	38,756	5,841	2,167	65,904	24,450	11,308	43,519	12,358	40,767	412,432	
<u>January 24, 1923</u>														
All other earning assets	67,609	248,707	66,777	70,285	39,945	29,820	77,419	30,023	18,602	18,657	38,082	68,356	774,282	1,127,101
U. S. securities	29,178	96,850	29,391	26,334	1,341	2,429	48,615	24,243	8,790	38,524	12,358	34,766	352,819	
<u>January 31, 1923</u>														
All other earning assets	66,193	279,649	78,575	56,599	38,594	28,801	66,168	30,353	19,041	16,694	38,111	67,039	785,817	1,139,552
U. S. securities	29,069	79,069	29,184	26,324	1,341	3,541	67,965	26,756	9,941	38,521	7,258	34,766	353,735	
<u>February 7, 1923</u>														
All other earning assets	68,718	248,443	78,824	57,150	39,495	25,426	69,482	26,619	21,356	18,199	36,515	64,067	754,254	1,107,378
U. S. securities	28,112	52,306	29,098	36,289	1,341	5,807	74,938	28,878	10,932	38,523	12,158	34,742	353,124	
<u>February 14, 1923</u>														
All other earning assets	64,974	324,043	82,275	64,829	38,818	23,336	70,355	24,220	21,085	18,161	38,195	67,634	837,915	1,191,438
U. S. securities	28,244	53,235	29,097	36,406	1,341	5,114	75,179	28,780	10,943	38,523	11,918	34,743	353,523	
<u>February 21, 1923</u>														
All other earning assets	72,442	267,759	84,268	64,842	43,301	25,689	78,891	25,398	23,901	17,772	38,200	67,813	810,276	1,164,310
U. S. securities	28,698	43,590	29,067	37,552	1,341	10,014	74,404	28,992	11,458	42,453	11,718	34,747	354,034	
<u>Net Change</u>														
All other earning assets	28,361 +	128,606 +	25,494 +	1,360 +	259 =	16,685 =	4,875 =	11,802 =	630 =	4,546 =	6,062 +	10,464 =	140,622 +	11,315 +
U. S. securities	2,050 =	119,102 =	5,313 =	22,408 =	3,360 =	4,833 +	38,839 +	2,214 +	7,552 =	1,416 =	3,237 +	17,229 =	129,307 =	
<u>Per Cent. Change</u>														
All other earning assets	64% +	92% +	43% +	2% +	-0 =	39% =	5% =	31% =	2% =	20% =	18% +	13% =	21% +	1% +
U. S. securities	6% =	73% =	15% =	37% =	71% =	93% +	109% +	8% +	39% =	3% =	38% +	33% =	26% =	

STATEMENT SHOWING CHANGES IN GOLD AND GOVERNMENT SECURITY HOLDINGS OF RESERVE BANKS
 AS COMPARED WITH RECORD OF GOLD IMPORTS AND EXPORTS OF THE UNITED STATES
 (In Millions)

Date 1922	Gold Holdings in System	Gold Imports of U.S.	Gold Exports of U.S.	Increase or Decrease of Gold in Circulation	Gov't Security Investments Excluding Pittman Act Cfts	Pittman Act Certifi- cates
May 17	3,005.1				515.0	80.0
24	3,007.7				517.7	78.5
31	3,007.6	Monthly 9.0	Monthly 3.4	3.1+	526.4	77.0
June 7	3,010.1				540.9	77.0
14	3,007.8				554.2	75.5
21	3,020.0				444.6	74.0
28	3,020.9	13.0	1.6	1.9 -	482.6	74.0
July 5	3,020.7				476.5	74.0
12	3,035.8				482.7	74.0
19	3,045.3				467.8	74.0
26	3,054.5	42.9	.6	8.7 +	468.8	72.0
Aug. 2	3,071.4				426.9	70.5
9	3,071.6				422.7	69.0
16	3,066.4				421.1	67.5
23	3,061.8				418.7	66.0
30	3,063.4	19.1	.9	9.3 +	435.0	63.0
Sept. 6	3,060.8				451.6	56.5
13	3,067.2				441.8	55.0
20	3,061.9				386.9	52.0
27	3,076.9	29.3	1.4	14.4 +	400.9	50.5
Oct. 4	3,089.3				435.3	48.0
11	3,090.0				428.5	46.0
18	3,086.8				403.4	43.5
25	3,085.1	20.9	17.6	2.1 +	367.6	41.0
Nov. 1	3,078.1				322.3	38.0
8	3,080.8				312.1	34.5
15	3,073.8				294.2	31.5
22	3,088.3				266.6	28.5
29	3,072.9	18.3	3.4	20.1 +	281.0	23.5
Dec. 6	3,045.8				290.3	21.5
13	3,061.2				288.7	18.5
20	3,045.9				417.2	14.0
27	3,040.4	26.4	2.7	56.2 +	445.9	12.0
Jan. 3	3,049.5				456.6	.0
10	3,062.7				508.2	.0
17	3,077.5				412.4	.0
24	3,080.1				352.8	.0
31	3,075.8	32.8	8.5	11.1 -	353.7	.0
* Feb. 7	3,076.1				353.1	.0
14	3,078.5				353.5	.0
21	3,075.2	5.6	1.0	5.2 +	354.0	.0

EXHIBIT "B"

* Estimated exports and imports for February are based on figures obtainable for New York City

EXHIBIT "F"

STATEMENT OF ESTIMATED EARNINGS AND EXPENSES OF ALL FEDERAL RESERVE BANKS FOR THE YEAR 1923
 BASED ON EXPENSES FOR 1922 AND EARNING ASSETS HELD FEBRUARY 21, 1923

<u>EXPENSES</u>	<u>Boston</u>	<u>New York</u>	<u>Philadelphia</u>	<u>Cleveland</u>	<u>Richmond</u>	<u>Atlanta</u>	<u>Chicago</u>	<u>St. Louis</u>	<u>Minneapolis</u>	<u>Kansas City</u>	<u>Dallas</u>	<u>San Francisco</u>	<u>TOTAL</u>
Total Expenses for Year Ending December 31, 1922	\$ 2,022,400.	\$ 6,776,530.	\$ 2,053,919.	\$ 2,461,266.	\$ 1,631,356.	\$ 1,293,053.	\$ 4,080,057.	\$ 1,623,222.	\$ 1,084,942.	\$ 2,010,820.	\$ 1,515,391.	\$ 3,006,387.	\$ 29,559,343.
Less 10% Arbitrary Basis	202,240.	677,653.	205,392.	246,127.	163,136.	129,305.	408,007.	162,322.	108,494.	201,080.	151,539.	300,639.	2,955,934.
To Give Estimated Expenses for 1923	\$ 1,820,160.	\$ 6,098,877.	\$ 1,848,527.	\$ 2,215,139.	\$ 1,468,220.	\$ 1,163,748.	\$ 3,672,050.	\$ 1,460,900.	\$ 976,448.	\$ 1,809,740.	\$ 1,363,852.	\$ 2,705,748.	\$ 26,603,409.
Dividend Paid for Year Ending Dec. 31, 1922	487,000.	1,724,000.	560,000.	703,000.	337,000.	263,000.	891,000.	290,000.	215,000.	277,000.	251,000.	465,000.	6,463,000.
Estimated Total Expenses for 1923, including Dividend	\$ 2,307,160.	\$ 7,822,877.	\$ 2,408,527.	\$ 2,918,139.	\$ 1,805,220.	\$ 1,426,748.	\$ 4,563,050.	\$ 1,750,900.	\$ 1,191,448.	\$ 2,086,740.	\$ 1,614,852.	\$ 3,170,748.	\$ 33,066,409.
 <u>EARNINGS</u>													
Earning Assets Held by all Banks Feb. 21, 1923-													
(a) All other earning assets	\$ 72,442,000.	\$ 267,759,000.	\$ 84,268,000.	\$ 64,842,000.	\$ 43,301,000.	\$ 25,689,000.	\$ 78,891,000.	\$ 25,398,000.	\$ 23,901,000.	\$ 17,772,000.	\$ 38,200,000.	\$ 67,813,000.	\$ 810,276,000.
(b) U.S. securities	28,698,000.	43,590,000.	29,067,000.	37,552,000.	1,341,000.	10,014,000.	74,404,000.	28,992,000.	11,458,000.	42,453,000.	11,718,000.	34,747,000.	354,034,000.
<u>TOTAL</u>	\$101,140,000.	\$311,349,000.	\$113,335,000.	\$102,394,000.	\$44,642,000.	\$35,703,000.	\$153,295,000.	\$54,390,000.	\$35,359,000.	\$60,225,000.	\$49,918,000.	\$102,560,000.	\$1,164,310,000.
Earnings which Holdings Feb. 21, 1923 (at 4%) would Produce during 1923	4,045,600.	12,453,960.	4,533,400.	4,095,760.	1,785,680.	1,428,120.	6,131,800.	2,175,600.	1,414,360.	2,409,000.	1,996,720.	4,102,400.	46,572,400.
Balance of Earnings After Expenses are Paid	\$ 1,738,440.	\$ 4,631,083.	\$ 2,124,873.	\$ 1,177,621.		\$ 1,372.	\$ 1,568,750.	\$ 424,700.	\$ 222,912.	\$ 322,260.	\$ 381,868.	\$ 931,652.	\$ 13,505,991.
Represents Holdings (at 4% yield) in Excess of Estimated Requirements Amounting to	\$ 43,461,000.	\$115,777,075.	\$ 53,121,825.	\$ 29,440,525.		\$ 34,300.	\$ 39,218,750.	\$ 10,617,500.	\$ 5,572,800.	\$ 8,056,500.	\$ 9,546,700.	\$23,291,300.	\$ 337,649,775.
Deficit After Expenses are Paid					19,540.								
To cover Deficit Addition- al Assets (at 4% yield) will be required Amounting to					\$ 488,500.								

EXHIBIT "G"

PURCHASES AND SALES OF UNITED STATES GOVERNMENT SECURITIES
BY FEDERAL RESERVE BANKS
AFFECTING THEIR INVESTMENTS - JANUARY 24 to FEBRUARY 21, 1923 INCLUSIVE

<u>Bank</u>	<u>Purchases</u>	<u>Issue</u>	<u>Sales</u>	<u>Issue</u>
New York	\$ 5,000,000.	4% December 15, 1923 Certificates (from market)	\$ 5,000,000.	3½% March 15, 1923 Certificates (to market)
			10,000,000.	3½% March 15, 1923 " (to Treasury)
			10,000,000.	3½% June 15, 1923 " (to Chicago)
			5,000,000.	4% December 15, 1923 " (to Chicago)
			5,000,000.	3½% March 15, 1923 " (to Treasury)
			1,500,000.	3½% March 15, 1923 " (to Atlanta)
			1,000,000.	3½% March 15, 1923 " (to Treasury)
			2,500,000.	3½% March 15, 1923 " (to Atlanta)
			2,500,000.	3½% June 15, 1923 " (to Atlanta)
			1,500,000.	4½% Sept. 15, 1926 Treasury Notes (to Kansas City)
Cleveland	5,000,000. 5,000,000.	3½% June 15, 1923 Certificates (from Treasury) 4% December 15, 1923 " (" ")		
Atlanta	1,000,000. 1,500,000. 2,500,000. 2,500,000.	3½% March 15, 1923 " (from market) 3½% March 15, 1923 " (from New York) 3½% March 15, 1923 " (" " ") 3½% June 15, 1923 " (" " ")		
Chicago	2,000,000. 3,000,000. 5,000,000. 5,000,000. 10,000,000.	3½% June 15, 1923 " (from Dallas) 3½% September 15, 1923 " (" ") 4% December 15, 1923 " (from Treasury) 4% " 15, 1923 " (from New York) 3½% June 15, 1923 " (from " ")		
St. Louis	2,515,000. 1,885,000.	4% December 15, 1923 " (from market) 3½% September 15, 1923 " (" ")		
Kansas City	1,500,000. 1,000,000. 1,000,000.	4½% September 15, 1926 Treasury Notes (from New York) 4½% June 15, 1926 " " (from market) 4½% March 15, 1926 " " (" ")		
Dallas	5,000,000.	4% December 15, 1923 Certificates (from Treasury)	2,000,000. 2,000,000.	3½% June 15, 1923 Certificates (to Chicago) 3½% September 15, 1923 " (" ")
<u>Totals</u>	\$ 60,400,000.		\$ 49,000,000.	

NOTE :

It will be noted that the majority of the above transactions have been executed within the System.

(000 omitted)

May

June

July

Aug.

Sept.

Oct.

Nov.

Dec.

Jan.

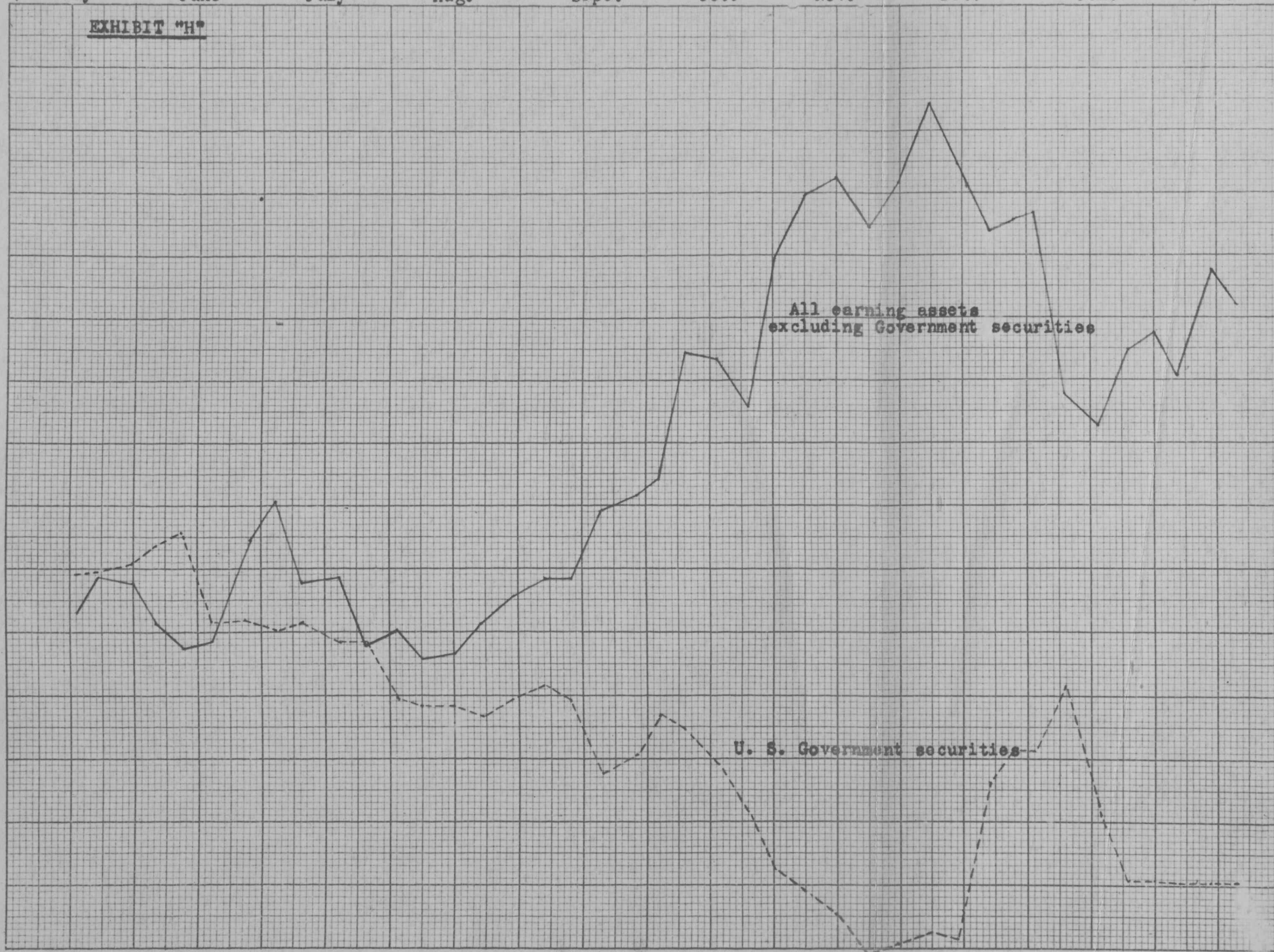
Feb.

1 9 2 2

- 1 9 2 3 -

EXHIBIT "H"

1,000
950
900
850
800
750
700
650
600
550
500
450
400
350
300



All earning assets
excluding Government securities

U. S. Government securities

Comparison of earning assets of all Federal Reserve Banks since formation of the Committee.

